

# Notes to Financial Statements (non-consolidated)

## 1. Basis of Financial Statements Presentation and Summary of Significant Accounting Policies

### a. Basis of Presentation of Financial Statements

The accompanying financial statements have been prepared from accounting records maintained by Toshiba Machine Co.,Ltd. in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with the Securities and Exchange Law of Japan and accounting principles generally accepted in Japan, which may differ in some material respects from accounting principles generally accepted in countries and jurisdictions other than Japan.

In order to facilitate the understanding of readers outside Japan, certain reclassifications are made to the financial statements prepared for domestic reporting purposes. In addition, the notes to the financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

### b. Basis of Translation of Financial Statements

The statements are expressed in Japanese yen and, solely for the convenience of the readers, have been translated into United States dollars at the rate of U.S.\$1.00 = ¥120.55, the prevailing rate on March 31, 1999.

This translation should not be construed as a representation that the Japanese yen amounts shown could be converted into U.S. dollars.

### c. Exchange Rate

Assets in foreign currencies are translated into yen amounts at the exchange rate prevailing on the balance sheet date, except for investments in securities which are translated at historical rates.

### d. Inventories

Inventories are stated at the cost, determined by the identified cost for finished products and work in process, and by the moving average method for raw materials and supplies.

### e. Securities and Investments

Marketable equity securities (included in current marketable securities and investments in other securities), investments in subsidiaries and affiliated companies are stated at cost which is determined by the average cost method.

### f. Property, plant and equipment, depreciation and lease transaction

Property, plant and equipment is stated at cost.

Depreciation of property, plant and equipment, except for building is computed by the declining balance method over the applicable useful lives. Building is depreciated by the straight line method over the estimated lives. Depreciation of building in prior years was computed by the declining balance method. Effective from April 1, 1998, the Company adopted a new policy for the method of depreciation, which was adopted to provide a better matching of costs and revenue, with an opportunity change in Japanese tax law. The effects were to decrease depreciation by ¥188 million (\$1,560 thousand) and decrease loss before income taxes by ¥158 million (\$1,311 thousand). Effective from April 1, 1998, the Company also adopted a new policy for the estimated useful lives of buildings, which shortened these useful lives in accordance with the changes in Japanese tax law. The effects were to increase depreciation by 49 million(\$406 thousand) and increase loss before income taxes by 42 million (\$348 thousand).

Finance lease transactions, except for those which meet the condition that the ownership of the leased asset is substantially transferred to the lessee, are accounted for as operating lease transactions.

### g. Liability for Employee Retirement and Severance Indemnities

Under the Company's employee retirement plan, an allowance based on the length of service and basic salary at the date of termination is paid to employees by terminating their employment. Payments for voluntary termination are less than the payments for involuntary termination.

For tax purposes, only 40% of the retirement liability on a voluntary basis is deductible at the time accrued, but the liability for employee retirement and severance indemnities included in the balance sheets represents 50% of full liability based on voluntary retirement. The difference between that amount and the amount actually paid is deductible at the time of payment.

The Company has the Corporate Pension Plan, which has been qualified for Japanese tax law, for above employee retirement plan. Past service cost in that Pension Plan has been amortized by 15 years.

Directors are not covered by the programs described above, since amounts vary with circumstances and it is therefore not practicable to compute liability for future payments. Such allowances are not deductible from taxable income until they are paid.

## 2. Property, Plant and Equipment

Property, plant and equipment on March 31, 1999 and 1998 consisted of the following:

	Millions of yen 1999	Millions of yen 1998	Thousands of U.S. dollars 1999
Land	<b>¥3,764</b>	¥3,761	<b>\$31,224</b>
Buildings	<b>19,850</b>	19,698	<b>164,662</b>
Structures	<b>3,708</b>	3,673	<b>30,759</b>
Machinery and equipment	<b>35,259</b>	34,407	<b>292,484</b>
Vehicles	<b>433</b>	416	<b>3,592</b>
Tools, furniture and fixtures	<b>9,993</b>	9,342	<b>82,895</b>
Construction in progress	<b>273</b>	411	<b>2,265</b>
	<b>73,280</b>	71,708	<b>607,881</b>
Less accumulated depreciation	<b>(51,680)</b>	49,813	<b>(428,702)</b>
	<b>¥21,600</b>	¥21,895	<b>\$179,179</b>

Depreciation charged to income for the years ended March 31, 1999 and 1998 amounted to ¥2,812 million (US\$ 23,326 thousand) and ¥2,875 million (US\$ 23,849 thousand), respectively.

### 3. Short-term Bank Loans and Long-term Debt

The annual interest rates applicable to the loans outstanding on March 31, 1999 and 1998 ranged principally from 0.52% to 1.50% and from 1.09% to 1.64% respectively. Long-term debt on March 31, 1999 and 1998 consisted of the following:

	Millions of yen 1999	Millions of yen 1998	Thousands of U.S. dollars 1999
2nd Convertible Bonds, due 1999 interest 1.7%	¥ —	¥13,002	\$ —
1st Bonds, due 2004 interest 2.9%	3,000	—	24,886
Loans, principally from Japanese banks and insurance companies, with assets pledged as collateral, maturing 1999 - 2004 , interest 1.48% - 2.60% (1998: 1.48 -2.52% )	16,635	3,935	137,992
	<b>19,635</b>	16,937	<b>162,878</b>
Less current portion	—	13,002	—
	<b>¥19,635</b>	<b>¥3,935</b>	<b>\$162,878</b>

The aggregate annual maturities of long-term debt after March 31, 1999 are as follows :

	Millions of yen	Thousands of U.S. dollars
Year ending March 31,		
2000	¥ —	\$ —
2001	1,935	16,051
2002	—	—
2003	2,000	16,591
2004 and later	15,700	130,236
	<b>19,635</b>	<b>162,878</b>

As of March 31, 1999 property, plant and equipment with a net book value of approximately ¥4,520 million (U.S.\$37,495 thousand) were pledged as collateral for long term debt. As is customary in Japan, additional collateral must be pledged if required by lending institutions under certain circumstances, and generally banks have the right to offset cash deposited with them against any debt or obligation that becomes due and in case of default and certain other specified events against all other debts payable to the banks.

#### **4. Cost of Employee Retirement and Severance Indemnities**

The total charges to income for benefits under the company's retirement plan described in note 1.g for the years ended March 31, 1999 and 1998 were ¥2,486 million (US\$20,622 thousand) and ¥2,049 million (U.S.\$16,997 thousand), respectively.

#### **5. Legal Reserve and Cash Dividends**

The Commercial Code provides that an amount equivalent to at least 10% of cash dividends paid be appropriated as a legal reserve until such reserve equals 25% of stated capital.

#### **6. Rent Expense**

The company rents office space, employees housing and office equipment under cancelable lease agreements.

Rent expense for the years ended March 31, 1999 and 1998 amounted to ¥776 million (U.S.\$6,437 thousand) and ¥873 million (U.S.\$7,242 thousand), respectively.

#### **7. Contingent Liabilities**

On March 31, 1999 contingent liabilities for notes discounted in the ordinary course of business and for loans guaranteed by the Company principally on behalf of subsidiaries and affiliated companies amounted to ¥2,914 million (U.S.\$24,713 thousand) and ¥721 million (US\$5,981 thousand), respectively.

#### **8. Cash Equivalents**

For the purpose of the Statements of Cash Flows, the Company considers this all highly liquid and readily convertible into cash.