

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TOSHIBA MACHINE CO., LTD.

Years ended March 31, 2000 and 1999

## 1. Basis of Presenting Financial Statements

The consolidated balance sheets, statements of operations and cash flows are prepared from those which are in accordance with 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. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

The consolidated balance sheets, statements of operations and cash flows incorporate certain reclassifications and rearrangements in order to present these statements in forms which are more familiar to the readers of these statements outside of Japan. In addition, the notes to the consolidated financial statements include information which is not required under generally accepted accounting principles and practices in Japan but is presented herein as additional information.

## 2. Summary of Significant Accounting Policies

### a. Basis of consolidation

The consolidated financial statements include the accounts of the Toshiba Machine Co., Ltd and its seventeen significant subsidiaries. Subsidiaries not included in the consolidated accounts are excluded from these accounts because they are all small in terms of total assets, net sales, net income, and retained earnings. All significant intercompany transactions and accounts have been eliminated.

If the cost of an investment in a consolidated subsidiary or in an affiliate accounted for under the equity method differs from the underlying net equity, that amount is deferred and amortized on a straight-line basis over five years.

Investments in unconsolidated subsidiaries and affiliates are stated at cost and the equity method is not applied for the valuation of such investments because they are small in terms of net income and retained earnings.

### b. Translation of foreign currency transactions and accounts

Foreign currency transactions are translated using foreign exchange rates prevailing at the transactions dates. Current receivables and payables in foreign currencies are translated at year-end using current exchange rates, whereas long-term receivables and payables in foreign currencies are not revalued using the current rate at the balance sheet date. Foreign currency transactions and accounts with related forward exchange contracts are measured using the contract rate.

All the assets and liabilities of foreign subsidiaries and affiliates are translated at current rates at the respective balance sheet dates and all the income and expense

accounts are translated at average rates for the respective periods. Foreign currency financial statement translation differences are recorded in the balance sheet as a component of assets or liabilities.

### c. Allowance for doubtful accounts

The allowance for doubtful accounts represents the maximum amount permitted for tax purposes and additional allowance based on an evaluation of the collectability of individual receivables. This amount is considered sufficient to cover possible losses on collection.

### 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

In previous periods, the Company valued listed marketable securities at cost based on an average. However, due to a change in consolidated accounting effective in the term under review, listed marketable securities are stated at the lower of moving average cost or market. As a result of this change in accounting methods, the Company recorded a ¥499 million (\$4,700 thousand) devaluation of marketable securities under other expenses. The effect of this change was to increase the loss before income taxes and minority interests by ¥499 million (\$4,700 thousand).

Income on securities is generally recognized when a dividend or interest payment is received.

### 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.

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 33% 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 and two consolidated subsidiaries have 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 8 or 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.

#### **h. Appropriations of retained earnings or disposition of accumulated deficit**

Appropriations of retained earnings reflected in the accompanying consolidated financial statements have been recorded after approval by the shareholders as required under the Japanese Commercial Code.

#### **i. Cash equivalents**

For the purpose of the statements of cash flows, the Company considers all highly liquid investments which are readily convertible into cash and/or mature within three months or less to be cash equivalents.

#### **j. Reclassifications**

Certain accounts in the consolidated statement for the years ended March 31, 1999 have been reclassified to conform to the presentation.

#### **3. U.S. Dollar amounts**

The U.S. dollar amounts are included solely for convenience and have been translated into United States dollars at the rate of ¥106.15=U.S.\$1, the approximate exchange rate prevailing in the Japanese foreign exchange market as at March 31, 2000.

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

#### **4. Property, Plant and Equipment**

Property, plant and equipment on March 31, 2000 and 1999 consisted of the following:

	Millions of yen 2000	Millions of yen 1999	Thousands of U.S. dollars 2000
Land	¥6,776	¥6,358	\$63,834
Buildings and structures	29,532	28,941	278,210
Machinery and equipment	37,756	38,683	355,685
Vehicles	629	626	5,926
Tools, furniture and fixtures	8,156	11,743	76,835
Construction in progress	80	286	754
	<b>82,929</b>	<b>86,637</b>	<b>781,244</b>
Less accumulated depreciation	<b>(56,208)</b>	<b>(58,182)</b>	<b>(529,515)</b>
	<b>¥26,721</b>	<b>¥28,455</b>	<b>\$251,729</b>

Depreciation charged to income for the years ended March 31, 2000 and 1999 amounted to ¥3,313 million (U.S.\$31,211 thousand) and ¥3,467 million, respectively.

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

The annual interest rates applicable to the loans outstanding on March 31, 2000 ranged principally from 0.46% to 7.17%. Long-term debt on March 31, 2000 and 1999 consisted of the following:

	Millions of yen 2000	Millions of yen 1999	Thousands of U.S. dollars 2000
1st Bonds, due 2004 interest 2.9%	<b>¥3,000</b>	¥3,000	<b>\$28,262</b>
¥2,000,000,000 fixed rate Bonds due 2002	<b>2,000</b>	—	<b>18,841</b>
Loans, principally from Japanese banks and insurance companies, with assets pledged as collateral, maturing 2000 – 2009, interest 1.21% – 2.60%	<b>24,541</b>	18,268	<b>231,191</b>
	<b>29,541</b>	21,268	<b>278,294</b>
Less current portion	<b>3,750</b>	526	<b>35,327</b>
	<b>¥25,791</b>	¥20,742	<b>\$242,967</b>

The aggregate annual maturities of long-term debt after March 31, 2000 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31,		
2001	<b>¥3,750</b>	<b>\$35,327</b>
2002	<b>3,180</b>	<b>29,958</b>
2003	<b>5,927</b>	<b>55,836</b>
2004	<b>15,875</b>	<b>149,553</b>
2005 and later	<b>809</b>	<b>7,620</b>
	<b>¥29,541</b>	<b>\$278,294</b>

As of March 31, 2000 property, plant and equipment with a net book value of approximately ¥7,429 million (U.S.\$69,986 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.

## 6. Contingent Liabilities

On March 31, 2000 contingent liabilities for notes discounted in the ordinary course of business and for loans guaranteed by the Company principally on behalf of non-consolidated subsidiaries and affiliated companies amounted to ¥1,834 million (U.S.\$17,277 thousand) and ¥1,378 million (U.S.\$12,982 thousand), respectively.

## 7. Leases

Finance leases of the Companies other than those where ownership of the lease assets is transferred to the lessee, are accounted for as operating leases.

Periodic lease charges to the Companies, as a lessee, charged to income for the years ended March 31, 1999 and 2000 are ¥549 million and ¥557 million (\$5,247 thousand), respectively. The leased assets and related expenses of the Companies' finance leases other than those where the ownership of the lease assets is transferred to the lessee and are being accounted for as operating leases, if capitalized, at March 31, 2000 comprise the following (in equivalent amounts):

	Millions of yen 2000	Thousands of U.S. dollars 2000
Machinery, equipment and vehicles	¥1,229	\$11,578
Tools, furniture and fixtures	2,519	23,731
Accumulated depreciation	(1,452)	(13,679)
	¥2,296	\$21,630

The present values of future lease payments of the Companies at March 31, 2000 are as follows:

	Millions of yen 2000	Thousands of U.S. dollars 2000
Current obligation	¥856	\$8,064
Long-term obligation	1,440	13,566
Present values of lease payments	¥2,296	\$21,630

Pro forma information above does not exclude the imputed interest portion because the remaining financial lease obligations are not material compared with the book values of property, plant and equipment.