

Notes to Consolidated Financial Statements

Toshiba Machine Co., Ltd. and Consolidated Subsidiaries

1. Basis of Presenting Consolidated 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 statements of shareholders' equity have been prepared to supply additional information.

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 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 practice in Japan but is presented herein as additional information.

2. Summary of Significant Accounting Policies

(a).Basis of consolidation and accounting for investments in unconsolidated subsidiaries and affiliated companies

The consolidated financial statements include the accounts of Toshiba Machine Co., Ltd. (the Company) and, certain subsidiaries which are not material are not consolidated, those of its subsidiaries (together the Companies). All significant intercompany transactions and accounts and unrealized intercompany profits are eliminated in consolidation.

The difference between the cost and underlying net equity of investments in consolidated subsidiaries at the time of acquisition is deferred and amortized over a five-year period.

Investments in affiliates (15 to 50 percent-owned companies except subsidiaries) in which the ability to exercise significant influence exist are stated at cost plus equity in undistributed earning (losses).

Net consolidated income (losses) includes the Company's share of the current net earnings (losses) of such companies, after elimination of unrealized intercompany profits.

(b).Translation of Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rate prevailing at the balance-sheet date except for those hedged by a forward contract, which are translated using the contracted rate with the resulting exchange differences amortized over the contract period.

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

Effective April 1, 2000, the Company and domestic consolidated subsidiaries adopted a revised accounting standard for foreign currency transactions.

In accordance with a revised accounting standard for foreign currency translation, the Company has included foreign currency translation adjustments in shareholders' equity and minority

interests in consolidated subsidiaries. Prior to the year ended March 31, 2001, foreign currency translation adjustments were included in assets or liabilities.

The consolidated balance sheet at March 31, 2000 has not been restated.

The adoption of this revised accounting standard for foreign currency transactions did not have a material effect on the accompanying financial statements.

(c).Marketable and Investment Securities

Prior to the year ended March 31, 2001, marketable securities had been valued at the lower of cost or market, cost being determined by the moving average method, and investment securities other than marketable securities started at cost determined by the moving average method.

When the fair value of an individual security declines below its cost and it is judged a permanent impairment of value, the carrying value of the security is written down to fair value.

Effective April 1, 2000, the Company and domestic consolidated subsidiaries adopted the new accounting standard for financial instruments.

Investment securities are stated at market value from the current year due to the new accounting standard. As a result, unrealized gain on available-for-sale securities ¥2,154 million was credited to the Shareholders' equity representing the increase in market value over cost of investment securities of ¥3,656 million (\$29,508 thousand) net of deferred tax liabilities ¥1,503 million (\$12,131 thousand).

The adoption of the accounting standard for financial instruments did not have a material effect on income before income tax and minority interests.

As of April 1, 2000, the Companies and domestic consolidated subsidiaries assessed their classification of securities due to the new accounting standards.

As a result of this assessment, cash and cash equivalents, and investment securities increased ¥4,999 million (\$40,347 thousand), ¥1,969 million (\$ 15,892 thousand) respectively, and marketable securities decreased the same amount.

(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). Allowance for doubtful accounts

The allowance for doubtful accounts is stated based on the default ratio sustained over a specific period in the past and the estimated uncollectible amount based on the analysis of certain individual accounts, including probable bad debts and claims in bankruptcy.

This amount is considered sufficient to cover possible losses on collection.

(f). Bonuses

The bonus to the employees are paid twice a year and accrued based on estimated amounts to be paid in the subsequent period. Bonuses to directors and statutory auditors, which are subject to approval by the shareholders, are an appropriation of retained earnings and not charged to income.

(g). Warranty reserve for sold products

A warranty reserve included in other current liabilities has been provided for repair cost which may be required for the sold

products in guarantee period. The reserve is estimated based on the experience and future estimates.

(h). Depreciation of property, plant and equipment

Depreciation of building is computed, with minor exceptions, by the straight-line method and other depreciation of property, plant and equipment is computed by the declining balance method based on Japanese tax laws.

(i). Finance Leases

Finance leases, which do not transfer ownership of the leased assets to the lessees are accounted for in the same manner as operating leases.

(j). Income Taxes

The Companies accrue income taxes based on taxable income.

The Companies include many items for financial reporting purposes which, in the case of expenses, are not currently deductible and in the case of income, are not currently taxable.

Income taxes based on temporary differences between tax and financial reporting purposes are reflected as deferred income taxes in the consolidated financial statements using the asset and liability method.

(k). Retirement and Severance Benefits

The severance indemnity regulation of the Companies provide for benefit payments determined by reference to the employee's current basic rate of pay and length of service.

The Company and certain consolidated subsidiaries have a non-contributory funded pension plan for employees. The Company and certain consolidated subsidiaries pay the full cost of the benefits to a bank which act as trustees.

Effective April 1, 2000 the Company and its' domestic consolidated subsidiaries adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

The unrecognized transitional obligation determined as of the beginning of the year is being amortized over 15 years. As a result, compared with the prior method, net periodic benefit cost increased by ¥589 million (\$4,754 thousand) and income before income taxes decreased by ¥589 million (\$4,754 thousand)

Severance benefits paid to directors and statutory auditors are charged to income as paid. Any amounts eventually payable to directors and statutory auditors upon retirement are subject to approval by the shareholders.

(l). Legal Reserve

Under the Japanese Commercial Code, the Companies are

required to appropriate as a legal reserve an amount of retained earnings equal to at least 10% of cash dividends and other distributions for each period until the reserve equals 25% of the amount of common stock issued. This reserve is not available for dividends, but may be used to reduce a deficit by resolution of a shareholders' meeting or may be capitalized by resolution of the Board of Directors.

The appropriation of retained earnings or disposition of accumulated deficit reflected in the accompanying consolidated financial statements has been recorded after approval by shareholders as required under the Japanese Commercial Code.

(m). Amounts per Share of Common Stock

Net income per share is computed based on the weighted-average number of shares of common stock outstanding during each year.

Diluted net income per share is not presented since the Company has never issued any securities with a dilutive effect, such as bonds with warrants and convertible bonds.

Cash dividends per share represent the actual amount declared as applicable to the respective years.

(n). Statements of Cash Flows

In preparing the statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities of not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

(o). Reclassifications

Certain accounts in the consolidated financial statements for the years ended March 31, 2000 have been reclassified to conform to the 2001 presentation.

(p). Accounting change

Effective April 1, 1999, the Companies changed valuation of marketable securities from the cost based on average to the lower of moving average cost or market value.

This change was made in order to establish a solid financial position.

As a result of this change, loss before income taxes and minority interests increased by ¥499 million for the year end March 31, 2000.

3. U.S. Dollar Amounts

U.S. dollar amounts are included solely for the convenience of the reader and have been translated at the rate of ¥123.90=U.S.\$1, the approximate exchange rate prevailing in the Japanese foreign exchange market on March 31, 2001. This translation should not be construed as a representation that the yen amounts actually represent, have been, or could be converted into U.S. dollars.

4. Market Value Information

At March 31, 2001 and 2000, the book value and net unrealized gains (losses) of quoted securities included in marketable securities and investment securities were as follows:

	Millions of yen						Thousands of U.S.dollars		
	2001			2000			2001		
	Book value	Market value	Unrealized gains (losses)	Book value	Market value	Unrealized gains (losses)	Book value	Market value	Unrealized gains (losses)
Marketable securities									
Equity	—	—	—	¥2,070	¥6,291	¥4,221	—	—	—
Bonds	—	—	—	10	10	0	—	—	—
Other	—	—	—	—	—	—	—	—	—
	—	—	—	¥2,080	¥6,301	¥4,221	—	—	—
Investment securities									
Equity	¥1,977	¥5,529	¥3,552	¥18	¥18	¥ (0)	\$15,956	\$44,624	\$28,668
Bonds	10	10	0	—	—	—	81	81	0
Other	—	—	—	—	—	—	—	—	—
	¥1,987	¥5,539	¥3,552	¥18	¥18	¥ (0)	\$16,037	\$44,705	\$28,668

5. Property, Plant and Equipment

Property, plant and equipment on March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Land	¥6,945	¥6,776	\$56,053
Buildings and structures	29,575	29,532	238,701
Machinery and equipment	35,977	37,756	290,371
Vehicles	615	629	4,964
Tools, furniture and fixtures	8,021	8,156	64,737
Construction in progress	96	80	775
	81,229	82,929	655,601
Less accumulated depreciation	(55,839)	(56,208)	(450,678)
	¥25,390	¥26,721	\$204,923

Depreciation expensed for the years ended March 31, 2001 and 2000 amounted to ¥2,610 million (\$21,065 thousand) and ¥3,313 million, respectively.

6. Short-term Bank Loans and Long-term Debt

The annual interest rates applicable to the loans outstanding on March 31, 2001 ranged principally from 0.47% to 6.23%. Long-term debt on March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
1st Bonds due 2003 interest 2.9%	¥3,000	¥3,000	\$24,213
¥2,000,000,000 fixed rate Bonds due 2002	2,000	2,000	16,142
Loans, principally from Japanese banks and insurance companies, with assets pledged as collateral, maturing 2001 – 2009, interest 0.82% – 2.60%	21,082	24,541	170,153
	26,082	29,541	210,508
Less current portion	3,425	3,750	27,643
	¥22,657	¥25,791	\$182,865

The aggregate annual maturities of long-term debt after March 31, 2001 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2002	¥3,425	\$27,643
2003	5,809	46,884
2004	15,962	128,830
2005	642	5,182
2006 and later	244	1,969
	¥26,082	\$210,508

As of March 31, 2001 property, plant and equipment with a net book value of approximately ¥7,020 million (\$56,659 thousand) were pledged as collateral for long-term debt. In case of default and certain other specified events, as is customary in Japan, additional collateral must be pledged if required by lending institutions under certain circumstances. Generally banks have the right to offset cash deposited with them against any debt or obligation that becomes due.

7. Retirement and Severance Benefits

The severance indemnity regulation of the companies provide for benefit payments based on the employee's current basic rate of pay and length of service.

The Companies and certain consolidated subsidiaries have a non-contributory funded pension plan for employees. The Companies and certain consolidated subsidiaries pay the full cost of the benefits to a bank which act as the trustees.

Effective April 1, 2000 the Company and its' domestic consolidated subsidiaries adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

The liability for employees' retirement benefits at March 31, 2001 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2001	2001
Projected benefit obligation	¥21,714	\$175,254
Fair value of plan assets	(1,322)	(10,670)
Unrecognized prior service cost	—	—
Unrecognized transitional obligation	(11,764)	(94,948)
Unrecognized actuarial loss	(2,060)	(16,626)
Prepaid pension cost	—	—
Net liability for retirement benefits	¥6,568	\$53,010

The components of net periodic benefit costs for the year ended March 31, 2001 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2001	2001
Service cost	¥976	\$7,877
Interest cost	555	4,479
Expected return on plan assets	(41)	(331)
Amortization of transitional obligation	1,203	9,710
Net periodic benefits cost	¥2,693	\$21,735

Certain consolidated subsidiaries have adopted the conventional method in calculating their projected benefit obligation as set forth in the accounting standard for retirement benefits.

Assumptions used in the accounting for the projected benefit obligation are as follows:

Discount rate	3.0%
(at the beginning of the year	3.5%)
Expected rate of return on plan assets	4.0%
Amortization period of transitional obligation	15years
Amortization period of actuarial loss/gain	10years

8. Contingent Liabilities

On March 31, 2001 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 ¥1,900 million (\$15,335 thousand) and ¥998 million (\$ 8,055 thousand), respectively.

9. Leases

Finance leases of the Companies other than those where ownership of the leased 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, 2001 and 2000 are ¥1,023 million (\$8,257 thousand) and ¥557 million, 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 accounted for as operating leases, if capitalized, at March 31, 2001 comprise the following (in equivalent amounts):

	Millions of yen	Thousands of U.S. dollars
	2001	2001
Machinery, equipment and vehicles	¥1,362	\$10,993
Tools, furniture and fixtures	3,102	25,036
Accumulated depreciation	(2,173)	(17,538)
	<u>¥2,291</u>	<u>\$18,491</u>

Future lease payments of the Companies are as follows:

	Millions of yen	Thousands of U.S. dollars
	2001	2001
Current obligation	¥943	\$7,611
Long-term obligation	1,348	10,880
Present values of lease payments	<u>¥2,291</u>	<u>\$18,491</u>

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

10. Pledged Assets

The following assets were pledged as collateral at March 31, 2001:

	Millions of yen	Thousands of U.S. dollars
	2001	2001
Land, property, plant and equipment (net of accumulated depreciation)	¥7,020	\$56,659

The preceding collaterals were pledged to secure long-term debt amounting to ¥768 million (\$6,199 thousand), short-term bank loans amounting to ¥2,651 million (\$21,396 thousand) and bonds amounting to ¥3,000 million (\$24,213 thousand).

11. Income Taxes

Income taxes in Japan applicable to the Companies generally comprise Corporation Tax, Enterprise Tax and Prefectural and Municipal Inhabitants taxes. The statutory rates for the years ended March 31, 2001 and 2000 are approximately 41.1%.

The reconciliation of the differences between the statutory rate and effective tax rate of income taxes at March 31, 2001 is as follows:

Statutory tax rate	41.1%
Non-deductible expense for tax purpose	1.5
Change in valuation allowance	(5.8)
Other	(2.3)
Effective tax rate	<u>34.5</u>

The significant components of deferred tax assets and liabilities at March 31, 2001 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Deferred tax assets:			
Accrued employees bonuses	¥244	¥154	\$1,969
Allowance for doubtful accounts	130	109	1,049
Devaluation of inventories	21	114	169
Devaluation of Investment securities	55	53	444
Accrued pension and severance costs	320	229	2,583
Unrealized gain on inventories	178	143	1,437
Other	289	277	2,333
Deferred tax assets	¥1,237	¥1,079	\$9,984
Deferred tax liabilities:			
Depreciation	17	13	138
Unrealized gain on Investment securities	1,509	—	12,179
Deferred tax liabilities	¥1,526	¥13	\$12,317
Net deferred tax (liabilities) assets	¥(289)	¥1,066	\$(2,333)

12. Derivatives

The Company enters into interest rate swap contracts and interest rate floor contracts to manage interest rate exposures on certain liabilities.

The Company also enters into forward foreign exchange contracts and currency option contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies.

These derivative transactions are utilized solely for hedging purposes under the Company's internal control rules and are subjected to supervision by the Board of Directors.

The contract amounts and estimated fair value of the derivative transactions outstanding at March 31, 2001 and 2000 are as follows:

	Millions of yen			Thousands of U.S. dollars		
	2001	2001	2001	2001	2001	2001
	Contract amount	Fair value	Unrealized gains (losses)	Contract amount	Fair value	Unrealized gains (losses)
Interest rate floor contracts						
Sell:	¥300	¥(1)	¥(1)	\$2,421	(8)	(8)

	Millions of yen		
	2000	2000	2000
	Contract amount	Fair value	Unrealized gains (losses)
Forward foreign exchange contracts			
Sell:			
U.S. dollars	¥844	¥820	¥24
Currency option			
Sell:			
Call option U.S. dollars	1,072	—	—
Buy:			
Put option U.S. dollars	536	—	—
Interest rate swap agreements	7,500	(22)	(22)
Interest rate floor contracts			
Sell:	400	(1)	(1)

13.Account balances and transactions with unconsolidated subsidiaries and affiliates

Account balances and transactions with unconsolidated subsidiaries and affiliates for the years ended March 31, 2001 and 2000 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Investment securities	¥384	¥424	\$3,099

14.Segment information

(A) Business segment information

The companies' business is classified into the following three segments based on the similarities of type and nature of business:

Machine Tools: Large size machine tools, Portal type machine tools, Grinding machines, Machining centers, Horizontal boring machines, High-precision machines

Molding Machinery: Injection molding machines, Die casting machines, Plastic extrusion

Other Products: Printing presses, Hydraulic equipment, Semiconductor manufacturing equipment, Electronic controls

The tables below present sales, operating expenses and operating profit information by business segment.

Year ended March 31, 2001	Millions of yen				
	Machine Tools	Molding Machinery	Other Products	Elimination and/or corporate	Consolidated
Sales	¥30,129	¥58,430	¥42,392	¥(3,592)	¥127,359
Operating expenses	31,551	54,423	40,162	(3,205)	122,931
Operating income (loss)	(1,422)	4,007	2,230	(387)	4,428
Identifiable assets	37,524	55,835	62,040	11,189	166,588
Depreciation	664	901	1,045	—	2,610
Capital expenditure	388	598	1,579	—	2,565

Year ended March 31, 2000	Millions of yen				
	Machine Tools	Molding Machinery	Other Products	Elimination and/or corporate	Consolidated
Sales	¥29,126	¥50,370	¥33,325	¥(3,538)	¥109,283
Operating expenses	32,944	48,383	33,412	(3,577)	111,162
Operating income (loss)	(3,818)	1,987	(87)	39	(1,879)
Identifiable assets	32,432	55,496	49,928	15,797	153,563
Depreciation	906	1,079	1,328	—	3,313
Capital expenditure	958	1,077	918	—	2,953

Year ended March 31, 2001	Thousands of U.S. dollars				
	Machine Tools	Molding Machinery	Other Products	Elimination and/or corporate	Consolidated
Sales	\$243,172	\$471,590	\$342,147	\$(28,991)	\$1,027,918
Operating expenses	254,649	439,250	324,149	(25,868)	992,180
Operating income (loss)	(11,477)	32,340	17,998	(3,123)	35,738
Identifiable assets	302,857	450,646	500,726	90,307	1,344,536
Depreciation	5,359	7,272	8,434	—	21,065
Capital expenditure	3,132	4,826	12,744	—	20,702

(B) Geographic segment information of the companies for the year ended March 31, 2001 and 2000 was follows:

Year ended March 31, 2001	Millions of yen					
	Japan	North America	Asia	Total	Elimination and/or corporate	Consolidated
Net sales	¥119,064	¥20,267	¥5,669	¥145,000	¥(17,641)	¥127,359
Cost and expenses	114,723	19,943	5,543	140,209	(17,278)	122,931
Operating income	4,341	324	126	4,791	(363)	4,428
Identifiable assets	135,789	12,978	4,958	153,725	12,863	166,588

Year ended March 31, 2000	Millions of yen					
	Japan	North America	Asia	Total	Elimination and/or corporate	Consolidated
Net sales	¥104,689	¥17,865	¥2,880	¥125,434	¥(16,151)	¥109,283
Cost and expenses	107,043	17,546	2,758	127,347	(16,185)	111,162
Operating income	(2,354)	319	122	(1,913)	34	(1,879)
Identifiable assets	116,671	11,080	2,632	130,383	23,180	153,563

Year ended March 31, 2001	Thousands of U.S.dollars					
	Japan	North America	Asia	Total	Elimination and/or corporate	Consolidated
Net sales	\$960,969	\$163,575	\$45,755	\$1,170,299	\$(142,381)	\$1,027,918
Cost and expenses	925,933	160,960	44,738	1,131,631	(139,451)	992,180
Operating income	35,036	2,615	1,017	38,668	(2,930)	35,738
Identifiable assets	1,095,956	104,746	40,016	1,240,718	103,818	1,344,536

(C) Sales to foreign customers were as follows:

Year ended March 31, 2001	Millions of yen			
	North America	Asia	Other	Total
Sales to foreign customers	¥23,088	¥28,649	¥3,402	¥55,139
Net sales	—	—	—	127,359
Ratio of sales to foreign customers (%)	18.1	22.5	2.7	43.3

Year ended March 31, 2000	Millions of yen			
	North America	Asia	Other	Total
Sales to foreign customers	¥21,219	¥21,325	¥3,463	¥46,007
Net sales	—	—	—	109,283
Ratio of sales to foreign customers (%)	19.4	19.5	3.2	42.1

Year ended March 31, 2001	Thousands of U.S.dollars			
	North America	Asia	Other	Total
Sales to foreign customers	\$186,344	\$231,227	\$27,457	\$445,028
Net sales	—	—	—	1,027,918
Ratio of sales to foreign customers (%)	18.1	22.5	2.7	43.3