

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 and applied 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 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 five-year period.

Investments in affiliates (15 to 50 percent-owned companies except subsidiaries) in which the ability to exercise significant influence exist and not consolidated subsidiaries, except not material, 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.

The foreign exchange gains and losses from translation are recognized in the consolidated statements of income to the extent that they are not hedged by foreign exchange derivatives.

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. The components of shareholders' equity are translated at their historical exchange rates.

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

(c). Marketable and Investment Securities

Until to the year ended March 31, 2000 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 stated at cost determined by the moving average method. Effective April 1, 2000 the Company and domestic consolidated subsidiaries adopted the new accounting standard for financial instruments. This accounting standard for financial instruments requires that securities be classified into three categories: trading, held to maturities or other securities. Under the accounting standard trading securities are carried at fair value and held to maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in shareholder's equity. Non-marketable securities classified other securities are carried at cost.

Cost of securities sold is determined by the moving average method.

As a result, unrealized holding gain on 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 net of deferred tax liabilities ¥1,503 million as of the March 31, 2001.

The adoption of the accounting standard for financial instruments did not have a material effect on income before income taxes 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, ¥1,969 million respectively, and marketable securities decreased the same amount as of March 31, 2001.

(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 receivables

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

The warranty reserve included in other current liabilities provided to cover the cost of repairs which may be claimed by customers. The amount of this reserve is estimated based on a past experience with repairs to products under warranty.

(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 purpose 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 is being amortized over 15 years. As a result, compared with the prior method, net periodic benefit cost increased by

¥589 million and income before income taxes decreased by ¥589 million for the year ended March 31, 2001.

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

On October 1, 2001, an amendment to the Code became effective. The amendment eliminates the stated per value of the Company's outstanding shares which results in all outstanding shares having no per value at March 31, 2002. Before the date on which the amendment came into effect, the Company's share of common stock had a per value of ¥50 per shares.

Under the code the Company and domestic subsidiaries 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 such reserve and the amount of capital surplus equals 25% of the common stock. The code also provides that, to the extent that the sum of capital surplus and legal reserve exceeds 25% of the common stock, the amount of any such excess is available for appropriations by resolution of the shareholders.

Retained earnings in the accompanying consolidated financial statements at March 31, 2002 include the legal reserve of ¥2,278 million(\$17,096 thousand).

(m). Amounts per Share of Common Stock

Net income(loss) 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, 2001 have been reclassified to conform to the 2002 presentation.

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 ¥133.25=U.S.\$1, the approximate exchange rate prevailing in the Japanese foreign exchange market on March 29, 2002. 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, 2002 and 2001, 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		
	2002			2001			2002		
	Book value	Market value	Unrealized gains (losses)	Book value	Market value	Unrealized gains (losses)	Book value	Market value	Unrealized gains (losses)
Investment securities									
Equity	¥1,859	¥4,604	¥2,745	¥1,977	¥5,529	¥3,552	\$13,951	\$34,552	\$20,600
Bonds	10	10	0	10	10	0	75	75	0
Other	-	-	-	-	-	-	-	-	-
	¥1,869	¥4,614	¥2,745	¥1,987	¥5,539	¥3,552	\$14,026	\$34,627	\$20,600

5. Property, Plant and Equipment

Property, plant and equipment on March 31, 2002 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Land	¥6,773	¥6,945	\$50,829
Buildings and structures	30,367	29,575	227,895
Machinery and equipment	33,519	35,977	251,550
Vehicles	631	615	4,735
Tools, furniture and fixtures	7,562	8,021	56,750
Construction in progress	273	96	2,049
	79,125	81,229	593,808
Less accumulated depreciation	(54,654)	(55,839)	(410,161)
	¥24,471	¥25,390	\$183,647

Depreciation expensed for the years ended March 31, 2002 and 2001 amounted to ¥ 2,289 million (\$ 17,178 thousand) and ¥ 2,610 million, respectively.

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

The annual interest rates applicable to the loans outstanding on March 31, 2002 ranged principally from 0.47% to 3.54%. Long-term debt on March 31, 2002 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
1st Bonds due 2003 interest 2.9%	¥3,000	¥3,000	\$22,514
¥2,000,000,000 fixed rate Bonds due 2002	2,000	2,000	15,009
Loans, principally from Japanese banks and insurance companies, with assets pledged as collateral, maturing 2002 - 2009, interest 2.09 % - 2.60 %	18,508	21,082	138,897
	23,508	26,082	176,420
Less current portion	5,785	3,425	43,414
	¥17,723	¥22,657	\$133,006

The aggregate annual maturities of long-term debt after March 31, 2002 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2003	¥5,785	\$43,415
2004	16,252	121,966
2005	731	5,486
2006	212	1,591
2007 and later	528	3,962
	¥23,508	\$176,420

As of March 31, 2002 property, plant and equipment with a net book value of approximately ¥6,716 million (\$50,402 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, 2002 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Projected benefit obligation	¥20,183	¥21,714	\$151,467
Faire value of plan assets	(1,129)	(1,322)	(8,473)
Unrecognized transitional obligation	(10,601)	(11,764)	(79,557)
Unrecognized actuarial loss	(2,073)	(2,060)	(15,557)
Net liability for retirement benefits	¥6,380	¥6,568	\$47,880

The components of net periodic benefit costs for the year ended March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Service cost	¥1,205	¥976	\$9,043
Interest cost	530	555	3,977
Expected return on plan assets	(40)	(41)	(300)
Recognized actuarial loss	206	-	1,546
Amortization of transitional obligation	1,163	1,203	8,728
	¥3,064	¥2,693	\$22,994

Certain consolidated subsidiaries have adopted the conventional method in calculating their projected benefit obligation.

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

	2002	2001
Discount rate	3.0%	3.0%
Expected rate of return on plan assets	4.0%	4.0%
Amortization period of transitional obligation	15 years	15 years
Amortization period of actuarial loss/gain	10 years	10 years

8. Contingent Liabilities

On March 31, 2002 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 ¥679 million (\$5,096 thousand) and ¥949 million (\$ 7,122 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, 2002 and 2001 are ¥986 million (\$7,400 thousand) and ¥1,023 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, 2002 comprise the following (in equivalent amounts):

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Machinery, equipment and vehicles	¥896	¥1,362	\$6,724
Tools, furniture and fixtures	2,765	3,102	20,750
Less-Accumulated depreciation	(1,986)	(2,173)	(14,904)
	¥1,675	¥2,291	\$12,570

Future lease payments of the Companies are as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Current obligation	¥709	¥943	\$5,321
Long-term obligation	966	1,348	7,249
Present values of lease payments	¥1,675	¥2,291	\$12,570

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, 2002:

	Millions of yen	Thousands of U.S. dollars
Land, property, plant and equipment (net of accumulated depreciation)	¥6,716	\$50,402

The preceding collaterals were pledged to secure long-term debt amounting to ¥ 428 million (\$3,212 thousand), short-term bank loans amounting to ¥750 million (\$5,629 thousand) and bonds amounting to ¥3,000 million (\$22,514 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, 2002 and 2001 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:

	2001
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	34.5

Reconciliation between the statutory tax rate and the effective tax rate for the year ended March 31, 2002 is not presented, as permitted, since the Company incurred a loss before income tax for the year then ended

The significant components of deferred tax assets and liabilities at March 31, 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Deferred tax assets:			
Accrued employees bonuses	¥148	¥244	\$1,111
Allowance for doubtful accounts	113	130	848
Devaluation of inventories	25	21	188
Devaluation of Investment securities	53	55	398
Accrued pension and severance costs	270	320	2,026
Unrealized gain on inventories	134	178	1,006
Other	213	289	1,597
Deferred tax assets	¥956	¥1,237	\$7,174
Deferred tax liabilities:			
Depreciation	30	17	225
Unrealized gain on Investment securities	1,143	1,509	8,578
Deferred tax liabilities	¥1,173	¥1,526	\$8,803
Net deferred tax (liabilities) assets	¥(217)	¥(289)	\$(1,629)

12. Derivatives

The Company enters into interest rate swap contracts and interest rate floor contracts to manage interest rate exposures on certain liabilities. This 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, 2002 and 2001 are as follows:

	Millions of yen					
	2002			2001		
	Contract amount	Fair value	Unrealized gains(losses)	Contract amount	Fair value	Unrealized gains(losses)
Interest rate floor contracts						
Sell:	¥100	¥(0)	¥(0)	¥300	¥(1)	¥(1)
	Thousands of U.S. dollars					
	2002					
	Contract amount	Fair value	Unrealized gains(losses)			
Interest rate floor contracts						
Sell:		\$750	\$(0)		\$(0)	

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, 2002 and 2001 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Investment securities	¥384	¥384	\$2,882

14. Cash and cash equivalents.

A reconciliation between cash and time deposits in the consolidated balance sheets and cash and cash equivalents in the statements of cash flows at March 31, 2002 and 2001 is presented as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Cash and time deposits	¥31,606	¥37,500	\$237,193
Short-term investments	¥5	¥3,095	\$38
Cash and cash equivalents	¥31,611	¥40,595	\$237,231

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: Rotogravure 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, 2002	Millions of yen				
	Machine Tools	Molding Machinery	Other Products	Eliminations and/or corporate	Consolidated
Sales	¥27,992	¥49,432	¥30,381	¥(3,206)	¥104,599
Operating expenses	28,179	47,311	30,851	(3,210)	103,131
Operating income (loss)	(187)	2,121	(470)	4	1,468
Identifiable assets	26,399	49,067	51,975	12,594	140,035
Depreciation	554	794	941	-	2,289
Capital expenditure	829	351	1,198	-	2,378

Year ended March 31, 2001	Millions of yen				
	Machine Tools	Molding Machinery	Other Products	Eliminations 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, 2002	Thousands of U.S. dollars				
	Machine Tools	Molding Machinery	Other Products	Eliminations and/or corporate	Consolidated
Sales	\$210,071	\$370,972	\$228,000	\$(24,060)	\$784,983
Operating expenses	211,474	355,055	231,527	(24,090)	773,966
Operating income (loss)	(1,403)	15,917	(3,527)	30	11,017
Identifiable assets	198,116	368,233	390,056	94,514	1,050,919
Depreciation	4,157	5,959	7,062	-	17,178
Capital expenditure	6,221	2,634	8,991	-	17,846

(B) Geographic segment information of the companies for the year ended March 31, 2002 and 2001 were as follows:

Year ended March 31, 2002		Millions of yen				
	Japan	North America	Asia	Total	Eliminations	Consolidated
Net sales	¥97,685	¥14,378	¥2,885	¥114,948	¥(10,349)	¥104,599
Cost and expenses	95,829	14,688	2,868	113,385	(10,254)	103,131
Operating income	1,856	(310)	17	1,563	(95)	1,468
Identifiable assets	113,367	10,646	2,042	126,055	13,980	140,035

Year ended March 31, 2001		Millions of yen				
	Japan	North America	Asia	Total	Eliminations	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, 2002		Thousands of U.S.dollars				
	Japan	North America	Asia	Total	Eliminations	Consolidated
Net sales	\$733,096	\$107,902	\$21,651	\$862,649	\$(77,666)	\$784,983
Cost and expenses	719,167	110,229	21,523	850,919	(76,953)	773,966
Operating income	13,929	(2,327)	128	11,730	(713)	11,017
Identifiable assets	850,784	79,895	15,325	946,004	104,915	1,050,919

(C) Sales to foreign customers for the years ended March 31, 2002 and 2001 were as follows:

Year ended March 31, 2002		Millions of yen			
	North America	Asia	Other	Total	
Sales to foreign customers	¥17,103	¥22,853	¥4,140	¥44,096	
Net sales	-	-	-	104,599	
Ratio of Sales to foreign Customers (%)	16.4	21.8	4.0	42.2	

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, 2002		Thousands of U.S.dollars			
	North America	Asia	Other	Total	
Sales to foreign customers	\$128,353	\$171,505	\$31,069	\$330,927	
Net sales	-	-	-	784,983	
Ratio of Sales to foreign Customers (%)	16.4	21.8	4.0	42.2	