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 affiliates

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 five-year period.

Investments in affiliates (15 to 50 percent-owned companies) in which the ability to exercise significant influence exist, 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 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.

(c) Securities

Securities owned by the group have been classified into two categories, held-to-maturity securities and other securities, in accordance with accounting standard for financial instruments.

Held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized gain or loss, net of income taxes, directly included in shareholders equity.

Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

(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 receivables 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) 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.

(h) 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.

(i) 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.

(j) Employee's Retirement Benefits

Accrued employees' retirement benefits are provided based on the projected retirement benefit obligation and fair value of the plan assets at year-end.

The unrecognized transitional obligation is being amortized over 15 years. Actuarial gain or loss is amortized by the straight-line method over the average remaining years of service of employees.

(k) Legal Reserve

On October1, 2001, an amendment to the Commercial Code of Japan (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.

(l) 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.

(m) 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.

(n) Reclassifications

Certain accounts in the consolidated financial statements for the year ended March 31, 2002 have been reclassified to conform to the 2003 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 ¥120.20=US$1,the approximate exchange rate prevailing in the Japanese foreign exchange market on March 31, 2003. 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. Securities

Information regarding marketable securities classified as other securities included in investment securities were as follows:

	Millions of yen					
	2003			2002		
	Carrying value	Market value	Unrealized gains	Carrying value	Market value	Unrealized gains
Equity securities	¥1,819	¥3,418	¥1,599	¥1,859	¥4,604	¥2,745
Debt securities	10	10	0	10	10	0
	¥1,829	¥3,428	¥1,599	¥1,869	¥4,614	¥2,745

	Thousands of U.S. dollars		
	2003		
	Carrying value	Market value	Unrealized gains
Equity securities	$15,133	$28,436	$13,303
Debt securities	83	83	0
	$15,216	$28,519	$13,303

5. Property, Plant and Equipment

Property, plant and equipment at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Land	**¥6,328**	¥6,773	**$52,646**
Buildings and structures	**30,574**	30,367	**254,359**
Machinery and equipment	**32,255**	33,519	**268,344**
Vehicles	**600**	631	**4,992**
Tools, furniture and fixtures	**7,500**	7,562	**62,396**
Construction in progress	**65**	273	**541**
	77,322	79,125	**643,278**
Less accumulated depreciation	**(54,656)**	(54,654)	**(454,709)**
	¥22,666	¥24,471	**$188,569**

Depreciation expense for the years ended March 31, 2003 and 2002 were ¥ 2,050 million ($ 17,055 thousand) and ¥ 2,289 million, respectively.

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

The annual interest rates applicable to the loans outstanding on March 31, 2003 ranged principally from 0.51% to 4.99%. Long-term debt on March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
1st Bonds due 2003 interest 2.9%	**¥3,000**	¥3,000	**$24,958**
¥2,000,000,000 fixed rate Bonds due 2002	**—**	2,000	**—**
Loans, principally from Japanese banks and insurance companies, with pledged assets as collateral, maturing 2004 – 2009 , interest 2.09 % – 2.60 %	**14,757**	18,508	**122,771**
	17,757	23,508	**147,729**
Less current portion	**16,269**	5,785	**135,350**
	¥1,488	¥17,723	**$12,379**

The aggregate annual maturities of long-term debt March 31, 2003 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31		
2004	¥16,269	$135,349
2005	748	6,223
2006	212	1,764
2007	438	3,644
2008 and later	90	749
	¥17,757	$147,729

As of March 31, 2003 property, plant and equipment with a net book value of approximately ¥6,371 million ($53,003 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 Company and certain subsidiaries have a non-contributory funded pension plan for employees. The Company and certain subsidiaries pay the full cost of the benefits to a bank which act as the trustees. The funded status of employees' retirement benefits at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S.dollars
	2003	2002	**2003**
Projected benefit obligation	**¥20,926**	¥20,183	**$174,093**
Fair value of plan assets	**(1,035)**	(1,129)	**(8,611)**
Unrecognized transitional obligation	**(9,765)**	(10,601)	**(81,239)**
Unrecognized actuarial loss	**(2,821)**	(2,073)	**(23,469)**
Accrued retirement benefits obligation	**¥7,305**	¥6,380	**$60,774**

The components of net periodic benefit costs for the year ended March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Service cost	**¥1,247**	¥1,205	**$10,374**
Interest cost	**503**	530	**4,185**
Expected return on plan assets	**(36)**	(40)	**(300)**
Recognized actuarial loss	**228**	206	**1,897**
Amortization of transitional obligation	**835**	1,163	**6,947**
	¥2,777	¥3,064	**$23,103**

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

	2003	2002
Discount rate	2.5%	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, 2003 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 ¥418 million ($3,478 thousand) and ¥609 million ($5,067 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. The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets at March 31, 2003 and 2002, which would have been reflected in the consolidated balance sheet if these arrangements have been accounted for as finance leases:

	Millions of yen		Thousands of U.S. dollars
Acquisition Costs	**2003**	2002	**2003**
Machinery, equipment and vehicles	**¥664**	¥896	**$5,524**
Tools, furniture and fixtures	**2,262**	2,765	**18,819**
Less-Accumulated depreciation	**(1,531)**	(1,986)	**(12,737)**
Net book value	**¥1,395**	¥1,675	**$11,606**

Future lease payments (including the interest portion thereon) subsequent to March 31,2003 for finance leases accounted for as operating leases are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
2004	**¥625**	¥709	**$5,200**
2005 and there after	**770**	966	**6,406**
	¥1,395	¥1,675	**$11,606**

Periodic lease charges to the Companies, as a lessee, charged to income for the years ended March 31, 2003 and 2002 are ¥ 794 million ($6,606 thousand) and ¥ 986 million, respectively.

10. Pledged Assets

The following assets were pledged as collateral at March 31, 2003:

	Millions of yen	Thousands of U.S. dollars
Land, property, plant and equipment (Net of accumulated depreciation)	¥6,371	$53,003

The preceding collaterals were pledged to secure long-term debt amounting to ¥296 million ($2,463 thousand), short-term bank loans amounting to ¥743 million ($6,181 thousand) and bonds amounting to ¥3,000 million ($24,958 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, 2003 and 2002 are approximately 41.1%.

The reconciliation of the differences between the statutory rate and effective tax rate of income taxes for the year ended March 31, 2003 is as follows:

	2003
Statistical tax rate	41.1 %
Per capita portion of Inhabitant Tax	4.0
Non-taxable revenue for tax purpose	(6.8)
Non-deductible expense for tax purpose	5.7
Unrealized intercompany profit on fixed asset	(19.0)
Change in valuation allowance	(7.1)
Effect of change in statutory tax rate	(1.3)
Other	(1.0)
Effective tax rate	15.6 %

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, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Deferred tax assets:			
Accrued employees bonuses	**¥160**	¥148	**$1,331**
Allowance for doubtful accounts	**52**	113	**433**
Devaluation of inventories	**82**	25	**682**
Devaluation of securities	**50**	53	**416**
Accrued employees' retirement benefits	**172**	270	**1,431**
Unrealized gain on inventories	**101**	134	**840**
Other	**331**	213	**2,754**
Deferred tax assets	**¥948**	¥956	**$7,887**
Deferred tax liabilities:			
Depreciation	**13**	30	**108**
Unrealized gain on securities	**668**	1,143	**5,558**
Deferred tax liabilities	**¥681**	¥1,173	**$5,666**
Net deferred tax (liabilities) assets	**¥267**	¥(217)	**$2,221**

Due to the change in the corporate enterprise tax rate effective for tax period ending March 31,2005, the Company's normal statutory tax rate will change from 41.1% to 39.8% for the year ending March 31,2005. As a result, net deferred tax assets decreased by ¥15million ($125 thousand) at March 31,2003, and deferred tax expense for the year ended March 31,2003 increased by the corresponding amount.

12. Derivatives

The Company enters into interest rate floor contracts to manage interest rate exposures on certain liabilities. This derivative transaction is utilized solely for hedging purposes under the Company's internal control rules and is subjected to supervision by the Board of Directors.

The contract amounts and estimated fair value of the derivative transactions outstanding at March 31, 2003 and 2002 are as follows:

	Millions of yen					
	2003			2002		
	Contract amount	Fair value	Unrealized gains (losses)	Contract amount	Fair value	Unrealized gains (losses)
Interest rate floor contracts						
Sell:	¥ —	¥ —	¥ —	¥100	¥(0)	¥(0)

13. Cash and cash equivalents.

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, 2003 and 2002 is presented as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Cash and time deposits	**¥32,455**	¥ 31,606	**$270,008**
Short-term investments	**¥5**	¥5	**$42**
Cash and cash equivalents	**¥32,460**	¥ 31,611	**$270,050**

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:

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

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

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

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

Year ended March 31, 2003	Millions of yen				
	Molding Machinery	Machine Tools	Other Products	Eliminations and/or corporate	Consolidated
Sales	¥49,343	¥18,118	¥33,767	¥(3,931)	¥97,297
Operating expenses	46,622	19,370	32,242	(3,993)	94,241
Operating income (loss)	2,721	(1,252)	1,525	62	3,056
Identifiable assets	49,207	20,386	55,732	10,953	136,278
Depreciation	1,052	356	642	—	2,050
Capital expenditure	452	328	495	—	1,275

Year ended March 31, 2002	Millions of yen				
	Molding Machinery	Machine Tools	Other Products	Eliminations and/or corporate	Consolidated
Sales	¥49,432	¥27,992	¥30,381	¥(3,206)	¥104,599
Operating expenses	47,311	28,179	30,851	(3,210)	103,131
Operating income (loss)	2,121	(187)	(470)	4	1,468
Identifiable assets	49,067	26,399	51,975	12,594	140,035
Depreciation	794	554	941	—	2,289
Capital expenditure	351	829	1,198	—	2,378

Year ended March 31, 2003	Thousands of U.S.dollars				
	Molding Machinery	Machine Tools	Other Products	Eliminations and/or corporate	Consolidated
Sales	$410,507	$150,733	$280,923	$(32,704)	$809,459
Operating expenses	387,870	161,149	268,236	(33,220)	784,035
Operating income (loss)	22,637	(10,416)	12,687	516	25,424
Identifiable assets	409,376	169,601	463,660	91,123	1,133,760
Depreciation	2,962	8,752	5,341	—	17,055
Capital expenditure	2,729	3,760	4,118	—	10,607

(B) Geographic segment information of the companies for the year ended March 31,2003 and 2002 were as follows:

Year ended March 31, 2003	Millions of yen					
	Japan	North America	Asia	Total	Eliminations	Consolidated
Net sales	¥92,641	¥10,252	¥3,686	¥106,579	¥(9,282)	¥97,297
Cost and expenses	89,700	10,658	3,538	103,896	(9,655)	94,241
Operating income	2,941	(406)	148	2,683	373	3,056
Identifiable assets	112,282	8,227	2,936	123,445	12,833	136,278

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, 2003	Thousands of U.S.dollars					
	Japan	North America	Asia	Total	Eliminations	Consolidated
Net sales	$770,724	$85,291	$30,665	$886,680	$(77,221)	$809,459
Cost and expenses	746,256	88,669	29,434	864,359	(80,324)	784,035
Operating income	24,468	(3,378)	1,231	22,321	3,103	25,424
Identifiable assets	934,126	68,444	24,426	1,026,996	106,764	1,133,760

(C) Sales to foreign customers for the years ended March 31,2003 and 2002 were as follows:

Year ended March 31, 2003	Millions of yen			
	North America	Asia	Other	Total
Sales to foreign customers	¥12,467	¥29,341	¥3,707	¥45,515
Net sales	—	—	—	97,297
Ratio of Sales to foreign Customers (%)	12.8	30.2	3.8	46.8

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, 2003	Thousands of U.S.dollars			
	North America	Asia	Other	Total
Sales to foreign customers	$103,719	$244,101	$30,840	$378,660
Net sales	—	—	—	809,459
Ratio of Sales to foreign Customers (%)	12.8	30.2	3.8	46.8

15. Other

Consolidated subsidiaries Toshiba Machine Company., America ("TMA") has been involved civil lawsuit for which an adverse decision was reached at the trial court level during 2003.

TMA has appealed the decision based upon the advice of legal counsel. The loss is estimated to range between $2.2million and $9.2 million, including interest. The lower end of the range has been accrued as of March 31, 2003 in accordance with an opinion of legal counsel.