

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TOSHIBA MACHINE CO., LTD. AND CONSOLIDATED SUBSIDIARIES

## 1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Toshiba Machine Co., Ltd. (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the securities and Exchange Law of 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 income 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 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 contract 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 the 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 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.

(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

Under the Commercial code of Japan (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, 2003 have been reclassified to conform to the 2004 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 ¥105.69=U.S.\$1, the approximate exchange rate prevailing in the Japanese foreign exchange market on March 31, 2004. 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					
	2004			2003		
	Carrying value	Market value	Unrealized gains	Carrying value	Market value	Unrealized gains
Equity securities	¥1,794	¥5,587	¥3,793	¥1,819	¥3,418	¥1,599
Debt securities	—	—	—	10	10	0
	¥1,794	¥5,587	¥3,793	¥1,829	¥3,428	¥1,599

  

	Thousands of U.S. dollars		
	2004		
	Carrying value	Market value	Unrealized gains
Equity securities	\$16,974	\$52,862	\$35,888
Debt securities	—	—	—
	\$16,974	\$52,862	\$35,888

#### 5. Property, Plant and Equipment

Property, plant and equipment at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Land	¥6,237	¥6,328	\$59,012
Buildings and structures	30,362	30,574	287,274
Machinery and equipment	32,247	32,255	305,109
Vehicles	593	600	5,611
Tools, furniture and fixtures	7,384	7,500	69,865
Construction in progress	112	65	1,060
	76,935	77,322	727,931
Less accumulated depreciation	(54,739)	(54,656)	(517,921)
	¥22,196	¥22,666	\$210,010

Depreciation expense for the years ended March 31, 2004 and 2003 were ¥ 1,800 million (\$ 17,031 thousand) and ¥ 2,050 million, respectively.

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

The annual interest rates applicable to the loans outstanding on March 31, 2004 ranged principally from 0.49% to 2.30%. Long-term debt on March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
1st Bonds due 2003 interest 2.9%	—	¥3,000	—
Loans, principally from Japanese banks and insurance companies, with pledged assets as collateral, maturing 2005 – 2010 , interest 1.31 % – 2.16 %	12,888	14,757	121,941
	12,888	17,757	121,941
Less current portion	748	16,269	7,077
	¥12,140	¥1,488	\$114,864

The aggregate annual maturities of long-term debt March 31, 2004 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2005	¥748	\$7,077
2006	210	1,987
2007	474	4,485
2008	40	378
2009 and later	11,416	108,014
	¥12,888	\$121,941

## 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 liability for employees retirement benefits at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S.dollars
	2004	2003	2004
Projected benefit obligation	¥18,667	¥20,926	\$176,620
Fair value of plan assets	(1,001)	(1,035)	(9,471)
Unrecognized transitional obligation	(8,930)	(9,765)	(84,492)
Unrecognized actuarial loss	(1,636)	(2,821)	(15,479)
Accrued retirement benefits obligation	¥7,100	¥7,305	\$67,178

The components of net periodic benefit costs for the year ended March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Service cost	¥1,187	¥1,247	\$11,231
Interest cost	420	503	3,974
Expected return on plan assets	(8)	(36)	(75)
Recognized actuarial loss	326	228	3,084
Amortization of transitional obligation	835	835	7,900
	¥2,760	¥2,777	\$26,114

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

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

	2004	2003
Discount rate	2.0%	2.5%
Expected rate of return on plan assets	1.0%	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, 2004 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 ¥231 million (\$2,186 thousand) and ¥978 million (\$9,253 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, 2004 and 2003, 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
	2004	2003	2004
Acquisition Costs			
Machinery, equipment and vehicles	¥920	¥664	\$8,705
Tools, furniture and fixtures	2,040	2,262	19,302
Less-Accumulated depreciation	(1,566)	(1,531)	(14,817)
Net book value	¥1,394	¥1,395	\$13,190

Future lease payments (including the interest portion thereon) subsequent to March 31, 2004 for finance leases accounted for as operating leases are as follows:

	Millions of yen	Thousands of U.S. dollars
	2004	2004
Due within one year	¥532	\$5,034
Due after one year	862	8,156
	¥1,394	\$13,190

Periodic lease charges to the Companies, as a lessee, charged to income for the years ended March 31, 2004 and 2003 are ¥ 763 million (\$7,219 thousand) and ¥ 794 million, respectively.

## 10. Pledged Assets

The following assets were pledged as collateral at March 31, 2004:

	Millions of yen	Thousands of U.S. dollars
Land, property, plant and equipment (Net of accumulated depreciation)	¥4,169	\$39,446

The preceding collaterals were pledged to secure long-term debt amounting to ¥296 million (\$2,801 thousand), short-term bank loans amounting to ¥586 million (\$5,545 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, 2004 and 2003 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, 2004 and 2003 are as follows:

	2004	2003
Statutory tax rate	41.1 %	41.1 %
Per capita portion of Inhabitant Tax	0.9	4.0
Non-taxable revenue for tax purpose	0.5	(6.8)
Non-deductible expense for tax purpose	1.2	5.7
Unrealized intercompany profit on fixed asset	(0.1)	(19.0)
Change in valuation allowance	(27.7)	(7.1)
Effect of change in statutory tax rate	—	(1.3)
Other	0.1	(1.0)
Effective tax rate	<b>16.0 %</b>	<b>15.6 %</b>

The significant components of deferred tax assets and liabilities at March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Deferred tax assets:			
Accrued employees bonuses	¥230	¥160	\$2,176
Allowance for doubtful accounts	42	52	397
Devaluation of inventories	98	82	927
Devaluation of securities	4	50	38
Accrued employees' retirement benefits	69	172	653
Unrealized gain on inventories	84	101	795
Other	355	331	3,359
Deferred tax assets	<b>¥882</b>	<b>¥948</b>	<b>\$8,345</b>
Deferred tax liabilities:			
Depreciation	(17)	(13)	(161)
Unrealized gain on securities	(1,495)	(668)	(14,145)
Deferred tax liabilities	<b>(¥1,512)</b>	<b>(¥681)</b>	<b>(\$14,306)</b>
Net deferred tax (liabilities) assets	<b>(¥630)</b>	<b>(¥267)</b>	<b>(\$5,961)</b>

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. 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, 2004 and 2003 is presented as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Cash and time deposits	¥36,107	¥32,455	\$341,631
Short-term investments	¥5	¥5	\$47
Cash and cash equivalents	<b>¥36,112</b>	<b>¥32,460</b>	<b>\$341,678</b>

### 13. Research and development costs

Research and development costs charged to income were ¥3,194 million (\$30,220 thousand) and ¥2,587 million for the years ended March 31, 2004 and 2003 respectively.

### 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, Electronic controls

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

Year ended March 31, 2004

Millions of yen

	Molding Machinery	Machine Tools	Other Products	Eliminations and/or corporate	Consolidated
Sales	¥60,872	¥18,843	¥34,438	¥(3,495)	¥110,658
Operating expenses	56,724	18,247	31,462	(3,376)	103,057
Operating income	4,148	596	2,976	(119)	7,601
Identifiable assets	57,314	22,474	57,708	10,813	148,309
Depreciation	1,006	212	582	—	1,800
Capital expenditure	398	150	1,226	—	1,774

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, 2004

Thousands of U.S.dollars

	Molding Machinery	Machine Tools	Other Products	Eliminations and/or corporate	Consolidated
Sales	\$575,948	\$178,285	\$325,840	\$(33,068)	\$1,047,005
Operating expenses	536,702	172,646	297,682	(31,943)	975,087
Operating income (loss)	39,246	5,639	28,158	(1,125)	71,918
Identifiable assets	542,284	212,641	546,012	102,308	1,403,245
Depreciation	9,518	2,006	5,507	—	17,031
Capital expenditure	3,766	1,419	11,600	—	16,785

(b) Geographic segment information of the companies for the year ended March 31, 2004 and 2003 were as follows:

Year ended March 31, 2004	Millions of yen					
	Japan	North America	Asia	Total	Eliminations	Consolidated
Net sales	¥106,345	¥10,941	¥3,083	¥120,369	¥(9,711)	¥110,658
Cost and expenses	99,127	10,838	3,019	112,984	(9,927)	103,057
Operating income	7,218	103	64	7,385	216	7,601
Identifiable assets	125,719	7,491	2,065	135,275	13,034	148,309

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, 2004	Thousands of U.S.dollars					
	Japan	North America	Asia	Total	Eliminations	Consolidated
Net sales	\$1,006,197	\$103,520	\$29,170	\$1,138,887	\$(91,882)	\$1,047,005
Cost and expenses	937,903	102,545	28,565	1,069,013	(93,926)	975,087
Operating income	68,294	975	605	69,874	2,044	71,918
Identifiable assets	1,189,507	70,877	19,538	1,279,922	123,323	1,403,245

(c) Sales to foreign customers for the years ended March 31, 2004 and 2003 were as follows:

Year ended March 31, 2004	Millions of yen			
	North America	Asia	Other	Total
Sales to foreign customers	¥19,073	¥32,243	¥5,856	¥57,172
Net sales	—	—	—	110,658
Ratio of Sales to foreign Customers (%)	17.2	29.1	5.4	51.7

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, 2004	Thousands of U.S.dollars			
	North America	Asia	Other	Total
Sales to foreign customers	\$180,462	\$305,071	\$55,407	\$540,940
Net sales	—	—	—	1,047,005
Ratio of Sales to foreign Customers (%)	17.2	29.1	5.4	51.7

## 15. Other

Consolidated subsidiaries Toshiba Machine Company., America (“TMA”) has been involved in a 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 \$9.3 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.