TOSHIBA MACHINE

ANNUAL REPORT 2000

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Numazu Plant

Sagami Plant

Gotemba Plant

An Outline of the Company

TOSHIBA MACHINE, an integrated machine builder with longstanding international renown for its total capability and quality, excels in the production of machine tools, plastic processing machinery, industrial machinery, hydraulic equipment, semiconductor manufacturing equipment, precision machinery, and electronic controls.

TOSHIBA MACHINE was one of the first companies to establish mechatronics-oriented production systems by utilizing its own advanced precision technologies and sophisticated electronics experience for the research and development of the advanced technologies required for the future and for continuous and stable growth.

Company name:	TOSHIBA MACHINE CO., LTD.
Headquarters:	2068-3, Ooka, Numazu-shi, Shizuoka-ken 410-8510, Japan
Established:	1938
Capital:	¥12,485 million (U.S.$118 million)
Total no. of employees:	2,334 (current as of March 31, 2000)

Foreword

Bolstered by economic and financial policies, and led by a slight upturn in the IT (Information Technology) industry, the Japanese economy began to show faint signs of recovery despite being bogged down by stagnant consumer spending and private-sector plant and equipment investment.

Overseas, the American economy continued to enjoy robust economic growth, with Europe, in general, showing increasing signs of an economic recovery, while the Asian economy started to display strong signs of a recovery in the latter half of the fiscal year.

In the machinery industry, despite growth in selected sectors, bleak conditions continued to plague the industry as a whole.

Under such conditions, despite our ongoing efforts to secure orders, both domestically and overseas, as well the development of new products, due to greatly depressed domestic and North American machine tool demand, the Toshiba Machine Company group, on a consolidated basis recorded a total of ¥105,543 million (US$994 million) in orders received. (An exchange rate of ¥106.15 = $1.00 will be used throughout this report)

As for our consolidated sales, due to protracted weak demand for our machine tools and printing presses, total group sales totaled ¥109,283 million (US$1,030 million), a 12.8% decrease over the previous term.

Despite such drastic reforms as the implementation of a voluntary retirement program, transferring of our company headquarters, reorganization of our business divisions, and the consolidation of our group management, we regret to announce that due to depressed market demand and a special loss taken for costs incurred in carrying out our voluntary retirement program, the Toshiba Machine Company group incurred a fiscal pre-tax loss of ¥3,676 million (US$35 million) and a net loss of ¥8,661 million (US$82 million).

Due to this fiscal loss incurred for the period under review, we will be foregoing a dividend distribution for the fiscal term just ended.

Despite economic forecasts for a gradual recovery due to increased activity in the IT and semiconductor industries, such factors as depressed consumer demand, instability in the foreign exchange rates, and fierce competition suggest that the current bleak economic environment will continue. Nevertheless, the Toshiba Machine Company group is determined to increase the volume of orders received and sales volume, restore our profitability, and remain an influential force in the industry by the continuing of our medium term corporate restructuring program.

To further improve our group efficiency, we also plan to continue various reforms in our organization, business processes, costs, and group management, in addition to the speedy research, development and offering of new products, and the further internationalization of our sales and service network based on our CS (Customer Satisfaction) policy. As for our manufacturing systems, further rationalization and efficiency measures are to be implemented based on ISO9001 and ISO14001 for the production of quality, environmentally friendly products.

We are also glad to announce that as our entire group, both domestic and overseas companies, did not suffer from any Y2K related problems neither at the beginning of the year nor any later leap year effects, the special Y2K task force organized to solve any potential problems was dissolved in April of this year.

July, 2000

FINANCIAL HIGHLIGHTS (consolidated)

	2000	1999	1998	1997	1996
Net sales	**¥109,283**	¥125,352	¥155,943	¥147,546	¥130,313
	$1,029,515				
Cost of sales	**¥80,852**	¥90,694	¥114,452	¥113,078	¥101,317
	$761,677				
Selling, general and	**¥30,310**	¥33,779	¥36,913	¥35,192	¥32,750
administrative expenses	$285,539				
Operating income	**¥(1,879)**	¥879	¥4,578	¥(723)	¥(3,754)
	$(17,701)				
Income before income taxes	**¥(8,779)**	¥(856)	¥7,640	¥(434)	¥(3,995)
and minority interest	$(82,704)				
Income taxes	**¥171**	¥524	¥955	¥436	¥491
	$(1,611)				
Net income (loss)	**¥(8,661)**	¥(1,326)	¥6,603	¥(917)	¥(4,160)
	$(81,592)				
Per common share:					
Net income (loss)	**¥(51.90)**	¥(7.95)	¥39.71	¥(5.55)	¥(25.25)
	$(0.49)				
Cash dividends	**¥ —**	¥2.00	¥3.00	¥ —	¥ —
	$ —				
Total assets	**¥153,563**	¥159,579	¥169,324	¥158,597	¥157,571
	$1,446,660				
Shareholder's equity	**¥36,075**	¥43,971	¥46,152	¥39,431	¥40,353
	$339,849				
Capital expenditure	**¥2,953**	¥4,100	¥3,543	¥3,278	¥2,684
(property, plant and equipment)	$27,819				
Depreciation	**¥3,313**	¥3,467	¥3,501	¥3,597	¥3,684
	$31,211				
R & D expenditure	**¥3,035**	¥ —	¥ —	¥ —	¥ —
	$28,592				
Number of employees	**3,999**	—	—	—	—

In millions of yen (thousands of U.S. dollars) except for number of employees and per-share data.

Overseas Operations 2000

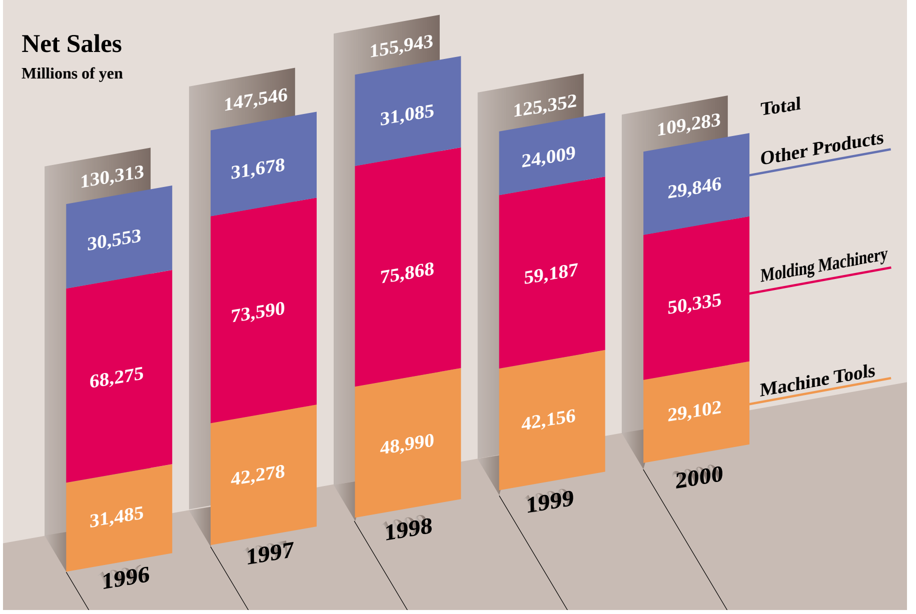
Despite continued strong growth of the American economy and distinct signs of a recovery in the Asian economy during the latter half of the fiscal year, due to decreased north American demand for machine tools, total export orders received totaled ¥34,136 million (US$ 322 million), an approximately 5% decrease compared to the previous fiscal year.

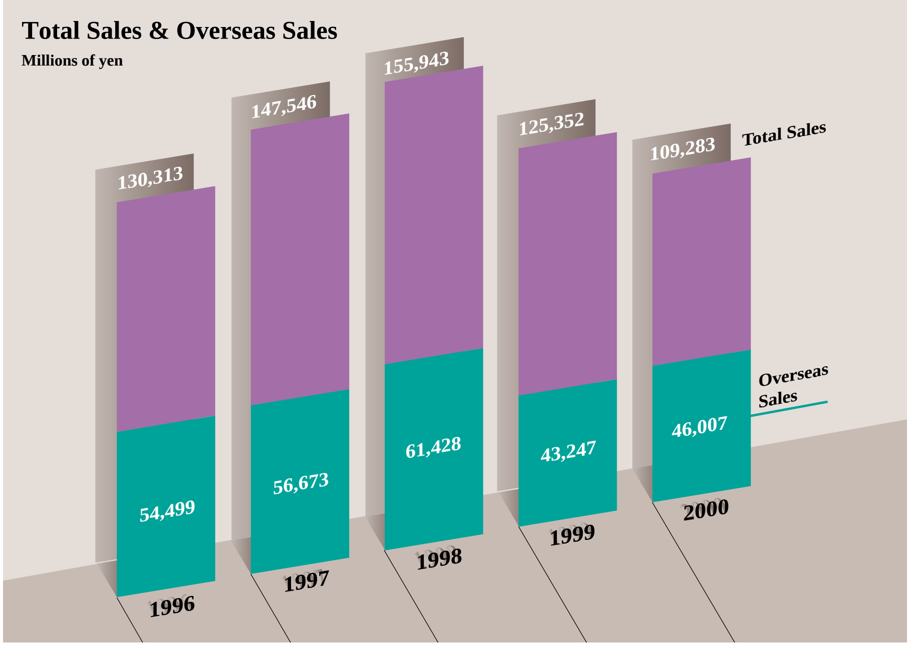
In regards to export sales, an increase in injection molding machine and semiconductor equipment sales more than compensated for decrease in machine tool sales resulting in a total of ¥39,171 million (US$ 369 million), a 9% increase compared to the previous fiscal year, contributing to approximately 49% of total sales.

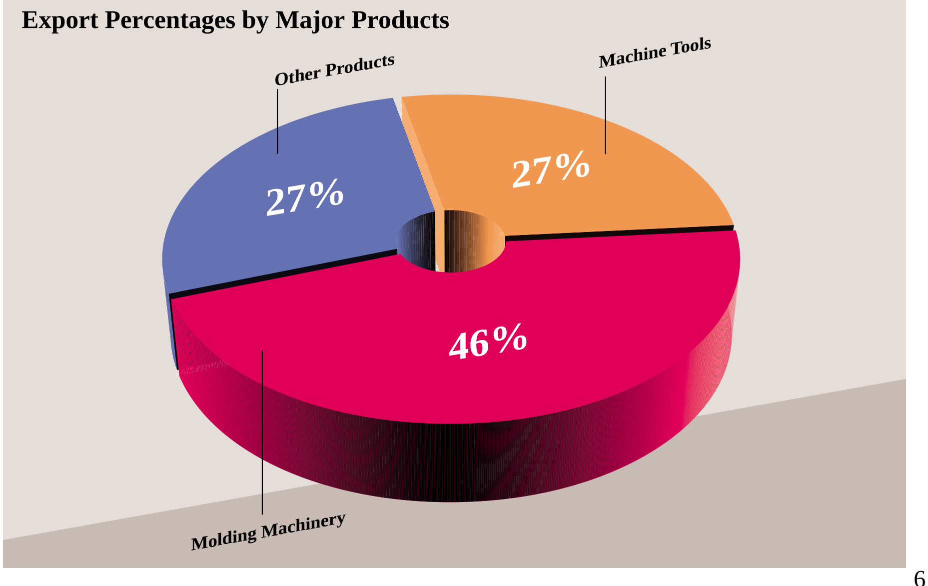
Although the north American region accounted for 36% of total export amount, other principal markets were China, South Korea, Taiwan, Europe, Malaysia and Singapore.

By machinery type, the major share of injection molding machines and die cast machinery were exported to north America and Asia, while north America, Asia, as well as Europe represented the largest market for our machine tools.

In the future, we plan to further improve our overseas sales and service network by quickly responding to our customers needs with the providing of quality products and after-sales service.







Overseas Offices

Overseas Subsidiaries, Affiliates and Joint Ventures

TOSHIBA MACHINE CO. AMERICA
Chicago Head Office
755 Greenleaf Avenue,
Elk Grove Village, IL 60007, U.S.A.
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Fax: [86]-(0)755-234-3497

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Branch and Representative Office

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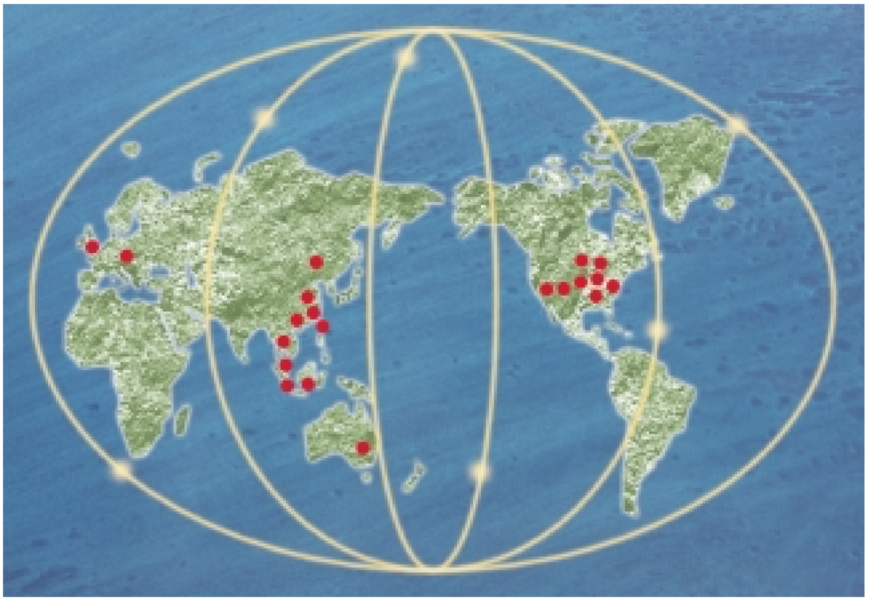
Fax: [86]-(0)10-6590-8979



Financial Review

BALANCE SHEETS (consolidated)

TOSHIBA MACHINE CO., LTD. AND CONSOLIDATED SUBSIDIARIES

March 31, 2000 and 1999

ASSETS	Millions of yen 2000	Millions of yen 1999	Thousands of U.S. dollars 2000
Current assets:			
Cash and cash equivalents (Note 2.i)	¥45,272	¥33,754	$426,491
Marketable securities	2,080	2,586	19,595
Trade receivables:			
Notes	15,657	41,691	147,499
Accounts	33,699	20,683	317,466
	49,356	62,374	464,965
Allowance for doubtful receivables	(1,136)	(1,186)	(10,702)
Net receivables	48,220	61,188	454,263
Inventories:			
Finished products	8,511	8,445	80,179
Work in process	15,532	19,857	146,321
Raw materials and supplies	782	786	7,367
Total inventories	24,825	29,088	233,867
Deferred taxes	818	—	7,706
Other current assets	2,003	1,064	18,869
Total current assets	123,218	127,680	1,160,791
Investments and long-term loans:			
Investments in:			
Unconsolidated subsidiaries and affiliated companies	424	611	3,994
Other securities	185	260	1,743
Long-term loans	948	967	8,931
Deferred taxes	260	—	2,449
Other investments	856	943	8,064
Total investments and long-term loans	2,673	2,781	25,181
Property, plant and equipment (Notes 4 and 5)	26,721	28,455	251,729
Other assets	381	410	3,589
Foreign currency translation adjustment	570	253	5,370
Total assets	¥153,563	¥159,579	$1,446,660

March 31, 2000 and 1999

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2000	Millions of yen 1999	Thousands of U.S. dollars 2000
Current liabilities:			
Short-term bank loans (Note 5)	¥50,017	¥51,392	$471,192
Current portion of long-term debt (Note 5)	3,750	526	35,327
Trade payables:			
Notes	17,077	18,063	160,876
Accounts	7,396	8,114	69,675
Total payables	24,473	26,177	230,551
Income taxes payable	389	288	3,665
Accrued expenses	4,238	4,996	39,925
Advanced received	1,480	2,040	13,943
Other current liabilities	708	975	6,670
Total current liabilities	85,055	86,394	801,273
Long-term liabilities:			
Long-term debt (Note 5)	25,791	20,742	242,967
Deferred taxes	13	—	122
Accrued severance indemnities	5,692	7,257	53,622
Total long-term liabilities	31,496	27,999	296,711
Total liabilities	116,551	114,393	1,097,984
Minority interest in consolidated subsidiaries	937	1,215	8,827
Shareholders' equity:			
Common stock of ¥50 par value			
Authorized — 360,000,000 shares			
Issued — 1999 166,885,530 shares			
Issued — 2000 166,885,530 shares	12,485	12,485	117,617
Additional paid-in capital	19,405	19,405	182,807
Retained earnings	4,185	12,081	39,425
Treasury stock	0	0	0
Total shareholders' equity	36,075	43,971	339,849
Contingent liabilities (Note 6)			
Total liabilities and shareholders' equity	¥153,563	¥159,579	$1,446,660

See accompanying notes to financial statements

Statements of Operations and Retained Earnings (consolidated)

TOSHIBA MACHINE CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2000 and 1999

	Millions of yen 2000	Millions of yen 1999	Thousands of U.S. dollars 2000
Net sales	¥109,283	¥125,352	$1,029,515
Cost of sales	80,852	90,694	761,677
Gross profit	28,431	34,658	267,838
Selling, general and administrative expenses	30,310	33,779	285,539
Operating income (loss)	(1,879)	879	(17,701)
Other income:			
Interest and dividends	158	343	1,488
Gain on sale of property, plant and equipment	2,440	—	22,986
Others	1,351	829	12,728
	3,949	1,172	37,202
Other expenses:			
Interest	1,541	1,591	14,517
Special benefits for employees retired under early retirement program	6,421	—	60,490
Others	2,887	1,316	27,198
	10,849	2,907	102,205
Loss before income taxes and minority interests	(8,779)	(856)	(82,704)
Income taxes:	171	524	1,611
Current	471	524	4,437
Deferred	(300)	—	(2,826)
Minority interests in income of consolidated subsidiaries	289	54	2,723
Net loss	8,661	1,326	81,592
Retained earnings:			
Balance at beginning of year	12,081	14,262	113,811
Increase due to addition of subsidiaries to consolidation	293	—	2,760
Cumulative effect of change in accounting for income taxes	493	—	4,644
Cash dividends	—	835	—
Directors' and statutory auditors' bonuses	21	20	198
Balance at end of year	4,185	12,081	39,425
Net loss per share of common stock	¥ (51.90)	¥(7.95)	$(0.49)

In millions of yen (thousands of U.S. dollars) except for Earnings per common share.
See accompanying notes to financial statements.

Statements of Cash Flows (consolidated)

TOSHIBA MACHINE CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2000

	Millions of yen 2000	Thousands of U.S. dollars 2000
Operating Activities:		
Income before income taxes and minority interests	¥(8,779)	$(82,704)
Adjustments to reconcile income before income taxes		
and minority interests to net cash provided by operating activities:		
Depreciation and amortization	3,313	31,211
Allowance for doubtful receivables	(52)	(490)
Provision for severance indemnities, less payments	(1,572)	(14,809)
Devaluation of marketable securities	499	4,701
Exchange loss	137	1,291
Gain and loss on sales and disposal of property, plant and equipment	(2,263)	(21,319)
Changes in operating assets and liabilities:		
Trade notes and accounts receivables	14,290	134,621
Inventories	4,263	40,160
Trade notes and accounts payables	(3,242)	(30,542)
Advanced received	(560)	(5,276)
Accrued expenses	(912)	(8,592)
Income taxes paid	(369)	(3,476)
Others	(351)	(3,306)
Net cash provided by operating activities	4,402	41,470
Investing Activities:		
Purchase of property, plant and equipment	(2,580)	(24,305)
Sale of property, plant and equipment	2,635	24,823
Increase in short-term loan receivables, net	(94)	(886)
Payment of long-term loan receivables	(364)	(3,429)
Repayment of long-term loan receivables	383	3,608
Others	264	2,488
Net cash provided by investment activities	244	2,299
Financing Activities:		
Decrease in short-term bank loans	(1,493)	(14,065)
Proceeds from long-term debt	6,540	61,611
Repayment of long-term debt	(168)	(1,583)
Issue of bond	2,000	18,841
Dividends paid for minority interest	(7)	(65)
Net cash provided by financing activities	6,872	64,739
Net cash increased during the year	11,518	108,508
Cash and cash equivalent at the beginning of year	33,754	317,983
Cash and cash equivalent at the end of year	45,272	426,491

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presenting Financial Statements

The consolidated balance sheets, statements of operations and cash flows are prepared from those which are in accordance with accounting principles generally accepted in Japan, which may differ in some material respects from accounting principles generally accepted in countries and jurisdictions other than Japan. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

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

2. Summary of Significant Accounting Policies

a. Basis of consolidation

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

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

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

b. Translation of foreign currency transactions and accounts

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

All the assets and liabilities of foreign subsidiaries and affiliates are translated at current rates at the respective balance sheet dates and all the income and expense accounts are translated at average rates for the respective periods. Foreign currency financial statement translation differences are recorded in the balance sheet as a component of assets or liabilities.

c. Allowance for doubtful accounts

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

d. Inventories

Inventories are stated at the cost, determined by the identified cost for finished products and work in process, and by the moving average method for raw materials and supplies.

e. Securities and investments

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

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

f. Property, plant and equipment, depreciation and lease transaction

Property, plant and equipment is stated at cost.

Depreciation of property, plant and equipment, except for building is computed by the declining balance method over the applicable useful lives. Building is depreciated by the straight line method over the estimated lives.

Finance lease transactions, except for those which meet the condition that the ownership of the leased asset is substantially transferred to the lessee, are accounted for as operating lease transactions.

g. Liability for employee retirement and severance indemnities

Under the Company’s employee retirement plan, an allowance based on the length of service and basic salary at the date of termination is paid to employees by terminating their employment. Payments for voluntary termination are less than the payments for involuntary termination.

For tax purposes, only 33% of the retirement liability on a voluntary basis is deductible at the time accrued, but the liability for employee retirement and severance indemnities included in the balance sheets represents 50%

of full liability based on voluntary retirement. The difference between that amount and the amount actually paid is deductible at the time of payment.

The Company and two consolidated subsidiaries have the Corporate Pension Plan, which has been qualified for Japanese tax law, for above employee retirement plan. Past service cost in that Pension Plan has been amortized by 8 or15 years.

Directors are not covered by the programs described above, since amounts vary with circumstances and it is therefore not practicable to compute liability for future payments. Such allowances are not deductible from taxable income until they are paid.

h. Appropriations of retained earnings or disposition of accumulated deficit

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

i. Cash equivalents

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

j. Reclassifications

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

3. U.S. Dollar amounts

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

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

4. Property, Plant and Equipment

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

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

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

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

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

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

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

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

As of March 31, 2000 property, plant and equipment with a net book value of approximately ¥7,429 million (U.S.$69,986 thousand) were pledged as collateral for long term debt. As is customary in Japan, additional collateral must be pledged if required by lending institutions under certain circumstances, and generally banks have the right to offset cash deposited with them against any debt or obligation that becomes due and in case of default and certain other specified events against all other debts payable to the banks.

6. Contingent Liabilities

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

7. Leases

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

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

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

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

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

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

Report of Independent Certified Public Accountants

The Board of Directors of
Toshiba Machine Co., Ltd.

We have audited the consolidated balance sheets of Toshiba Machine Co., Ltd. as of March 31, 2000 and 1999, and the related consolidated statements of operations and retained earnings and statements of cash flows for the years then ended. Our audits were made in accordance with generally accepted auditing standards, procedures and practices in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Toshiba Machine Co., Ltd. as of March 31, 2000 and 1999, and the results of their operations and cash flows for the years then ended, in conformity with generally accepted accounting principles in Japan applied on a consistent basis, except for the change, with which we concur, in the method of accounting for marketable securities and security investments as described in Note 2.e to the consolidated financial statements.

The United States dollar amounts shown in the accompanying consolidated financial statements have been translated solely for convenience. We have reviewed this translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into dollars on the basis described in Note 3.

Tokyo, Japan
June 29, 2000

Century Ota Showa & Co.

CENTURY OTA SHOWA & CO.
Certified Public Accountant

See note 1 to the consolidated financial statements which explains the basis of preparing the consolidated financial statements of Toshiba Machine Co.,Ltd. under Japanese accounting principles and practices.

(From left)
Takuya Oikawa, Takahiko Inokuma, Yoshifumi Hayashi

Directors

President
Takahiko Inokuma

Senior Managing Director
Takuya Oikawa
Yoshifumi Hayashi

Directors
Yasuhiro Kuroki
Harukatsu Goto
Kunihiko Naruse
Tamotsu Mukai
Kouzyu Aoki
Keisuke Maehara
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