ANNUAL REPORT

2002

TOSHIBA MACHINE

Contents

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:	\ 12,484 million (U.S.$ 94 million)
Total no. of employees:	2,195 (current as of March 31, 2002)

Foreword

The Japanese economy, entwined in a deflationary spiral and reeling from the affects of the September 11 terrorist attacks in the United States, remained stagnant due to depressed consumer spending, and decreased investment and low growth in the IT industry.

An unfavorable business climate also prevailed in the machine industry as constraints placed on international investment in plant and equipment resulted in a continuation of bleak demand.

Under such severe conditions, the Toshiba Machine group based on their CS (Customer Satisfaction) corporate policy, and despite its continued efforts to secure orders, both domestically and overseas, the development of new products and selling of their printing press division, recorded a decrease of approximately 30.9% in total orders received compared to the previous term for machine tools, plastic processing machinery, and semiconductor equipment, totaling \92,796 million (US$ 696 million). (An exchange rate of \133.25=$1.00 shall be used throughout this text).

As for sales volume, a drop in demand for our plastic processing machinery, printing presses, and semiconductor equipment resulted in a 17.9% decrease over the previous term, totaling \104,598 million (US$ 785 million).

In terms of profit and loss, despite such favorable factors as improved foreign exchange conditions, proceeds from the sale of our offset web-press division, and the further upgrading and rationalization of our production and management systems, these were more than offset by stagnant market demand and the costs involved in the reorganizing of our company group resulting in the incurring of a company group fiscal pre-tax loss of \664 million (US$ 5 million), and a net loss of \1,924 million (US$ 14 million).

We regret to announce that despite showing a profit as a single company, the Toshiba Machine Company will forego the distribution of a dividend for the fiscal year just ended in order to continue the reinforcement of our finances.

Despite a slight improvement in inventory and a general feeling that the economy has stabilized, the general economic outlook is expected to remain bleak due to continued depressed consumer demand caused by the acute unemployment situation, chronic bad debt problem, and the delay in the recovery of the American economy. Despite such dire conditions, the Toshiba Machine group, in order to remain as a vital industrial force, will be implementing their TOSHIBA MACHINE ACTION PROGRAM 21 Advanced I (TM-AP21 Ad. I) consisting of such things as the reorganization of our various business units, processes, and cost outlays, as well as the establishing of a manufacturing company in China, implementation of a revised CS oriented user-oriented solution-type policy, and business alliances with other companies to further strengthen our sales and profitability. As for manufacturing, we plan to continue the rationalization of our operations, in addition to the further improvement of our product quality and environment based on ISO 9001 and 14001.

T. Inokuma

Takahiro Inokuma
President

July, 2002

Financial Highlights (Consolidated)

	2002	2001	2000	1999	1998
Net sales	\104,599 $784,983	\127,359	\109,283	\125,352	\155,943
Cost of sales	\74,495 $559,062	\92,048	\80,852	\90,694	\114,452
Selling, general and administrative expenses	\28,636 $214,904	\30,883	\30,310	\33,779	\36,913
Operating income (loss)	\1,468 $11,017	\4,428	\(1,879)	\879	\4,578
Income (loss) before income taxes and minority interests	\(2,010) ($15,084)	\2,123	\(8,779)	\(856)	\7,640
Income taxes	\413 $3,099	\733	\171	\524	\955
Net income (loss)	\(1,924) ($14,439)	\1,558	\(8,661)	\(1,326)	\6,603
Per common share:					
Net income (loss)	\(11.53) ($0.09)	\9.33	\(51.90)	\(7.95)	\39.71
Cash dividends	\— $—	\—	\—	\2.00	\3.00
Total assets	\140,035 $1,050,919	\166,588	\153,563	\159,579	\169,324
Shareholders' equity	\37,306 $279,970	\39,620	\36,075	\43,971	\46,152
Capital expenditure (property, plant and equipment)	\2,378 $17,846	\2,565	\2,953	\4,100	\3,543
Depreciation	\2,289 $17,178	\2,610	\3,313	\3,467	\3,501
R & D expenditure	\2,951 $22,146	\2,749	\3,035	\—	\—
Number of employees	3,565	3,814	3,999	—	—

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

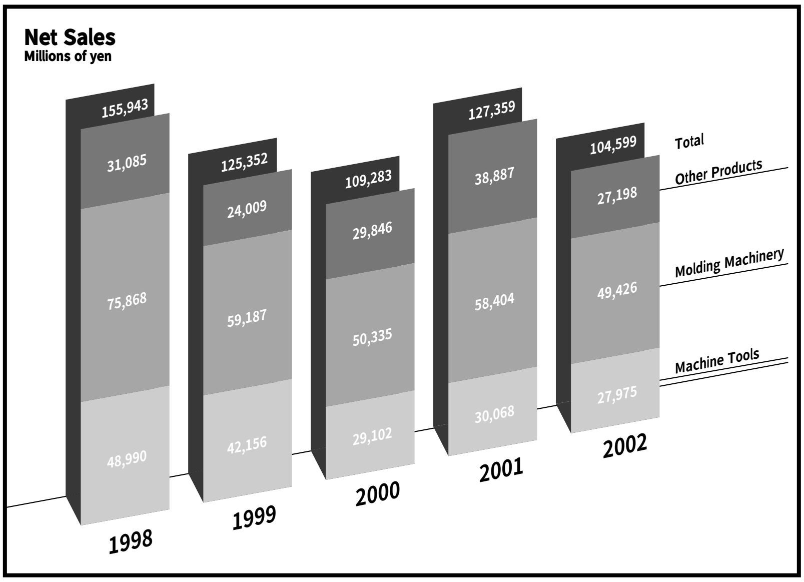
Overseas Operations for Fiscal 2002

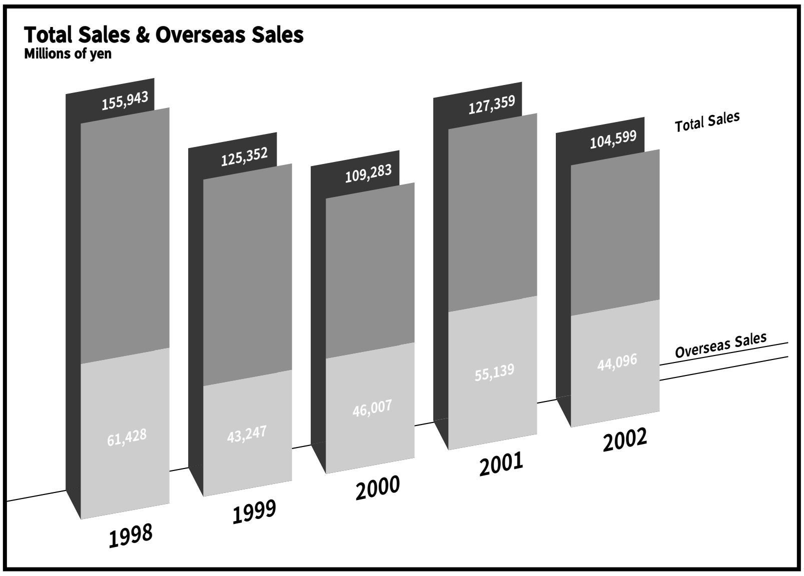
During the fiscal term under review, the north American region experienced an economic slowdown due to the adverse effects of the September 11 terrorist attacks, while except for China, the Asian economy had slow growth in the first half, but showed signs of recovery during the latter half.

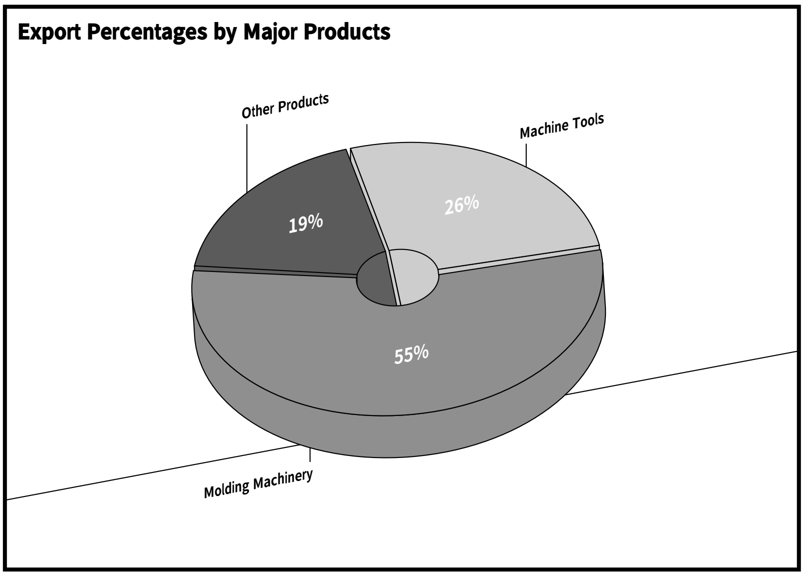
Under such conditions, our machine tools, injection molding machines and semiconductor equipment sales totalled 4,096 million (US$ 31 million), a 20% decrease over the previous term, contributing to approximately 42.2% of total group sales.

The leading types of machines exported were injection molding machines, die-casting machines, and machine tools while North America was leading destination for approximately 30% of our exports, followed by such markets as China, Korea, Taiwan, Europe, Indonesia and Thailand.

During the current business year, the further enhancing of our regional sales and service networks, along with the providing of even better products and the implementation of a total type solution business for our customers is planned.







Overseas Offices

Overseas Subsidiaries, Affiliates and Joint Ventures

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Financial Review

Consolidated Balance Sheets

TOSHIBA MACHINE CO., LTD. AND CONSOLIDATED SUBSIDIARIES
March 31, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars
ASSETS	**2002**	**2001**	**2002**
Current assets:			
Cash and time deposits (Note 14)	\31,606	\37,500	$237,193
Marketable securities (Note 4)	34	95	255
Notes and Accounts receivable, trade	49,420	64,074	370,882
Allowance for doubtful receivables	(915)	(937)	(6,867)
Net receivables	48,505	63,137	364,015
Inventories:			
Finished products	6,992	8,852	52,473
Work in process	18,401	17,039	138,094
Raw materials and supplies	767	865	5,756
Total inventories	26,160	26,756	196,323
Deferred taxes (Note 11)	587	812	4,406
Other current assets	1,429	4,483	10,724
Total current assets	108,321	132,783	812,916
Property, plant and equipment,net (Notes 5,6 and 10)	24,471	25,390	183,647
Investments and long-term loans:			
Investments in:			
Unconsolidated subsidiaries and affiliated companies(Note 13)	384	384	2,882
Other securities (Note 4)	4,749	5,691	35,640
Long-term loans	552	667	4,142
Deferred taxes (Note 11)	369	425	2,769
Other investments	753	856	5,651
Total investments and long-term loans	6,807	8,023	51,084
Other assets	436	392	3,272
Total assets	\140,035	\166,588	$1,050,919

See accompanying notes to financial statements

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2002	Millions of yen 2001	Thousands of U.S. dollars 2002
Current liabilities:			
Short-term bank loans (Notes 6 and 10)	\42,480	\50,098	$318,799
Current portion of long-term debt (Notes 6 and 10)	5,785	3,425	43,415
Notes and Accounts payable	22,123	32,894	166,026
Income taxes payable	265	665	1,989
Accrued expenses	4,104	5,490	30,799
Advances received	1,621	1,782	12,165
Other current liabilities	1,001	1,229	7,512
Total current liabilities	77,379	95,583	580,705
Long-term liabilities:			
Long-term debt (Notes 6 and 10)	17,723	22,657	133,006
Deferred taxes (Note 11)	1,173	1,526	8,803
Accrued severance indemnities (Note 7)	6,380	6,568	47,880
Total long-term liabilities	25,276	30,751	189,689
Total liabilities	102,655	126,334	770,394
Minority interest in consolidated subsidiaries	74	634	555
Shareholders' equity:			
Common stock			
Authorized - 360,000,000 shares			
Issued -2001 166,885,530 shares			
Issued -2002 166,885,530 shares	12,485	12,485	93,696
Additional paid-in capital	19,405	19,405	145,629
Retained earnings	3,791	5,725	28,450
Unrealized holding gain on securities	1,631	2,154	12,240
Foreign currency translation adjustments	(5)	(149)	(37)
Treasury stock	(1)	(0)	(8)
Total shareholders' equity	37,306	39,620	279,970
Contingent liabilities (Note 8)			
Total liabilities and shareholders' equity	\140,035	\166,588	$1,050,919

See accompanying notes to financial statements

Consolidated Statements of Operations

TOSHIBA MACHINE CO., LTD. AND CONSOLIDATED SUBSIDIARIES
years ended March 31, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Net sales	\104,599	\127,359	$784,983
Cost of sales	74,495	92,048	559,062
Gross profit	30,104	35,311	225,921
Selling, general and administrative expenses	28,636	30,883	214,904
Operating income	1,468	4,428	11,017
Other income:			
Interest and dividends	161	193	1,208
Gain on sales of offset rotary presses business	1,500	—	11,257
Others	616	1,627	4,623
	2,277	1,820	17,088
Other expenses:			
Interest	1,261	1,566	9,464
Special benefits for employees retired under early retirement program	777	417	5,831
Restructuring expenses related to printing presses business	714	—	5,358
Loss on disposal of inventories	877	—	6,581
Others	2,126	2,142	15,955
	5,755	4,125	43,189
Income(loss) before income taxes and minority interests	(2,010)	2,123	(15,084)
Income taxes:(Note 11)	413	733	3,099
Current	162	882	1,216
Deferred	251	(149)	1,884
Minority interests in loss of consolidated subsidiaries	499	168	3,744
Net income (loss)	\(1,924)	\1,558	$(14,439)
	Yen		U.S. dollars
Net income (loss) per share of common stock	\(11.53)	\9.33	$(0.09)

See accompanying notes to financial statements.

Consolidated Statements of Shareholders' Equity

TOSHIBA MACHINE CO., LTD. AND CONSOLIDATED SUBSIDIARIES
years ended March 31, 2002 and 2001

	Number of Shares	Millions of yen		
		Common stock	Additional paid in capital	Retained earnings
Balance at March 31, 2000	166,885,530	\12,485	\19,405	\4,185
Net income				1,558
Bonuses to directors and statutory auditors				18
Balance at March 31, 2001	166,885,530	12,485	19,405	5,725
Net loss				1,924
Bonuses to directors and statutory auditors				10
Balance at March 31, 2002	166,885,530	\12,485	\19,405	\3,791

	Thousands of U.S. dollars		
	Common Stock	Additional paid in capital	Retained earnings
Balance at March 31, 2001	$93,696	$145,629	$42,964
Net loss			14,439
Bonuses to directors and statutory auditors			75
Balance at March 31, 2002	$93,696	$145,629	$28,450

See accompanying notes to financial statements.

Consolidated Statements of Cash Flows

TOSHIBA MACHINE CO., LTD. AND CONSOLIDATED SUBSIDIARIES
years ended March 31, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Operating Activities:			
Income (loss) before income taxes and minority interests	\(2,010)	\2,123	$(15,085)
Adjustments to reconcile income (loss) before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	2,289	2,610	17,178
Allowance for doubtful receivables	(20)	(163)	(150)
Provision for severance indemnities, less payments	(188)	876	(1,411)
Devaluation of marketable securities	57	104	428
Loss on sales and disposal of property, plant and equipment	599	289	4,495
Gain on sales of offset rotary presses business	(1,500)	—	(11,257)
Changes in operating assets and liabilities:			
Notes and accounts receivables, trade	14,654	(14,718)	109,974
Inventories	596	(1,931)	4,473
Notes and accounts payables, trade	(10,771)	8,421	(80,833)
Advances received	(161)	301	(1,208)
Accrued expenses	(1,399)	1,277	(10,499)
Income taxes paid	(563)	(606)	(4,225)
Others	(287)	(604)	(2,154)
Net cash provided by (used in) operating activities	1,296	(2,021)	9,726
Investing Activities:			
Purchase of property, plant and equipment	(2,142)	(1,555)	(16,075)
Sale of property, plant and equipment	334	1,103	2,507
Increase in short-term loan receivables, net	(6)	70	(45)
Payment of long-term loan receivables	(18)	(32)	(135)
Repayment of long-term loan receivables	155	350	1,163
Gain on sales of offset rotary presses business	1,500	—	11,257
Others	(55)	367	(413)
Net cash used in (provided by) investment activities	(232)	303	(1,741)
Financing Activities:			
Decrease in short-term bank loans	(7,617)	(318)	(57,163)
Proceeds from long-term debt	800	482	6,004
Repayment of long-term debt	(3,374)	(3,544)	(25,321)
Net cash used in financing activities	(10,191)	(3,380)	(76,480)
Effect of exchange rate change on cash and cash equivalents	144	421	1,081
Net cash decreased during the year	(8,983)	(4,677)	(67,415)
Cash and cash equivalent at the beginning of year	40,594	45,272	304,646
Cash and cash equivalent at the end of year (Note 14)	\31,611	\40,595	$237,231

See accompanying notes to financial statements.

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 clamed 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 bellow 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

Independent Auditors 'Report

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

We have audited the consolidated balance sheets of Toshiba Machine Co., Ltd. and consolidated subsidiaries as of March 31, 2002 and 2001, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, all expressed in yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied 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 accompanying consolidated financial statements, expressed in yen, present fairly the consolidated financial position of Toshiba Machine Co., Ltd. and consolidated subsidiaries at March 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As described in Note 2 to the consolidated financial statements, Toshiba Machine Co., Ltd. and consolidated subsidiaries have adopted new accounting standards for employees' retirement benefits and financial instruments and the revised accounting standard for foreign currency transactions in the preparation of their consolidated financial statements for the year ended March 31, 2002.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2002 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

June 27, 2002

Shin Nihon & Co.

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.

Directors & Auditors

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President
Takahiko Inokuma

Senior Mnaging Director
Yasuhiro Kuroki

Directors
Tamotsu Mukai
keisuke Maehara
Reiji Nkajima
Katsuhiko Goto
kazuo Hanzawa
Kosei Takeyama

Auditors

Motoyasu Morita
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