Annual Report

2003

TOSHIBA MACHINE

Contents

An Outline of the Toshiba Machine Group

The Toshiba Machine Group, an integrated machine builder with longstanding international renown for their total capability and quality, excels in the production of plastic processing machinery, die-casting machines, printing presses, machine tools, hydraulic equipment, semiconductor manufacturing equipment, precision machinery, and electronic controls.

Based on their highly innovative technology, expertise, and experience nurtured over decades as one of the world's leading machine builders, the Toshiba Machine Group's global-type solution business provides customers in such various industries as the automobile, data communications and semiconductors with total satisfaction by the careful analysis and recommending of optimum-type solutions to their requirements.

Corporate Information (as of March 31, 2003)

Company name:	TOSHIBA MACHINE CO., LTD.
Headquarters:	2068-3, Ooka, Numazu-shi, Shizuoka-ken 410-8510, Japan
Established:	1938
Capital:	¥12,484 million (US$104 million)
Shares of Common Stock Issued and Outstanding:	166,885,530 shares
Number of Shareholders:	19,586
Number of employees:	1,621 (consolidated:3,380)

Foreword

Plagued by a continuing deflationary spiral and depressed stock market prices, prospects for a Japanese economic recovery remained bleak.

Overseas, the Asian region, centered on China, enjoyed expanded economic growth, while the American and European economies experienced depressed growth.

The machine industry was also beset by bleak economic conditions due to continued weak demand caused by constraints placed on plant and equipment investments.

Under such circumstances, the Toshiba Machine Group, based on their CS (Customer Satisfaction) corporate policy, as well as their continuous effort to secure orders, develop new products, and promote their Solution Business strategy resulted in an increase in orders received for injection molding machines, die-casting machines, hydraulic equipment, and printing presses.

This, however, was offset by a decrease in orders received for machine tools, extrusion machines, and semiconductor equipment, which resulted in a total of ¥93,090 million (US$ 774 million), virtually unchanged over the previous term (an exchange rate of ¥120.20=US$1.00 shall be used throughout this text).

As for sales volume, an increase in demand for our injection molding machines, die-casting machines and semiconductor equipment did not compensate for the large decrease in demand for our machine tools and printing presses resulting in a 7.0% decrease over the previous term, totaling ¥97,296 million (US$ 809 million).

In terms of profit and loss, increased demand for our injection molding machines, die-casting machines, and high precision machines, along with further improvement and rationalization of our management systems resulted in a pre-tax consolidated profit of ¥938 million (US$ 8 million), and a net consolidated profit of ¥1,052 million (US$ 9 million) after including the proceeds from the liquidation of a former factory site.

In regards to the stock dividend, despite the absence of a mid-term dividend, a dividend of ¥3.00 (US$ 0.02) per share was distributed for the fiscal year ended on March 31, 2003.

On June 6, 2002, a subsidiary was established in Shanghai, China for the express purpose of building our first overseas production facilities; and for improved business efficiency, the Semiconductor and Machine Tool Divisions (not including high precision machinery) were made into two separate subsidiary companies on August 1, 2002 and October 1, 2002, respectively.

The general economic outlook is expected to remain bleak due to such factors as stagnant domestic investment in plant and equipment, depressed consumer spending, world economic uncertainty caused by the unstable situation in Iraq, as well as the lingering problem of non-performing loans.

Under such bleak economic conditions, and in order that they be able to overcome various business upheavals, changing market trends and remain a vital force within the industry, the Toshiba Machine Group on April 1, 2003 implemented their TOSHIBA MACHINE ACTION PROGRAM 21 Advanced II (TM-AP21 Ad. II) to further strengthen their various business units, and increase the volume of orders received and total sales.

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.

R. Nakajima

Reiji Nakajima
President
July, 2003

FINANCIAL HIGHLIGHTS (consolidated)

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

	2003	2002	2001	2000	1999
Net sales	¥97,297	¥104,599	¥127,359	¥109,283	¥125,352
	$809,459				
Cost of sales	¥68,455	¥74,495	¥92,048	¥80,852	¥90,694
	$569,509				
Selling, general and administrative expenses	¥25,786	¥28,636	¥30,883	¥30,310	¥33,779
	$214,526				
Operating income (loss)	¥3,056	¥1,468	¥4,428	¥(1,879)	¥879
	$25,424				
Income (loss) before income taxes and minority interests	¥1,239	¥(2,010)	¥2,123	¥(8,779)	¥(856)
	$10,308				
Income taxes	¥193	¥413	¥733	¥171	¥524
	$1,606				
Net income (loss)	¥1,052	¥(1,924)	¥1,558	¥(8,661)	¥(1,326)
	$8,752				
Per common share:					
Net income (loss)	¥6.29	¥(11.53)	¥9.33	¥(51.90)	¥(7.95)
	$0.05				
Cash dividends	¥3.00	¥ —	¥ —	¥ —	¥2.00
	$0.02				
Total assets	¥136,278	¥140,035	¥166,588	¥153,563	¥159,579
	$1,133,760				
Shareholders' equity	¥37,525	¥37,306	¥39,620	¥36,075	¥43,971
	$312,188				
Capital expenditure (property, plant and equipment)	¥1,275	¥2,378	¥2,565	¥2,953	¥4,100
	$10,607				
Depreciation	¥2,050	¥2,289	¥2,610	¥3,313	¥3,467
	$17,055				
R & D expenditure	¥2,587	¥2,951	¥2,749	¥3,035	¥ —
	$21,522				
Number of employees	3,380	3,565	3,814	3,999	—

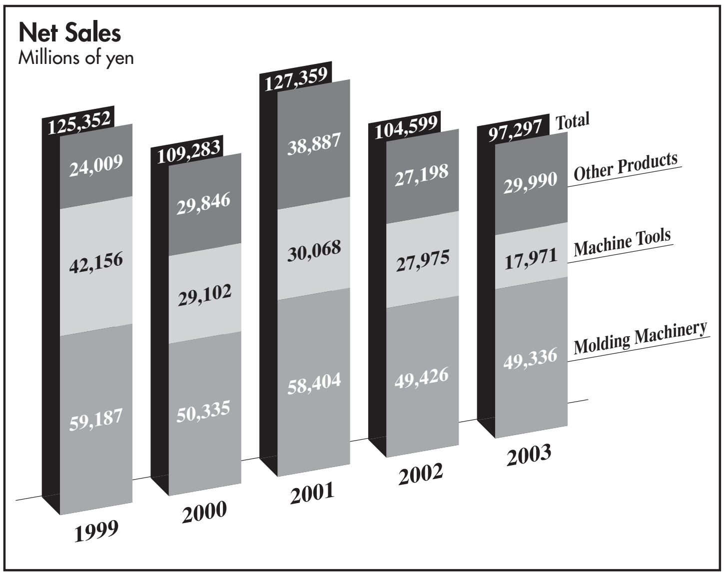
Overseas Operations for Fiscal 2003

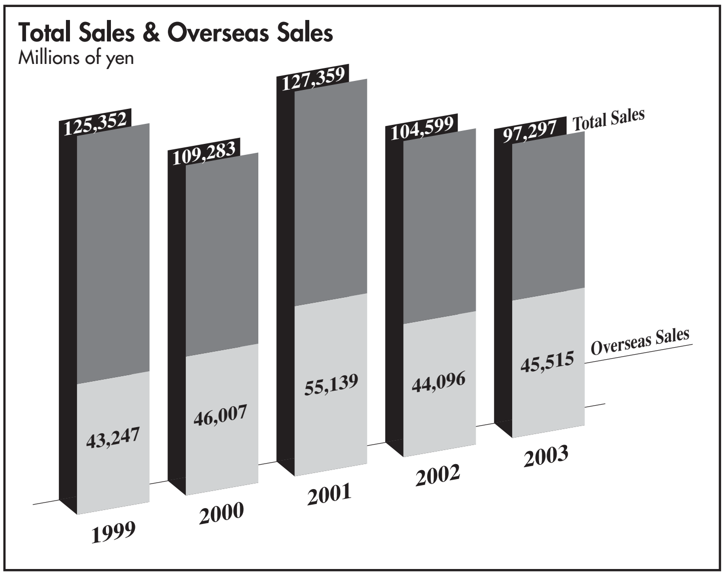
During the fiscal term under review, the Iraqi war and the effects of the September 11, 2001 terrorist attacks continued to have an adverse influence on the North American economy, while Asia, centered on China, showed signs of an economic recovery.

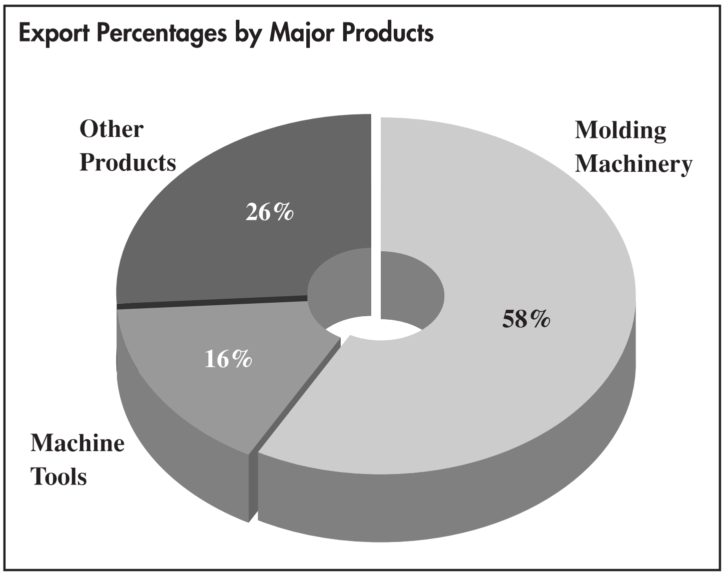
Under such conditions, increased sales of our injection molding machines and die-casting machines more than compensated for the decrease in sales of our machine tools and semiconductor equipment, resulting in total consolidated overseas sales of Yen 45,515 million (US$ 379 million), a 3.2% increase over the previous term, contributing to approximately 46.8% of overall consolidated total sales.

In terms of machine types, injection molding machines and die-casting machines were our leading export products, while the Asian region, principally China, Korea, Taiwan, Indonesia, and Thailand, was the major destination for approximately 60% of our exports.

During the current fiscal year, we plan to further enhance our regional sales and service networks, along with the providing of even higher quality machines and the implementation of a total type of Solution Business based on our value chain of quality products.







Overseas Offices

Overseas Subsidiaries and Branch Office

♦ North America ♦

TOSHIBA MACHINE CO., AMERICA
Chicago Head Office
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New Jersey Office
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♦ East Asia ♦

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Financial Review

CONSOLIDATED BALANCE SHEETS

TOSHIBA MACHINE CO., LTD. AND CONSOLIDATED SUBSIDIARIES

March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars
ASSETS	2003	2002	2003
Current assets:			
Cash and time deposits (Note 13)	¥32,455	¥ 31,606	$270,008
Marketable securities (Note 4)	34	34	283
Notes and Accounts receivable, trade	46,756	49,420	388,985
Allowance for doubtful receivables	(556)	(915)	(4,625)
Net receivables	46,200	48,505	384,360
Inventories:			
Finished products	7,158	6,992	59,551
Work in process	18,535	18,401	154,201
Raw materials and supplies	758	767	6,306
Total inventories	26,451	26,160	220,058
Deferred taxes (Note 11)	635	587	5,283
Other current assets	1,228	1,429	10,216
Total current assets	107,003	108,321	890,208
Property, plant and equipment, net (Notes 5,6 and 10)	22,666	24,471	188,569
Intangible Assets	409	436	3,402
Investments and other assets:			
Investments in:			
Unconsolidated subsidiaries and affiliates	734	384	6,107
Other securities (Note 4)	3,563	4,749	29,642
Long-term loans	460	552	3,827
Deferred taxes (Note 11)	313	369	2,604
Other investments	1,130	753	9,401
Total investments and other assets	6,200	6,807	51,581
Total assets	¥136,278	¥140,035	$1,133,760

See accompanying notes to financial statements

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2003	Millions of yen 2002	Thousands of U.S. dollars 2003
Current liabilities:			
Short-term bank loans (Notes 6 and 10)	**¥40,580**	¥ 42,480	**$337,604**
Current portion of long-term debt (Notes 6 and 10)	**16,269**	5,785	**135,349**
Notes and Accounts payable	**25,255**	22,123	**210,108**
Income taxes payable	**239**	265	**1,988**
Accrued expenses	**4,604**	4,104	**38,303**
Advances received	**1,136**	1,621	**9,451**
Other current liabilities	**618**	1,001	**5,142**
Total current liabilities	**88,701**	77,379	**737,945**
Long-term liabilities:			
Long-term debt (Notes 6 and 10)	**1,488**	17,723	**12,379**
Deferred taxes (Note 11)	**681**	1,173	**5,666**
Accrued employees' retirement benefits (Note 7)	**7,305**	6,380	**60,774**
Total long-term liabilities	**9,474**	25,276	**78,819**
Total liabilities	**98,175**	102,655	**816,764**
Minority interest in consolidated subsidiaries	**578**	74	**4,808**
Shareholders' equity:			
Common stock			
Authorized – 360,000,000 shares			
Issued 166,885,530 shares	**12,485**	12,485	**103,869**
Additional paid-in capital	**19,405**	19,405	**161,439**
Retained earnings	**4,866**	3,791	**40,482**
Unrealized holding gain on securities	**957**	1,631	**7,962**
Foreign currency translation adjustments	**(181)**	(5)	**(1,506)**
Treasury stock, at cost			
(31,033 shares in 2003, 4,025 shares in 2002)	**(7)**	(1)	**(58)**
Total shareholders' equity	**37,525**	37,306	**312,188**
Contingent liabilities (Note 8)			
Total liabilities and shareholders' equity	**¥136,278**	¥140,035	**$1,133,760**

See accompanying notes to financial statements

CONSOLIDATED STATEMENTS OF OPERATIONS

TOSHIBA MACHINE CO., LTD. AND CONSOLIDATED SUBSIDIARIES
years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Net sales	**¥97,297**	¥104,599	**$809,459**
Cost of sales	**68,455**	74,495	**569,509**
Gross profit	**28,842**	30,104	**239,950**
Selling, general and administrative expenses	**25,786**	28,636	**214,526**
Operating income	**3,056**	1,468	**25,424**
Other income:			
Interest and dividends	**90**	161	**749**
Gain on sales of property, plant and equipment	**582**	—	**4,842**
Gain on sales of offset rotary presses business	**—**	1,500	**—**
Others	**603**	616	**5,017**
	1,275	2,277	**10,608**
Other expenses:			
Interest	**969**	1,261	**8,062**
Loss on sales of investment securities	**167**	—	**1,389**
Special benefits for employees retired under early retirement program	**—**	777	**—**
Restructuring expenses related to printing presses business	**—**	714	**—**
Loss on disposal of inventories	**—**	877	**—**
Others	**1,956**	2,126	**16,273**
	3,092	5,755	**25,724**
Income(loss) before income taxes and minority interests	**1,239**	(2,010)	**10,308**
Income taxes:(Note 11)	**193**	413	**1,606**
Current	**121**	162	**1,007**
Deferred	**72**	251	**599**
Minority interests in loss of consolidated subsidiaries	**6**	499	**50**
Net income (loss)	**¥1,052**	¥(1,924)	**$8,752**
	Yen		U.S. dollars
Net income (loss) per share of common stock	**¥6.29**	¥(11.53)	**$0.05**

See accompanying notes to financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

TOSHIBA MACHINE CO., LTD. AND CONSOLIDATED SUBSIDIARIES
years ended March 31, 2003 and 2002

	Millions of yen			
	Number of Shares	Common stock	Additional paid in capital	Retained earnings
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
Net income				1,052
Increase on consolidated subsidiaries				32
Bonuses to directors and statutory auditors				(9)
Balance at March 31, 2003	166,885,530	¥12,485	¥19,405	¥4,866

	Thousands of U.S. dollars		
	Common stock	Additional paid in capital	Retained earnings
Balance at March 31, 2002	$103,869	$161,439	$31,539
Net income			8,752
Increase on consolidated subsidiaries			266
Bonuses to directors and statutory auditors			(75)
Balance at March 31, 2003	$103,869	$161,439	$40,482

See accompanying notes to financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

TOSHIBA MACHINE CO., LTD.AND CONSOLIDATED SUBSIDIARIES

years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Operating Activities:			
Income (loss) before income taxes and minority interests	**¥1,239**	¥(2,010)	**$10,308**
Adjustments to reconcile income (loss) before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**2,116**	2,289	**17,604**
Allowance for doubtful receivables	**(362)**	(20)	**(3,012)**
Employees' retirement benefit, less payments	**669**	(188)	**5,566**
Devaluation of marketable securities	**25**	57	**208**
Loss (gain) on sales and disposal of property, plant and equipment	**(524)**	599	**(4,359)**
Gain on sales of offset rotary presses business	—	(1,500)	—
Changes in operating assets and liabilities:			
Notes and accounts receivables, trade	**2,881**	14,654	**23,968**
Inventories	**(254)**	596	**(2,113)**
Notes and accounts payables, trade	**3,145**	(10,771)	**26,165**
Advances received	**(484)**	(161)	**(4,027)**
Accrued expenses	**431**	(1,399)	**3,586**
Income taxes paid	**(192)**	(563)	**(1,597)**
Others	**888**	(287)	**7,387**
Net cash provided by operating activities	**9,578**	1,296	**79,684**
Investing Activities:			
Purchase of property, plant and equipment	**(1,157)**	(2,142)	**(9,626)**
Sale of property, plant and equipment	**1,008**	334	**8,386**
Payment of long-term loan receivables	**(9)**	(18)	**(75)**
Repayment of long-term loan receivables	**108**	155	**899**
Investments to a subsidiary	**(470)**	—	**(3,910)**
Gain on sales of offset rotary presses business	**—**	1,500	**—**
Others	**(748)**	(61)	**(6,223)**
Net cash used in investing activities	**(1,268)**	(232)	**(10,549)**
Financing Activities:			
Decrease in short-term bank loans	**(1,901)**	(7,617)	**(15,815)**
Proceeds from long-term debt	**50**	800	**416**
Repayment of long-term debt	**(3,800)**	(3,374)	**(31,614)**
Bond redemption	**(2,000)**	—	**(16,639)**
Net cash used in financing activities	**(7,651)**	(10,191)	**(63,652)**
Effect of exchange rate changes on cash and cash equivalents	**(175)**	144	**(1,456)**
Net cash increased (decreased) in cash and Cash equivalents	**484**	(8,983)	**4,027**
Cash and cash equivalent at the beginning of year	31,611	40,594	**262,987**
Increase in consolidated subsidiaries	**365**	—	**3,036**
Cash and cash equivalents at end of year (Note 13)	**¥32,460**	¥31,611	**$270,050**

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 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:

Land, property, plant and equipment	Millions of yen	Thousands of U.S. dollars
(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
Statutory 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.

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Toshiba Machine Co., Ltd. and consolidated subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards, procedures and practices require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Toshiba Machine Co., Ltd. and consolidated subsidiaries at March 31, 2003 and 2002, 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.

The U. S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2003 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, 2003

Shin Nihon & Co.

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

Directors & Auditors

Directors

President
Reiji Nakajima

Senior Managing Director
Yasuhiro Kuroki

Managing Director
Tamotsu Mukai

Directors
Katsuhiko Goto
Kazuo Hanzawa
Kosei Takeyama
Yoshi Atobe
Michinori Tanaka

Auditors

Motoyasu Morita
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