

ANNUAL 2003 REPORT



For the Year Ended March 31, 2003

Financial Highlights

Years ended March 31

Consolidated	Millions of yen					Thousands of U.S. dollars	
	1999	2000	2001	2002	2003	2003	
Net sales	¥296,926	¥348,872	¥337,208	¥337,204	¥341,667	\$2,842,488	
Operating income	11,839	12,698	6,923	5,090	12,741	105,998	
Net income (loss)	8,030	4,150	(7,438)	(5,136)	3,947	32,837	
Total assets	229,181	241,931	250,764	240,752	247,671	2,060,491	
Total shareholders' equity	115,094	126,927	116,730	112,244	114,863	955,599	
Yen							U.S. dollars
Per share data:							
Net income (loss) –							
Basic	¥29.37	¥14.40	¥(25.81)	¥(17.83)	¥13.57	\$0.113	
Diluted	29.31	–	–	–	–	–	
Total shareholders' equity	399.44	440.50	405.11	389.58	405.49	3.373	

Non-Consolidated	Millions of yen					Thousands of U.S. dollars	
	1999	2000	2001	2002	2003	2003	
Net sales	¥228,485	¥270,720	¥264,619	¥246,087	¥241,202	\$2,006,672	
Operating income	6,286	6,754	2,937	13	6,245	51,955	
Net income (loss)	4,593	2,139	(6,447)	(5,874)	2,333	19,410	
Common stock	39,971	39,971	39,971	39,971	39,971	332,537	
Total assets	200,453	208,537	211,991	185,633	181,221	1,507,662	
Total shareholders' equity	108,198	116,993	110,022	103,466	104,044	865,590	
Yen							U.S. dollars
Per share data:							
Net income (loss) –							
Basic	¥16.80	¥7.42	¥(22.37)	¥(20.39)	¥7.99	\$0.066	
Cash dividends	4.00	5.00	4.00	0.00	5.00	0.042	
Total shareholders' equity	375.50	406.02	381.83	359.11	367.35	3.056	

The dollar amounts in this report represent translations of yen, for convenience only, at the rate of ¥120.20=US\$1.00, the exchange rate prevailing on March 31, 2003.

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REVIEW OF THE YEAR

During fiscal year 2002, the Japanese economy continued to suffer from the negative effect of stagnating investment and private spending, falling consumer prices, a sluggish stock market, and an increasing volume of bad loans, although earnings showed some signs of improvement, mainly in the manufacturing sector. The downward trend of the export market was largely due to the deceleration of the U.S. and European economies. The situation in Iraq also made prospects uncertain.

Against this background, our Group made efforts to enhance marketability and sales, increase its cost competitiveness, improve capital efficiency and streamline its workforce. These measures constitute the basic policies in our Mid-term Management Plan that aims at building a highly profitable Group through structural reform, as well as the promotion of innovation and creativity. Each division focused on the development and sales promotion of high value-added products with enhanced market competitiveness.

Overall net sales reached ¥341.667 billion, a 1% increase over the previous year. As for profit and loss, operating income stood at ¥12.741 billion, 150% higher than in fiscal year 2001. Income before tax and minority interest amounted to ¥6.842 billion, an increase of ¥13.412 billion compared with the previous year, owing to the reduction in both fixed and operating costs, and the effect of the exchange rate, which helped the net income for this fiscal year reach ¥3.947 billion, an advance of ¥9.083 billion over the previous year.

PRODUCTS LINE UP (as of March, 2003)

Retail Information Systems

Main Products

- POS Systems:
Systems for mass merchandiser headquarters and stores, systems for shopping centers, systems for convenience stores, systems for department stores, systems for specialty stores, systems for catering establishments, e-business solutions
- Electronic cash registers:
Electronic cash registers for specialty stores and general retailers
- Electronic scales:
Electronic scales for commercial use, label printers equipped with electronic scale, automatic compact packing machine
- Bar code systems:
Bar code printers/system, Two-dimensional code system
- OA equipment:
JIMCOM(office computers), Personal computers, Electronic meeting boards
- Supplies:
Supplies and consumables for retails information systems equipment

Document Processing & Telecommunication Systems

Main Products

- Digital multi-function peripherals (MFP), digital full-color MFP, analog copiers, plain paper facsimile machines, thermal paper facsimile machines, specialized Terminals

Home Electric Appliances & Others

Main Products

- Vacuum cleaners, juicer-mixers, food processors, rice-polishing machines, air massage systems, relaxation chairs, compact motors
- Components

Consolidated Balance Sheets

March 31, 2003 and 2002

ASSETS	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Current assets			
Cash and cash equivalents	¥49,303	¥37,768	\$410,175
Trade notes and accounts receivable	60,060	59,358	499,667
Inventories	38,304	42,421	318,669
Deferred income taxes (Note 9)	6,954	5,264	57,854
Prepaid expenses and other current assets	6,281	8,671	52,254
Allowance for doubtful accounts	(1,086)	(1,007)	(9,035)
Total current assets	159,816	152,475	1,329,584
Fixed assets			
Property, plant and equipment:			
Land (Note 5)	5,630	5,657	46,839
Buildings and structures (Note 5)	26,366	26,174	219,351
Machinery and equipment (Note 5)	22,634	21,751	188,303
Tools, furniture and fixtures	67,249	65,975	559,476
Construction in progress	1,262	1,740	10,499
Less accumulated depreciation	(88,596)	(84,368)	(737,072)
	34,545	36,929	287,396
Intangible assets:			
Goodwill	2,809	2,780	23,369
Other intangible assets	6,641	5,539	55,250
	9,450	8,319	78,619
Investments and other assets:			
Investment securities: (Notes 5 and 11)			
Unconsolidated subsidiaries and affiliates	9,090	6,578	75,624
Other	11,153	9,984	92,787
Deferred income taxes (Note 9)	17,302	19,521	143,943
Other investments and other assets	6,807	8,148	56,631
Allowance for doubtful accounts	(492)	(1,202)	(4,093)
	43,860	43,029	364,892
Total fixed assets	87,855	88,277	730,907
Total assets	¥247,671	¥240,752	\$2,060,491

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Current liabilities			
Trade notes and accounts payable	¥41,927	¥48,708	\$348,810
Short-term loans (Notes 3 and 5)	25,989	19,124	216,215
Current portion of long-term debt (Notes 3 and 5)	5,029	34	41,839
Accrued income and other taxes	2,662	2,604	22,146
Other payables and current liabilities	34,085	33,551	283,569
Total current liabilities	109,692	104,021	912,579
Long-term liabilities			
Long-term debt (Notes 3 and 5)	69	5,201	574
Accrued retirement benefits (Note 4)	21,104	17,702	175,574
Other long-term liabilities	1,051	691	8,744
Total long-term liabilities	22,224	23,594	184,892
Total liabilities	131,916	127,615	1,097,471
Contingent liabilities (Note 6)			
Minority interest in consolidated subsidiaries	892	893	7,421
Shareholders' equity			
Common stock			
Authorized-1,000,000,000 shares			
Issued- 288,145,704 shares	39,971	39,971	332,537
Capital surplus	52,983	52,983	440,790
Retained earnings	23,783	19,068	197,862
Unrealized holding gains on securities	543	867	4,517
Foreign currency translation adjustments	(975)	(637)	(8,110)
Less treasury stock, at cost:			
5,041,923 shares in 2003	(1,442)	—	(11,997)
27,187 shares in 2002	—	(8)	—
Total shareholders' equity	114,863	112,244	955,599
Total liabilities, minority interest and shareholders' equity	¥247,671	¥240,752	\$2,060,491

Consolidated Statements of Operations

Years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Net sales	¥341,667	¥337,204	\$2,842,488
Cost of sales	212,446	216,550	1,767,438
Gross profit	129,221	120,654	1,075,050
Selling, general and administrative expenses	116,480	115,564	969,052
Operating Income	12,741	5,090	105,998
Non-operating income and expenses:			
Interest and dividend income	1,064	968	8,852
Interest expense	(897)	(777)	(7,463)
Amortization for transition obligation of retirement benefits	(1,613)	(1,613)	(13,419)
Expenses of extra pension for early retirement	(344)	(4,633)	(2,862)
Other, net (Note 7)	(4,109)	(5,605)	(34,184)
Income (Loss) before income taxes and minority interest	6,842	(6,570)	56,922
Income taxes:			
Current	1,694	1,851	14,093
Deferred	988	(3,350)	8,220
Income (Loss) before minority interest	4,160	(5,071)	34,609
Minority interest in income of consolidated subsidiaries	213	65	1,772
Net Income (Loss)	¥3,947	¥(5,136)	\$32,837

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Common stock			
Balance at beginning of year	¥39,971	¥39,971	\$332,537
Balance at end of year	¥39,971	¥39,971	\$332,537
Capital surplus			
Balance at beginning of year	¥52,983	¥52,983	\$440,790
Balance at end of year	¥52,983	¥52,983	\$440,790
Retained earnings			
Balance at beginning of year	¥19,068	¥25,689	\$158,635
Net Income (Loss)	3,947	(5,136)	32,837
Cash dividends paid	–	(1,152)	–
Bonuses to directors and statutory auditors	–	(0)	–
Adjustment of prior periods inclusion in consolidation of subsidiaries	–	(430)	–
Increase from inclusion in consolidation of subsidiaries	613	–	5,100
Increase from exclusion of subsidiaries from consolidation	–	37	–
Increase from exclusion of affiliated company from equity method	–	25	–
Increase from merger of non-consolidated subsidiary	155	35	1,290
Balance at end of year	¥23,783	¥19,068	\$197,862
Unrealized holding gains on securities			
Balance at beginning of year	¥867	¥397	\$7,213
Net change during the year	(324)	470	(2,696)
Balance at end of year	¥543	¥867	\$4,517
Foreign currency translation adjustments			
Balance at beginning of year	¥(637)	¥(2,309)	\$(5,299)
Net change during the year	(338)	1,672	(2,811)
Balance at end of year	¥(975)	¥(637)	\$(8,110)
Less treasury stock			
Balance at beginning of year	¥(8)	¥(1)	\$(67)
Net change during the year	(1,434)	(7)	(11,930)
Balance at end of year	¥(1,442)	¥(8)	\$(11,997)

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Cash Flows

Years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Cash flows from operating activities			
Income (Loss) before income taxes and minority interests	¥6,842	¥(6,570)	\$56,922
Adjustment to reconcile income (loss) before income taxes and minority interest to net cash provided by operating activities:			
Depreciation and amortization	11,408	11,901	94,908
Reversal of allowance for doubtful accounts	(152)	(71)	(1,265)
Accrual for retirement benefits, less payments	3,096	2,940	25,757
Interest and dividend income	(1,064)	(968)	(8,852)
Interest expense	897	777	7,463
Loss on sales or disposals of fixed assets	597	651	4,967
Profits on sales of investment securities	(233)	(254)	(1,938)
Loss on sales of investment securities	–	191	–
Write down of investment securities	547	889	4,551
Expenses of extra pension for early retirement	344	4,633	2,862
Changes in assets and liabilities:			
Notes and accounts receivable	1,631	17,836	13,569
Inventories	4,927	10,673	40,990
Notes and accounts payable	(9,290)	(15,246)	(77,288)
Other	(333)	768	(2,771)
Sub Total	<u>19,217</u>	<u>28,150</u>	<u>159,875</u>
Interest and dividend income received	1,272	983	10,582
Interest expense payments	(902)	(752)	(7,504)
Expenses of extra pension for early retirement	(344)	(4,633)	(2,862)
Income taxes payments	(1,755)	(7,861)	(14,601)
Other	2,916	–	24,260
Net cash provided by operating activities	<u>20,404</u>	<u>15,887</u>	<u>169,750</u>
Cash flows from investing activities			
Decrease in time deposits, net	36	122	300
Acquisition of property, plant and equipment	(6,964)	(12,112)	(57,937)
Acquisition of intangible assets	(3,270)	(2,266)	(27,205)
Acquisition of investment securities	(4,792)	(1,036)	(39,867)
Proceeds from sales of investment securities	463	564	3,852
Payments for business transfer	–	(8,200)	–
Payments of loan receivable	(392)	(579)	(3,261)
Proceeds from loan receivable	263	319	2,188
Other	834	544	6,938
Net cash used in investing activities	<u>(13,822)</u>	<u>(22,644)</u>	<u>(114,992)</u>
Cash flows from financing activities			
Proceeds of short-term loans, net	5,560	383	46,256
Proceeds of long-term debt	–	100	–
Repayments of long-term debt	(38)	(77)	(316)
Redemption of convertible bonds	–	(8,017)	–
Payments of dividend	(18)	(1,168)	(150)
Other	(1,434)	16	(11,930)
Net cash provided by (used in) financing activities	<u>4,070</u>	<u>(8,763)</u>	<u>33,860</u>
Effect of exchange rate changes on cash and cash equivalents	(918)	361	(7,636)
Net increase (decrease) in cash and cash equivalents	9,734	(15,159)	80,982
Cash and cash equivalents at beginning of year	37,768	53,085	314,210
Increase (Decrease) in cash and cash equivalents resulting from			
subsidiary exclusion from consolidation	–	(213)	–
merger of non-consolidated subsidiaries	1,654	55	13,760
subsidiaries inclusion in consolidation	147	–	1,223
Cash and cash equivalents at end of year	<u>¥49,303</u>	<u>¥37,768</u>	<u>\$410,175</u>

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Notes to Consolidated Financial Statements

1. Basis of Presenting Consolidated Financial Statements

The consolidated financial statements of TOSHIBA TEC CORPORATION have been prepared in accordance with accounting principles and practices generally accepted in Japan, which may differ in certain respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

The accompanying consolidated financial statements are compiled from the financial statements filed with the Director General of the Kanto Local Finance Bureau as required under the Japanese Securities and Exchange Law. Certain reclassifications have been made to present the consolidated financial statements in the format which is more familiar to readers outside Japan.

Solely for the convenience of the readers, the consolidated financial statements have been presented in U.S. dollars by translating Japanese yen amounts at the exchange rate of ¥120.20 = US\$1.00 prevailing as of March 31, 2003. The translation should not be construed as a representation that the Japanese yen could be converted into U.S. dollar at the above or any other rate of exchange.

2. Summary of Significant Accounting Policies

(A) Basis of Consolidation and Accounting of Investments in Affiliated Companies

The consolidated financial statements include the accounts of parent company (the "Company") and its significant majority-owned subsidiaries (together the "Companies"). For the years ended March 31, 2003 and 2002, accounts of 29 and 23 subsidiaries are consolidated respectively. All significant inter-company transactions and accounts are eliminated in consolidation.

All assets and liabilities of the subsidiaries are revaluated on acquisitions, if applicable, and the excess of cost over underlying net assets at the date of acquisition are charged to income as immaterial.

The investments in remaining unconsolidated subsidiaries or affiliated companies are stated at cost.

For the year ended March 31, 2002, investment in Advanced Peripherals Technology Inc. formerly accounted by the equity method is excluded from the consolidation as the Company has sold some of its shares.

There are no companies included in the consolidation on equity basis in the years ended March 31, 2003 and 2002.

The main consolidated companies are presented on the last page of this report.

(B) Foreign Currency Translation

Revenue and expense accounts of foreign subsidiaries are translated into yen using the average rate during the year. The balance sheet accounts, except for the components of shareholders' equity, are translated at the rate in effect at the balance sheet date. The components of shareholders' equity are translated at their historical rates. Translation adjustments are presented as a component of shareholders' equity and minority interest.

Generally gains and losses on foreign currency translations are recognized in current net income, unless hedged by foreign exchange contracts.

(C) Appropriation of Retained Earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriation.

(D) Revenue Recognition

Sales are generally recognized at the time of shipment of the goods to customers except for sales of certain product, which are recorded in the accounts upon customer acceptance.

(E) Research and Development Expenses

Research and development expenses are charged to income as incurred.

(F) Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less.

(G) Investment Securities

Marketable securities classified as "Other securities" are reported at fair value with unrealized holding gains or losses, net of taxes, included in shareholders' equity.

Non-marketable securities classified as "Other securities" are carried at cost, which is determined by the moving average method.

Cost of securities sold is determined by the moving average method.

(H) Inventories

Finished goods, merchandise and semi-finished components are principally stated at the lower of cost or market by first-in, first-out method, or are stated at cost by the specific cost method. Work-in-process is principally stated at the lower of cost or market by the moving average method, or are stated at cost by the specific cost method. Raw materials are principally stated at the lower of cost or market by the moving average method.

(I) Property, Plant and Equipment and Depreciation

Property, plant and equipment are carried at cost. Material improvements are capitalized, but repair and maintenance including minor improvements are charged to income.

Depreciation of property, plant and equipment is generally computed by the declining-balance method for the Company and its domestic subsidiaries, and by the straight-line method for the overseas subsidiaries, at rates based on estimated useful lives of the respective assets. The useful lives of principal property, plant and equipment are summarized as follows:

Buildings and structures	15 to 38 years
Machinery and equipment	5 to 11 years
Tools, furniture and fixtures	2 to 6 years

(J) Intangible Assets and Amortization

Intangible assets are amortized by the straight-line method over their estimated useful lives.

Goodwill recognized through purchase is amortized by the straight-line method over 5 to 15 years period.

(K) Leases

The Companies lease certain equipment under non-cancelable lease agreements referred to as finance leases. Finance leases other than those, which transfer the ownership of the leased property to the Companies, are accounted for as operating leases.

(L) Retirement Benefits

Upon retirement or termination of employment, employees of the Company and its domestic subsidiaries are generally entitled to lump-sum payments determined by reference to their current basic rate of pay, length of service and conditions under which the termination occurs.

The Company and certain domestic subsidiaries accrue the liability and make contributions to a non-contributory tax-qualified pension plans (the "Funded Plan") for employees' severance indemnities payable, as part of the existing retirement plan.

Retirement benefits for employees are provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets, as adjusted for unrecognized actuarial gain or loss.

(M) Income Taxes, Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(N) Derivative Financial Instruments

The Company and certain subsidiaries have entered into forward exchange contracts to hedge the foreign currency transactions related to foreign accounts receivable and payable.

Derivative financial instruments are reported at fair value with unrealized gain or loss charged or credited to operations, except for those which meet the criteria for deferral hedge accounting under which unrealized gains or losses is deferred as assets or liabilities. Receivables and payables hedged by qualified forward foreign exchange contracts are translated at the corresponding foreign exchange contract rates.

3. Short-Term Loans and Long-Term Debt

The average interest rate for short-term bank loans outstanding at March 31, 2003 is 3.3 %

The long-term debt at March 31, 2003 and 2002, consists of the following:

	Millions of yen		Thousands of
	2003	2002	U.S.dollars
Straight bonds:			
Due 2004, with interest rate of 3.0%	¥5,000	¥5,000	\$41,597
Long-term loans:			
Due serially through 2023, with interest rate of 1.20% to 5.80%	98	235	816
	5,098	5,235	42,413
Less current portion	5,029	34	41,839
	¥69	¥5,201	\$574

The aggregate annual maturities of long-term debt (including the current portion) outstanding at March 31, 2003 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S.dollars
2004	¥5,029	\$41,839
2005	24	200
2006	14	116
2007 and thereafter	31	258
	¥5,098	\$42,413

4. Retirement Benefit

The Company and its domestic subsidiaries have defined benefit plans, i.e., Funded Plans and lump-sum payment plans, covering substantially all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheet as of March 31, 2003 and 2002 for the Companies' defined benefit plans:

	Millions of yen		Thousands of
	2003	2002	U.S. dollars
Retirement benefit obligation	¥(57,056)	¥(57,689)	\$(474,676)
Plan assets	19,628	25,043	163,295
Unfunded retirement benefit obligation	(37,428)	(32,646)	(311,381)
Unrecognized net retirement benefit obligation at transition	3,226	4,838	26,839
Unrecognized actuarial gain or loss	12,367	9,283	102,887
Unrecognized past service cost	731	823	6,081
Net retirement benefit obligation	¥(21,104)	¥(17,702)	\$(175,574)

The components of retirement benefit expenses for the years ended March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of
	2003	2002	U.S. dollars
Service cost	¥3,044	¥2,552	\$25,325
Interest cost	1,450	1,785	12,063
Expected return on plan assets	(243)	(258)	(2,021)
Amortization of net retirement benefit obligation at transition	1,613	1,613	13,419
Amortization of actuarial gain or loss	965	295	8,028
Amortization of past service cost	91	91	757
Total	¥6,920	¥6,078	\$57,571

The assumption used in accounting for the above plans in 2003 were as follows:

Discount rates	2.3%~2.5%
Expected return on assets	0.0%~2.0%

Amortization period of past service cost
10 years Straight-line method
Amortization period of actuarial gain or loss
10 years Straight-line method
Amortization period of net transition obligation
5 years Straight-line method

Millions of yen		Thousands of U.S. dollars
2003	2002	2003
¥24,477	¥25,291	\$203,636

5. Assets Pledged as Collateral

The following assets are pledged as collateral at March 31, 2003 and 2002.

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Investment securities	¥16	¥24	\$133
Land	533	533	4,434
Buildings and structures	78	84	649
Machinery and equipment	43	53	358
	¥670	¥694	\$5,574

The obligations collateralized by the above assets at March 31, 2003 and 2002, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Short-term loans	¥90	¥135	\$749
Long-term debts (including current portion)	146	164	1,214
	¥236	¥299	\$1,963

6. Contingent liabilities

The Companies are contingently liable mainly with respect to discounted or endorsed trade notes receivable and guarantees on loans payable in ordinary course of business.

Contingent liabilities at March 31, 2003 and 2002, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Trade notes receivable			
discounted or endorsed	¥9,161	¥8,511	\$76,215
Guarantees on lease contract	314	—	2,612
Guarantees on loans and others	2,119	2,399	17,629

7. Non-Operating Income and Expenses-Other, Net

“Other, net” for the years ended March 31, 2003 and 2002, consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Write-down and disposal of inventories	¥(1,125)	¥(1,204)	\$(9,359)
Expenses for business center integration	—	(910)	—
Write-down of investment securities	(547)	(889)	(4,551)
Loss on sales or disposals			
of fixed assets	(597)	(651)	(4,967)
Foreign exchange loss	(597)	(358)	(4,967)
Profit on sales of investment securities	233	—	1,939
Profit on sales of affiliate securities	—	254	—
Other, net	(1,476)	(1,847)	(12,279)
	¥(4,109)	¥(5,605)	\$(34,184)

8. Research and Development Expenses

Research and development expenses charged to income for the years ended March 31, 2003 and 2002 are as follows:

9. Income Taxes and Deferred Tax Assets and Liabilities

The following table summarizes the difference between the statutory tax rate and the Company's effective tax rate for the years ended March 31, 2003 and 2002.

	2003	2002
Statutory tax rate	42.0%	42.0%
Effect of:		
Different tax rates applied to income of foreign subsidiaries	(10.3)	5.5
Expenses not deductible for income tax purposes	4.1	(4.0)
Valuation allowance for deferred tax assets	—	(0.4)
Valuation allowance for eliminated inter-company transactions	—	(16.3)
Adjustment due from tax regulation changes ^(*)	5.3	—
Other, net	(1.9)	(4.0)
	39.2%	22.8%

(*) 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 42.0% to 40.6% for the year ending March 31, 2005. As a result, net deferred tax assets decreased by ¥347 million (\$2,887 thousand) at March 31, 2003, and deferred tax expenses for the year ended March 31, 2003 and unrealized holding gains on securities at March 31, 2003 increased by ¥359 million (\$2,987 thousand) and ¥12 million (\$100 thousand), respectively.

Significant components of the Companies' 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 retirement benefits	¥9,091	¥8,674	\$75,632
Intangible assets	7,080	6,883	58,902
Tax loss carry forward	1,777	4,337	14,784
Accrued bonuses	2,958	2,243	24,609
Deferred assets	939	1,926	7,812
Other	4,081	3,062	33,952
	25,926	27,125	215,691
Valuation allowance	(619)	(532)	(5,150)
	25,307	26,593	210,541
Deferred tax liabilities:			
Retained earnings appropriated for tax allowable reserves	528	564	4,393
Unrealized gains on securities	371	629	3,087
Other	152	615	1,264
	1,051	1,808	8,744
Net deferred tax assets	¥24,256	¥24,785	\$201,797

10. Leases

(A) Finance leases

The following pro forma amounts represent the acquisition cost, accumulated depreciation and net book value of leased property as of March 31, 2003 and 2002 which would have

been reflected in the consolidated balance sheet if finance lease accounting had been applied to the finance lease transactions currently accounted for as operating leases:

	Millions of yen					
	2003			2002		
	Acquisition cost	Accumulated depreciation	New book value	Acquisition cost	Accumulated depreciation	New book value
Machinery and equipment	¥252	¥139	¥113	¥71	¥49	¥22
Tools, furniture and fixtures	668	571	97	1,617	1,422	195
	¥920	¥710	¥210	¥1,688	¥1,471	¥217

	Thousands of U.S. dollars		
	2003		
	Acquisition cost	Accumulated depreciation	New book value
Machinery and equipment	\$2,097	\$1,156	\$941
Tools, furniture and fixtures	5,557	4,751	806
	\$7,654	\$5,907	\$1,747

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

	Millions of yen	Thousands of U.S. dollars
	2003	2003
Due within one year	¥73	\$607
Due after one year	137	1,140
	¥210	\$1,747

(2) Lease payments for the years ended March 31, 2003 and 2002, are ¥124 millions (\$1,032 thousand) and ¥214 million, respectively.

(B) Operating leases

Future minimum lease payments subsequent to March 31, 2003 for noncancelable operating leases are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2003	2003
Due within one year	¥125	\$1,040
Due after one year	318	2,646
	¥443	\$3,686

11. Securities

(1) Information regarding marketable Other Securities as of March 31, 2003 and 2002 is as follows:

	Millions of yen					
	2003			2002		
	Acquisition cost	Carrying value	Unrealized gain(loss)	Acquisition cost	Carrying value	Unrealized gain(loss)
Securities whose carrying value exceeds their acquisition cost:						
Stocks	¥820	¥1,079	¥259	¥717	¥1,051	¥334
Securities whose acquisition cost exceeds their carrying value:						
Stocks	699	634	(65)	1,493	1,183	(310)
Total	¥1,519	¥1,713	¥194	¥2,210	¥2,234	¥24

	Thousands of U.S. dollars		
	2003		
	Acquisition cost	Carrying value	Unrealized gain(loss)
Securities whose carrying value exceeds their acquisition cost:			
Stocks	\$6,822	\$8,977	\$2,155
Securities whose acquisition cost exceeds their carrying value:			
Stocks	5,815	5,274	(541)
Total	\$12,637	\$14,251	\$1,614

(2) The proceeds from sales of securities for the years ended March 31, 2003 and 2002 were ¥463 million (\$3,852 thousand) and ¥310 million, respectively. The realized gains on those sales for the year ended March 31, 2003 were ¥233 million (\$1,938 thousand) and the realized losses for the year ended March 31, 2002 were ¥191 million.

(3) Contractual maturities of Other Securities as of March 31, 2003 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
	Due in one year or less	Due after one year through five years	Due in one year or less	Due after one year through five years
Corporate debt securities	¥10	—	\$83	—
Total	¥10	—	\$83	—

12. Supplemental Cashflow Information

(1) Summary of transferred assets and liabilities of the company included in consolidation through merger as of July 1, 2002.

	Millions of yen	Thousands of U.S. dollars
	2003	2003
Current Assets	¥290	\$2,413
Fixed Assets	16	133
Total Assets	306	2,546
Current Liabilities	211	1,755
Long-term Liabilities	18	150
Total Liabilities	229	1,905

(2) Summary of transferred assets and liabilities of the company included in consolidation through merger as of October 1, 2002.

	Millions of yen	Thousands of U.S. dollars
	2003	2003
Current Assets	¥108	\$899
Fixed Assets	1	8
Total Assets	109	907
Current Liabilities	130	1,082
Total Liabilities	130	1,082

13. Segment Information

(A) Business Segment

The Companies operate in three business areas as follows:

- (1) Retail Information Systems
 - POS systems
 - Electronic cash registers
 - Electronic scales
 - Bar code systems
 - OA equipment
- (2) Document Processing & Telecommunication Systems
 - Digital multi-function-peripherals
 - Copiers
 - Facsimile
 - Specialized terminals
- (3) Home Electric Appliances & Others
 - Home electric appliances
 - Components

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Net Sales			
Retail Information Systems			
Unaffiliated customers	¥153,455	¥152,786	\$1,276,664
Intersegment	3,234	2,353	26,905
Total	156,689	155,139	1,303,569
Document Processing & Telecommunication Systems			
Unaffiliated customers	169,808	165,589	1,412,712
Intersegment	1,577	2,075	13,120
Total	171,385	167,664	1,425,832
Home Electric Appliances & Others			
Unaffiliated customers	18,404	18,830	153,111
Intersegment	298	110	2,480
Total	18,702	18,940	155,591
Eliminations	(5,109)	(4,539)	(42,504)
Consolidated	¥341,667	¥337,204	\$2,842,488

Operating Income			
Retail Information Systems	¥3,345	¥(844)	\$27,829
Document Processing & Telecommunication Systems	9,547	5,859	79,426
Home Electric Appliances & Others	(127)	33	(1,057)
Eliminations	(24)	42	(200)
Consolidated	¥12,741	¥5,090	\$105,998

Identifiable Assets			
Retail Information Systems	¥72,747	¥77,049	\$605,216
Document Processing & Telecommunication Systems	120,671	117,425	1,003,919
Home Electric Appliances & Others	20,047	20,720	166,780
Corporate and Eliminations	34,206	25,558	284,576
Consolidated	¥247,671	¥240,752	\$2,060,491

Depreciation and Amortization			
Retail Information Systems	¥3,268	¥3,355	\$27,188
Document Processing & Telecommunication Systems	7,019	7,370	58,394
Home Electric Appliances & Others	1,121	1,176	9,326
Consolidated	¥11,408	¥11,901	\$94,908

Capital Expenditures			
Retail Information Systems	¥2,666	¥3,492	\$22,180
Document Processing & Telecommunication Systems	6,565	10,488	54,617
Home Electric Appliances & Others	1,392	1,720	11,581
Consolidated	¥10,623	¥15,700	\$88,378

(note 1) Corporate assets mainly consist of cash, time deposits, securities and investments with financial institutions of the Company.
Corporate assets at March 31, 2003 and 2002, are ¥34,299 million (US\$285,349 thousand) and ¥25,742 million, respectively.

(B) Geographic Segments

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Net Sales			
Japan			
Unaffiliated customers	¥239,184	¥242,793	\$1,989,884
Intersegment	37,178	34,927	309,301
Total	276,362	277,720	2,299,185
North America			
Unaffiliated customers	4,263	4,151	35,466
Intersegment	0	1	0
Total	4,263	4,152	35,466

Europe			
Unaffiliated customers	64,707	60,030	538,328
Intersegment	376	300	3,128
Total	65,083	60,330	541,456
Asia and Others			
Unaffiliated customers	33,513	30,230	278,810
Intersegment	32,232	26,889	268,153
Total	65,745	57,119	546,963
Eliminations	(69,786)	(62,117)	(580,582)
Consolidated	¥341,667	¥337,204	\$2,842,488

Operating Income			
Japan	¥7,759	¥1,270	\$64,551
North America	37	(41)	308
Europe	(505)	73	(4,201)
Asia and others	5,620	4,305	46,755
Eliminations	(170)	(517)	(1,415)
Consolidated	¥12,741	¥5,090	\$105,998

Identifiable Assets			
Japan	¥176,357	¥184,282	\$1,467,196
North America	1,762	1,599	14,659
Europe	52,296	44,183	435,075
Asia and others	30,657	26,287	255,050
Corporate and Eliminations	(13,401)	(15,599)	(111,489)
Consolidated	¥247,671	¥240,752	\$2,060,491

(note 1) Criteria of geographical segmentation and the name of countries or areas mainly included in each segment are as follows:

(1) Criteria: geographical closeness

(2) Countries & Areas

- ① North America U.S.A., Canada
- ② Europe U.K., France, Germany, Belgium, Spain
- ③ Asia and others Singapore, Malaysia, Indonesia, China, Australia

(note 2) Corporate assets mainly consist of cash, time deposits, securities and investments with financial institutions of the Company.

Corporate assets at March 31, 2003 and 2002, are ¥34,299 million (US\$285,349 thousand) and ¥25,742 million, respectively.

(C) Net Sales by Region

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Net Sales			
Japan	¥169,282	¥176,154	\$1,408,336
North America	70,550	66,440	586,938
Europe	76,633	73,843	637,546
Asia and Others	25,202	20,767	209,668
Net sales	¥341,667	¥337,204	\$2,842,488

(note) Net Sales by region are determined based upon the locations of the customers. Therefore, this information is different from the net sales for geographic segments, which are determined based upon where the sales originated.

Supplemental Information Non-Consolidated Balance Sheets

March 31, 2003 and 2002

ASSETS	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Current assets			
Cash and time deposits	¥33,062	¥24,972	\$275,058
Trade notes and accounts receivable	34,105	37,135	283,735
Inventories:			
Finished goods	11,551	15,129	96,098
Work-in-process and raw materials	6,031	7,272	50,175
Deferred income taxes	5,464	4,215	45,458
Prepaid expenses and other current assets	7,119	8,632	59,226
Allowance for doubtful accounts	(270)	(197)	(2,246)
Total current assets	97,062	97,158	807,504
Fixed assets			
Property, plant and equipment:			
Land	4,857	4,857	40,408
Buildings and structures	19,925	19,642	165,765
Machinery and equipment	15,103	14,660	125,649
Tools, furniture and fixtures	54,960	54,621	457,238
Construction in progress	1,131	1,440	9,409
Less accumulated depreciation	(70,856)	(68,442)	(589,484)
	25,120	26,778	208,985
Intangible assets:			
Goodwill	—	800	—
Other intangible assets	4,256	4,104	35,408
	4,256	4,904	35,408
Investments and other assets:			
Investment securities			
Subsidiaries and affiliates	23,991	24,306	199,592
Other	11,024	9,832	91,714
Deferred income taxes	15,460	17,741	128,619
Other investments and other assets	4,760	6,082	39,600
Allowance for doubtful accounts	(452)	(1,168)	(3,760)
	54,783	56,793	455,765
Total fixed assets	84,159	88,475	700,158
Total assets	¥181,221	¥185,633	\$1,507,662

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Current liabilities			
Trade notes and accounts payable	¥33,473	¥42,979	\$278,478
Current portion of long-term debt	5,025	27	41,805
Accrued income taxes	100	53	832
Other payables and current liabilities	21,507	19,849	178,927
Total current liabilities	60,105	62,908	500,042
Long-term liabilities			
Long-term debt	69	5,098	574
Accrued retirement benefits	16,923	14,088	140,790
Other long-term liabilities	80	73	666
Total long-term liabilities	17,072	19,259	142,030
Total liabilities	77,177	82,167	642,072
Shareholders' equity			
Common stock			
Authorized-1,000,000,000 shares			
Issued-288,145,704 shares	39,971	39,971	332,537
Capital surplus	52,983	52,983	440,790
Retained earnings:			
Legal reserve	—	2,640	—
Voluntary reserve	6,785	11,816	56,448
Unappropriated	5,208	(4,795)	43,328
Unrealized holding gains on securities	539	859	4,484
Less treasury stock, at cost:			
5,041,923 shares in 2003	(1,442)	—	(11,997)
27,187 shares in 2002	—	(8)	—
Total shareholders' equity	104,044	103,466	865,590
Total liabilities and shareholders' equity	¥181,221	¥185,633	\$1,507,662

Supplemental Information

Non-Consolidated Statements of Operations and Retained Earnings

Years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Net sales	¥241,202	¥246,087	\$2,006,672
Cost of sales	171,639	180,933	1,427,945
Gross profit	69,563	65,154	578,727
Selling, general and administrative expenses	63,318	65,141	526,772
Operating income	6,245	13	51,955
Non-operating income and expenses:			
Interest and dividend income	2,171	2,116	18,062
Interest expense	(171)	(348)	(1,423)
Amortization for transition obligation of retirement benefits	(1,300)	(1,300)	(10,815)
Expenses of extra pension for early retirement	–	(4,600)	–
Other, net	(3,418)	(5,886)	(28,436)
Income (Loss) before income taxes	3,527	(10,005)	29,343
Income taxes:			
Current	(90)	242	(749)
Deferred	1,284	(4,373)	10,682
Net income (loss)	2,333	(5,874)	19,410
Unappropriated retained earnings at beginning of year	(4,795)	2,313	(39,892)
Transfer from voluntary reserve	5,030	34	41,847
Appropriation of retained earnings:			
Transfer to legal reserve	–	(116)	–
Cash dividends paid	–	(1,152)	–
Transfer from legal reserve	2,640	–	21,963
Unappropriated retained earnings (undisposed deficit) at end of year	¥5,208	¥(4,795)	\$43,328

Shin Nihon & Co.

Certified Public Accountants
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Independent Auditors' Report

The Board of Directors

TOSHIBA TEC CORPORATION

We have audited the accompanying consolidated balance sheets of TOSHIBA TEC CORPORATION 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 TEC CORPORATION 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 1 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 TEC CORPORATION and consolidated subsidiaries under Japanese accounting principles and practices.

CORPORATE DATA

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Tel : (03)3292-6223
Fax : (03)3292-6440
<http://www.toshibatec.co.jp/>
Established : February 21, 1950
Employees : 4,500 (as of June 2003)
Common Stock : ¥39,970 million (as of June 2003)
Stock Listing : Tokyo Stock Exchange (1st Section)

Board of Directors and Corporate Auditors

President and Chief Executive Officer (as of June 27, 2003)

* Yoshihiro Maeda

Directors

* Yasuhiro Hatakeyama

* Tetsuo Satofuka

* Hitoshi Yoshii

Masahiro Hirata

Haruo Asada

Hisatsugu Nonaka

* Representative Director

Corporate Auditors

Teruo Miyamoto

Masaru Yoshikawa

Hiroshi Inazuka

Yuzo Kato



MAIN CONSOLIDATED COMPANIES (as of March 31, 2003)

TOSEI DENKI CO., LTD.

TEC PRECISION CO., LTD.

TEC SHOJI CO., LTD.

TEC ENGINEERING CORPORATION

TER LTD.

TEC INFORMATION SYSTEMS CORPORATION

FUJIKEN CO., LTD.

TEC KASHIYA DENKI CO., LTD.

TOSHIBA TEC DOCUMENT PROCESSING SYSTEMS CO., LTD

T·T·BUSINESS SERVICE LTD.

TEC AMERICA, INC.

TEC CANADA INC.

TOSHIBA TEC EUROPE RETAIL INFORMATION SYSTEMS S.A.

TEC AUSTRALIA PTY. LTD.

TOSHIBA TEC EUROPE IMAGING SYSTEMS S.A.

TEC SINGAPORE ELECTRONICS PTE. LTD.

TIM ELECTRONICS SDN. BHD.

TOSHIBA COPYING MACHINE (Shenzhen) CO., LTD.

P.T. TEC INDONESIA

TOSHIBA TEC U.K. IMAGING SYSTEMS LTD.

TOSHIBA TEC GERMANY IMAGING SYSTEMS GmbH

TOSHIBA TEC FRANCE IMAGING SYSTEMS S.A.

TOSHIBA TEC (H.K.) LOGISTICS & PROCUREMENT LIMITED