TOSHIBA

Annual Report 1998

Year Ended March 31, 1998

Basic Commitment of the Toshiba Group

We, the Toshiba Group companies, based on our total commitment to people and to the future, are determined to help create a higher quality of life for all people, and to do our part to help ensure that progress continues within the world community.

Commitment to People

We endeavor to serve the needs of all people, especially our customers, shareholders, and employees, by implementing forward-looking corporate strategies while carrying out responsible and responsive business activities. As good corporate citizens, we actively contribute to further the goals of society.

Commitment to the Future

By continually developing innovative technologies centering on the fields of Electronics and Energy, we strive to create products and services that enhance human life, and which lead to a thriving, healthy society. We constantly seek new approaches that help realize the goals of the world community, including ways to improve the global environment.

**Committed to People,
Committed to the Future.** TOSHIBA

Contents

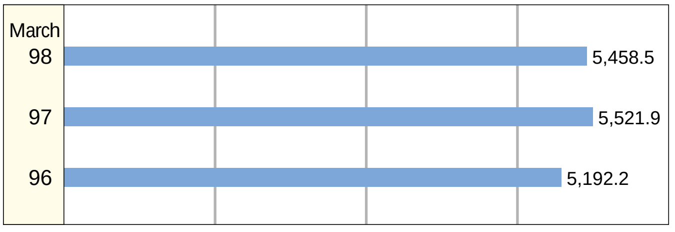
Financial Highlights

Toshiba Corporation and its subsidiaries
Years ended March 31, 1998 and 1997

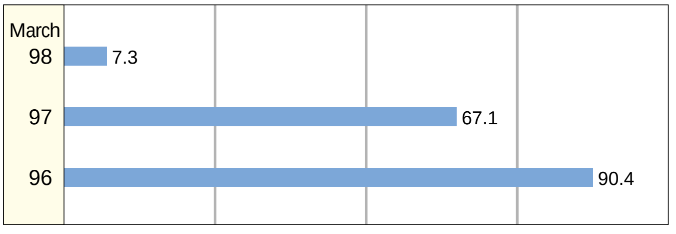
	Millions of yen		Thousands of U.S. dollars
	1998	1997	**1998**
Net sales – Japan	**¥3,418,807**	¥3,523,636	**$25,900,053**
– Overseas	**2,039,691**	1,998,251	**15,452,205**
Net sales	**5,458,498**	5,521,887	**41,352,258**
Operating income	**82,294**	197,831	**623,439**
Income before income taxes and minority interest	**18,748**	125,456	**142,030**
Net income	**7,337**	67,077	**55,583**
Research and development expenditures	**322,928**	332,555	**2,446,424**
Total assets	**6,062,141**	5,809,285	**45,925,311**
Shareholders' equity	**1,201,615**	1,264,775	**9,103,144**
	Yen		U.S. dollars
Per share of common stock:			
Net income—			
Basic	**¥ 2.28**	¥20.84	**$0.017**
Diluted	**2.28**	20.06	**0.017**
Cash dividends	**10.00**	10.00	**0.076**
Number of employees	**186,000**	186,000	

Notes:
1. *Unless indicated otherwise, all dollar figures herein refer to U.S. currency. Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥132=US$1.*
2. *The above net income per share data are computed based on Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share," which Toshiba adopted in the fiscal year ended March 31, 1998. Net income per share data for the fiscal year ended March 31, 1997 have been restated to conform with SFAS No. 128. Basic earnings per share is computed based on the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share assumes the dilution that would occur if dilutive convertible debentures were converted into common stock.*
3. *The company has not adopted Statement of Financial Accounting Standards (SFAS) No. 115 "Accounting for Certain Investments in Debt and Equity Securities" which became effective for the fiscal year beginning April 1, 1994. The effects on the consolidated financial statements of not adopting SFAS No. 115 and the disclosures required by SFAS No. 115 are summarized in a note to the consolidated financial statements.*
4. *Beginning with the fiscal year ended March 31, 1998, revenues and expenses from financial services, real estate leasing and sales, and other operations are reported as operating activities, whereas they were reported as non-operating activities in prior periods. Prior-period data for the fiscal year ended March 31, 1997 have been reclassified to conform with the current classification.*

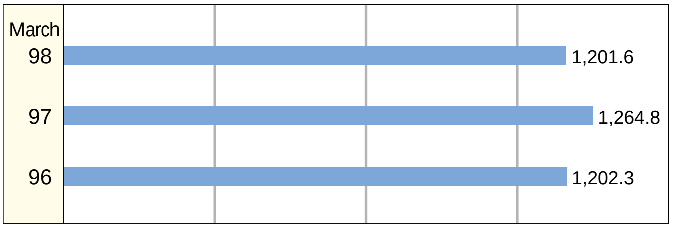
Net Sales
(¥ billion)



Net Income
(¥ billion)



Shareholders' Equity
(¥ billion)



To Our Shareholders

In fiscal 1997, the year ended March 31, 1998, Toshiba's consolidated net sales declined 1 percent to ¥5,458.5 billion (US$41,352 million). This chiefly reflects lower PC prices in North America, a deteriorating market for semiconductor memory chips, and a decline in sales of consumer products due to sluggish consumer spending in Japan. In addition to these factors, earnings were impacted by the Asian currency crisis and a one-time increase in income taxes due to the revaluation of deferred tax assets and liabilities resulting from the reduction in Japan's corporate income tax rate. As a result, net income fell 89 percent to ¥7.3 billion (US$56 million). Looking ahead, the operating climate will continue to be characterized by intensifying mega-competition on a global scale. We are determined to improve our performance. The key is becoming more competitive. To this end, we are channeling investments to the most promising markets while taking dramatic steps to improve Toshiba Group's management.

Overview of Results by Business Segment

■ Information & communication systems sales rose 2 percent to ¥2,184.1 billion (US$16,546 million). Operating income, however, was down 69 percent to ¥43.1 billion (US$326 million) because of falling PC prices in the United States.

■ Electronic devices & materials sales climbed 5 percent to ¥1,341.8 billion (US$10,165 million). Operating income surged 116 percent to ¥40.5 billion (US$306 million). While weak memory prices hurt earnings, results benefited from strong performances by discrete devices and logic ICs.

■ Power & industrial systems sales decreased 4 percent to ¥1,119.6 billion (US$8,482 million) and operating income fell 48 percent to ¥18.7 billion (US$141 million). This is mostly attributable to a downturn in work involving nuclear power plants and lower capital spending by Japan's electric utilities.

■ Consumer products sales were down 10 percent to ¥1,040.4 billion (US$7,882 million). Weak sales and lower prices of home appliances along with growth in air conditioner inventories caused the operating loss to increase to ¥45.3 billion (US$343 million).

■ In the services & other segment, newly formed in this fiscal year, sales increased 13 percent to ¥420.0 billion (US$3,182 million) and operating income rose 34 percent to ¥24.8 billion (US$188 million). This segment primarily represents the results of Toshiba Credit Corp., Toshiba Building & Lease Co., Ltd., Toshiba Logistics Corp. and other service-oriented subsidiaries.

Restoring a Competitive Edge in Strategic Markets

By pursuing a policy of focus and foresight, Toshiba has been transforming itself into an organization of specialized manufacturers, each highly competitive in its respective market. The rapidly growing information and communications field exemplifies this drive. By concentrating investments here we have become:

• the world's number-one supplier of notebook PCs;
• one of the leading names in sophisticated memory chips;
• a major presence in semiconductor categories other than memories;
• a pioneer in the development of next-generation liquid crystal displays (LCDs).

Despite leadership in many highly attractive markets, we have encountered competition that has intensified at an unprecedented pace. To be a winner, superior technology and product quality as well as a decisive cost advantage are all imperative. Toshiba seeks to generate consistent earnings from the growing markets that have underpinned our performance. In each market, the key to success is to gain a competitive advantage.

Fumio Sato (left), Chairman, and Taizo Nishimuro, President

■ Notebook PCs — Aiming for Stable Earnings

Toshiba's share of the portable PC market in Europe rose to about 30 percent during the past fiscal year. However, in the United States, increased output by PC makers caused a high level of inventories, which resulted in a sharp drop in prices. The impact on earnings was substantial. We believe that the global PC market will continue to expand at a double-digit pace. The portable PC category, where we are strongest, is likely to grow even faster. Our goal is to recapture our momentum in PCs. During the current fiscal year, we will launch more economy-priced notebook models. We will also expand our line of slim-profile and mininotebooks, which will become mainstream products. An ongoing shift to the build-to-order system will further help stabilize earnings.

■ Semiconductors — Returning to a Globally Competitive Position

In 16M DRAMs, Toshiba unfortunately was not able to achieve market-leading competitiveness. For 64M DRAMs, however, we will again rank among the leaders in terms of performance and cost. This belief is based on knowledge gained through the joint development of 256M DRAM technology with IBM Corp. and Siemens AG. We are confident of catching up to the cycle of price fluctuations because of our ability to achieve reductions in chip size. We now have the technology needed to mass produce 0.15-micron design rule devices with smaller capital investments than other suppliers require. We refer to this advantage as “superiority from scalability.” Improving the composition of sales will also make us more competitive. In fiscal 1995 when memory prices were high, these devices were about 40 percent of Toshiba's semiconductor sales. Our goal is to consistently generate more than 40 percent of semiconductor sales with logic ICs with emphasis on system LSIs and ASICs. Logic IC sales are growing steadily; orders for many strategic products are already increasing.

■ LCDs — Differentiating Toshiba With New Models

Prices of LCDs fell dramatically during the second half of fiscal 1997. Toshiba's LCD sales for the year were unchanged at ¥115.0 billion. In fiscal 1998, we are projecting higher sales. Demand is expected to rise for use as monitors and in factory automation equipment. Introduction of our unique low-temperature polysilicon TFT LCDs will also bolster sales. We are now shipping samples of these displays. Full-scale production will begin late in 1998. With a slim profile, light weight, high resolution and low power consumption, these displays are gaining acceptance for use in portable information terminals. We expect demand to continue to grow.

Restructuring and Alliances Lead to Higher Earnings

■ Consumer Products — More Rigorous Profit Management

A slumping economy in Japan, Toshiba's primary market for consumer goods, has created an extremely difficult situation for the consumer products segment. In fiscal 1997, declines in sales prices accelerated. Making the situation worse were higher air conditioner inventories due to unseasonable weather. Losses increased as a result. However, decisive steps to realign operations created some encouraging signs. VCR operations returned to profitability in the year's second half. We moved all VCR operations to Singapore and switched to production under consignment. In home appliances, we differentiate ourselves by concentrating on developing highly appealing, new models that enhance consumers' life styles. In air conditioners, which are plagued by high inventories, we are reducing lead times, parts inventories and otherwise improving our production system. The aim is to match production closely with demand. Along with many similar actions, these steps are expected to establish a base for profitable operations.

■ Power & Industrial Systems — More Global Alliances

Customers in Japan account for about 90 percent of orders for our power generation systems. But the domestic business climate is tough. Demand for nuclear power projects is down at the same time that utilities are cutting back on capital spending. We plan to offset this by raising the share of overseas sales to 20 percent. Competition is, of course, intense worldwide. To succeed, we intend to become more competitive through alliances with powerful overseas partners. General Electric Co. of the U.S. is one example. We have cooperated with this company for many years. In May 1998, Toshiba and General Electric formed ventures to produce steam turbine blades. Both companies will transfer blade production to the new companies. We have also agreed to work together on next-generation 1,500°C combined-cycle power systems on a global scale.

A New System for Managing Toshiba

For several years, Toshiba has carefully examined the individual business sectors that are the nucleus of our strengths. Success in each sector mandates compliance with global standards. We must become more competitive. This process led us to an inescapable conclusion: Toshiba can no longer rely on a uniform standard for managing its diverse activities. Today's markets are much more demanding. Therefore, we are studying from all standpoints the best structure for Toshiba to realize its potential. The division of Toshiba into virtual internal companies or spinning off business units under a holding company are among the options we are considering.

■ Executive Officer System for More Speed

We have fundamentally altered corporate governance at Toshiba. This mainly entails the establishment of the executive officer post and a significant reduction in the number of directors. The new system separates the Board of Directors from the executive officers. Directors can devote themselves to corporate decisions that protect the interests of shareholders and to overseeing the executive officers' activities. Executive officers will concentrate on formulating and implementing strategies for their respective businesses. We believe this organization will greatly shorten the decision-making process.

■ A Smaller Head Office

As part of our revolution in management, we are creating a smaller, more efficient headquarters. Each business is responsible for its own administrative functions. This allows headquarters to focus on corporate planning and auditing. Head office staffing can be minimized. Furthermore, we will greatly increase the number of people involved in the auditing office. This is essential to achieving our overriding objective of invigorating the entire Toshiba Group.

■ Moving Toward the Best Group Management

Decentralization alone will not improve Toshiba's performance. We must clearly enunciate a vision and strategy for the Group as a whole. This needs to be followed by an exhaustive review of the performance and outlook for each business. In some cases, we may conclude that a business has no growth potential or cannot be globally competitive. Drastic restructuring and even divestitures may be called for. The fiscal year that we started in April 1998 marks the beginning of a revolution in how Toshiba does business. We want this to be the year where people inside and outside this company can see change taking place.

Over the years, Toshiba has accumulated a wealth of quality people and business skills, all while developing world-class technologies. Now we need to pursue a strategy that takes full advantage of these resources. Capturing positions at the forefront of our strategic fields is essential to success in this age of mega-competition. We pledge that the people of Toshiba will do their best to achieve these goals, and ask for the continued support of our shareholders and business partners in this undertaking.

July 1998

Fumio Sato
Chairman of the Board

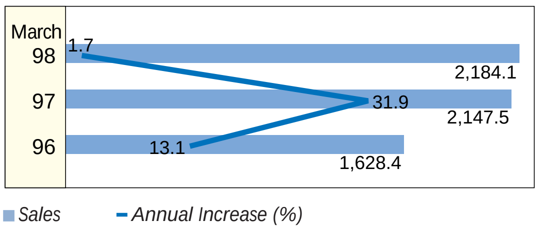
Taizo Nishimuro
President and Chief Executive Officer

Information & Communication Systems

RESULTS

Segment sales rose 1.7 percent to ¥2,184.1 billion. Pricing pressures on PCs in the United States and elsewhere made conditions challenging. Nevertheless, Toshiba's sales of computer systems were brisk. Markets were increasingly shaped by networking. Toshiba channeled its considerable resources to tap opportunities. R&D programs are creating de-facto standards, a steady stream of network-related equipment, and helping build infrastructures for a variety of networks.

Sales (¥ billion)



Share of Net Sales

Mar.	'96	'97	'98
%	28.7	35.1	35.8

Notes: 1. See segment information on page 29.
2. Segment sales include intersegment transactions.

TOPICS

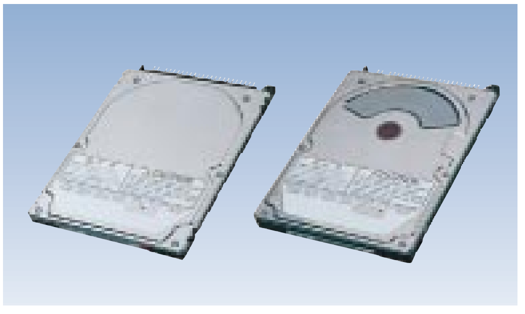
INFORMATION EQUIPMENT

Toshiba's PC results were buffeted by intense price cutting around the world. In North America, where Toshiba maintains a particularly high profile, the company's flagship notebook PCs, as well as desktop models for the home, were hard hit and sales declined. Toshiba took the initiative ahead of competitors by switching notebook PCs to order-based production. Products will become more price competitive as inventories shrink.

Notebook models are accounting for a steadily rising share of the PC market. Toshiba intends to stay ahead of the competition by taking full advantage of its ability to develop and manufacture key components for PCs. Firmly entrenched as the world's number-one supplier of portable PCs, Toshiba's cumulative global shipments topped 10 million units in October 1997.

In desktop PCs, Toshiba's strategic focus shifted to the corporate market, which offers prospects for sales growth. At the heart of this drive is the Equium series of PCs, which went on sale in March 1997.

The proliferation of corporate networks has sparked demand for office equipment combining copier, facsimile and printer functions in one unit. In response, Toshiba brought out the DP2460 and is conducting high-profile marketing activities.



These 2.5-inch HDD units have extremely high capacities thanks to the use of a GMR head. On the left is a 6.35mm, 2.1-gigabyte model; the other model is 8.45mm thick and holds 4.3 gigabytes. Smallest and slimmest in the world, both models are ideal for notebook PCs.

DATA STORAGE DEVICES

With PC demand lackluster, prices of hard disk and CD-ROM drives slumped. Toshiba concentrated on supplying the high-performance units that today's peripherals require to retain its position among the industry leaders. In November 1997, Toshiba introduced the world's first ultra-thin, high-capacity 2.5-inch HDD using a giant magneto-resistive (GMR) head.

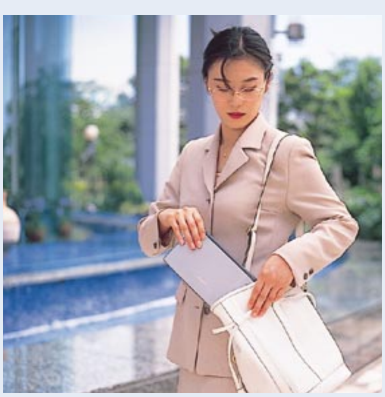
DVD-video players are riding the crest of healthy demand worldwide, particularly in the U.S. The framework for a DVD-ROM drive market is also rapidly taking shape. Active in both fields, Toshiba is ensuring its place in the world's top stratum. The company has already brought out such innovative products as compact DVD-video

➜ *Page 9.*

Q. Sales in this segment declined largely on the poor overseas and domestic performance of notebook PCs. What is Toshiba's strategy for recovery in this product sector?

A. Lower prices in the U.S. hurt our fiscal 1997 results most. The appearance of the $1,000 PC symbolizes the severity of the PC climate. This created a gap between our product line and the market. Furthermore, an oversupply of TFT LCD panels led PC makers to step up output. Our inventories swelled as a result. In the current fiscal year, we plan to market economy-priced notebook models and introduce new slim notebook PCs and more mininotebook PCs that have been popular in Japan. Price competition is especially stiff in desktops, where Toshiba has struggled. Here, we are focusing exclusively on the corporate market, where users place more value on specific functions. In the U.S., Toshiba will enter the server business. To hold down inventories, the build-to-order system is being used for notebook PCs. In this way, production can match sales. To minimize inventories of parts, we will have suppliers deliver parts on the day PC production starts. This system is already in place in Japan. We expect to initiate it in the August-September time frame in the U.S. and Europe.

In July 1998, Toshiba began selling a slim notebook PC, a popular market sector in Japan. Shown here is a B5-sized unit that is the slimmest in the world at only 19.8mm.



This slim mininotebook PC, which weighs only 820 grams, features the world's most slender HDD and a lightweight magnesium body. A high-speed CPU and next-generation energy saving technology add still more value.

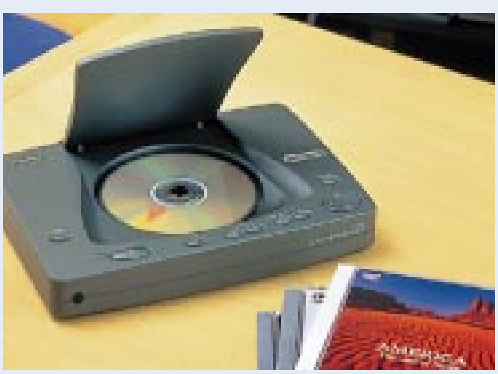
Toshiba's "Equium" series of unitized LCD panels doubles usable desktop space. Featuring high-speed operation, network compatibility and low energy consumption, these units meet all the needs of corporate users.

Q. Demand for intranets and other networks is increasing. What are Toshiba's plans here?

The "Magnia" series of global PC servers went on sale in the U.S. in June 1998. Able to combine these servers with PCs, networking equipment and related support, Toshiba has greatly upgraded its total solution capabilities.

A. A number of projects are already under way. Toshiba is targeting two sectors: system integration (SI) and product provision (PP). In the SI field, there is a powerful groundswell of demand for information systems as companies face rising competition. Toshiba plans to raise sales by offering solutions that tap its proprietary C Solution technology, which facilitates cost reductions. In the PP field, the company's server and router lineup is being strengthened. Unit sales of these hardware products are up about 50 percent compared with the previous fiscal year. In October 1997, the Multimedia Wireless Access Division was created to lead Toshiba's work in this network subsector. March 1998 saw the agreement of 17 Japanese, U.S. and European information communication equipment manufacturers on standards and specifications for mobile network computers. This forms the groundwork for Toshiba's collaboration with Sun Microsystems, Inc. to develop network computer systems using the Java programming language. Designed so that an internal LAN can be accessed from outside the office, the systems will be promoted mainly for use by sales personnel and hospitals. Overall, Toshiba expects the networking computing business to expand.

Q. The DVD market appears to be poised for an imminent takeoff. What will be Toshiba's role as this technology gains widespread acceptance?



In an industry first, Toshiba introduced a compact DVD-video player in November 1997. To use, simply connect the player to the front video terminals of a TV. This model is perfect for business presentations.

A. In the DVD-video player market, demand is climbing along with the number of software titles. Toshiba's player output is rising, too. In the important U.S. market, we have a tie-up with Time Warner's content activities. This allowed us to expand DVD-video player sales in the U.S. from seven large cities to a nationwide presence. We now have about 40 percent of the market in the U.S. for these players, including OEM agreements. In Asia, we are offering models that match local demands. One is a DVD-video player that is compatible with the video CDs popular in Asia. In China, Toshiba sells player parts kits to home electronics makers, supplies technology and cooperates in marketing. This strategy is cementing efforts to play the leading role there. In the second half of fiscal 1997, Toshiba was the first to enter the DVD markets in Europe, South America and Australia. In Japan as well, the company was the first to sell compact players. Following an investment in Culture Publishers Inc., a subsidiary of Culture Convenience Club Co., Ltd., owner of the largest domestic rental video chain in Japan, some shops started rentals of DVD discs and players. Sales of DVD-ROM drives for personal computers are rising. We started shipping samples of the world's first DVD-RAM drives in September 1997. With Microsoft Corp., we have made DVD technology compatible with Windows 98.

players and ultra-thin DVD-ROM drives. Plans call for a multifaceted approach, including DVD disc production, DVD software rentals and other businesses. Currently the leading member of the DVD Forum, Toshiba is promoting the development and implementation of industry standards.

INFORMATION & COMMUNICATIONS AND CONTROL SYSTEMS

Three key themes are defining markets for computer and network equipment: open systems, networks and mobility. In this environment, Toshiba is developing servers and routers that can compete anywhere in the world.

With PC server demand rising, Toshiba is boosting the functions of its highly reliable GS series. Sales volume growth has outpaced the market as a whole. In the Cell Switch Router (CSR) sector, Toshiba formed an alliance with Cisco Sytems, Inc. of the U.S. with the aim of creating a global de-facto standard. The first products have gone on sale and new models are being introduced. In Japan, Toshiba has supplied CSR technology to Fujikura Ltd., The Furukawa Electric Co., Ltd. and Hitachi, Ltd. Toshiba has also invested in Innovate Networks Corp., which was established to promote CSR in the U.S.

In computer systems, Toshiba is building skills in creating a total solution service built around system proposals and consulting, all linked to computer networking equipment. Sales of such services are growing to a diverse range of users, including the public sector, retailing, financial services and manufacturing.

In the communications equipment sector, Toshiba received an order for a large-scale, integrated disaster information system for Japan's Fukui Prefecture. However, while mobile phone sales were higher overseas, a reversal in domestic demand for cellular telephones and personal handyphone systems meant slower growth in this sector. Total communications equipment sales decreased as a result.

Capable of processing up to four tickets at once, Toshiba's automatic fare collection gates are raising productivity at 16 stations along the Shinkansen (bullet train) line between Tokyo and Osaka.

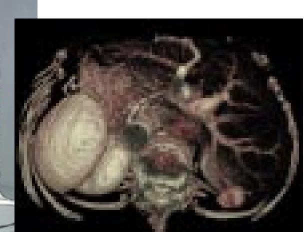
Results in laborsaving equipment were favorable. Performance was backed by a large sale of automatic fare collection gates for the Shinkansen lines of Central Japan Railway Company and letter sorting machines for Japan's new postal system.

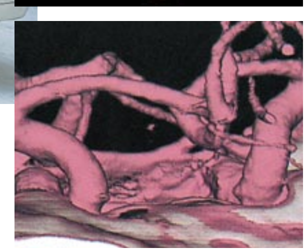
Although aerospace development sales were low, space station modules were sold to Japan's National Space Development Agency. Participation in the commercial satellite field has added a second core business to the company's aerospace sector. Toshiba has concluded a contract with the U.S.'s Skybridge LP Corp. to invest in the $3.5 billion Skybridge Project led by France's Alcatel Espace.

In electronic commerce, Toshiba is participating with Visa International as co-manager in "Smart Commerce Japan," an experimental electronic trading project sponsored by Japan's Ministry of International Trade and Industry. In October 1997, a trial took place in Kobe using credit-based IC electronic money cards that could be used in stores and on the Internet. Toshiba is supplying the systems, IC cards and terminals for replenishing electronic money, among other items.

MEDICAL SYSTEMS

Despite difficult market conditions, Toshiba leveraged its leading-edge digital image processing technology to create products with outstanding cost-performance characteristics. This business was thus able to achieve higher sales. In addition to medical equipment, Toshiba is targeting hospital information systems for growth. Orders are increasing for total hospital information systems embracing ordering, accounting, tests and nursing.





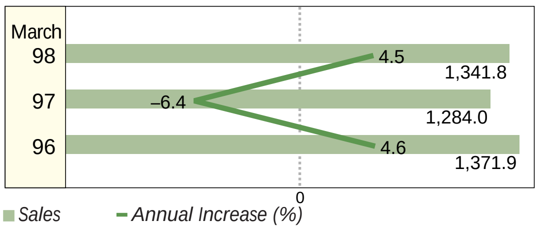
Xpress/SX, a CT scanner with Aspire CI, has a "SureStart" function to automatically initiate scanning at optimal timing for contrast enhancement. Scanned data can be reconstructed in real time at a speed of 8 frames per second.

Electronic Devices & Materials

RESULTS

Sales of this segment rose 4.5 percent to ¥1,341.8 billion. In semiconductors, the price decline in 16M DRAMs engendered a sharp drop in sales in the memory business. Results for other semiconductors were strong, paced by healthy demand for discrete devices for mobile communications and logic ICs for CD-ROM applications. Display tubes for computers were also behind the growth in segment sales.

Sales (¥ billion)



Share of Net Sales %

Mar.	'96	'97	'98
	24.2	21.0	22.0

Notes: 1. See segment information on page 29.
2. Segment sales include intersegment transactions.

TOPICS

SEMICONDUCTORS

Soft PC sales, lower output of consumer electronics due to Asian economic instability and falling prices of 16M DRAMs impacted the semiconductor market. Nevertheless, expansion continued outside the memory sector. In this environment, Toshiba strengthened its DRAM cost competitiveness. Outside the memory sector, investments target high-potential products: memory-embedded logic ICs and other system LSIs, and chip sets for CD-ROM equipment and mobile communications, among others.

In the memory field, Toshiba is quickly shifting resources to 64M DRAMs. This move is accompanied by a focus on value-added designs offering higher speeds, lower energy consumption and synchronous operation. Toshiba was first to introduce the 0.25-micron design rule to achieve the world's smallest chip size (79.4mm^2). By the summer of 1998, Toshiba will have switched all 64M DRAM production to 0.25 microns, reaffirming its global competitive edge. Furthermore, Toshiba's 64M DRAMs are already compatible with the 100MHz main memory buses used in next-generation, high-speed PCs. Stress is also being placed on flash memory, where the popularity of digital still cameras and portable terminals is sparking higher orders. Research is concentrating on raising memory capacity while cutting power consumption.

In semiconductors other than memories, Toshiba will draw on strengths as an integrated manufacturer able to provide total system support while expanding capabilities in logic ICs to meet rising demand for system LSIs. Among logic products, Toshiba ranks first in CD-ROM digital servo ICs. Toshiba also excels in imaging LSIs and RISC processors for network applications. Growth continues in sales of "dRAMASIC," memory-embedded devices that incorporate Toshiba's original trench structure technology. In March 1998, sales of a 32-bit RISC processor commenced; this processor has about three times the speed of existing products. Large volumes of data can be handled at high speeds. These capabilities make this processor ideal for portable information terminals, set-top boxes and other multimedia equipment.

With a "Flash Path," data from a digital camera or other device using a SmartMedia card can be easily uploaded to a PC. Toshiba has formed a joint venture with Fischer International Systems Corp. of the U.S. to manufacture and sell this unique product.

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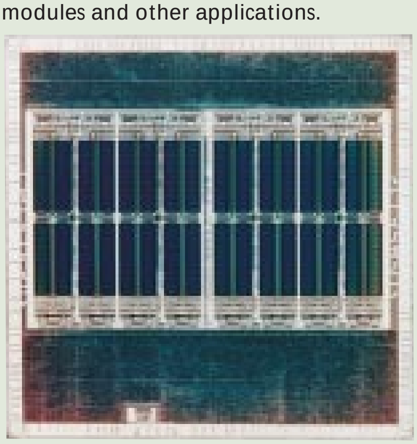
Q. Fiscal 1997's decline in 16M DRAM prices brought down the sales of memory devices. What is the outlook for 64M DRAMs?

A. Success in DRAMs hinges on two elements: high performance and low costs. This is why Toshiba is moving forward with shrinking chips. In October 1997, we were the first to begin mass production with a 0.25-micron design rule. While our competitors still had chip sizes of at least $100mm^2$, we were offering customers $79.4mm^2$ chips, the world's smallest. Toshiba's proprietary trench structure is also a decisive cost advantage. This technology produces wafers with an extremely smooth surface. More advances in smoothness were added to allow raising photoresist sensitivity. So the trench method makes it possible to use finer processes without a major technological breakthrough. We are confident that this technology can be used with 0.15-micron lines. In addition, trench structrure is ideal for memory-embedded system LSIs, where demand is rising. We plan to complete the shift of all 64M DRAM processes to 0.25 microns in the summer of 1998. By the end of this year, we will start mass production using 0.2-micron processes. These advances will keep us at the vanguard of the 64M DRAM marketplace.

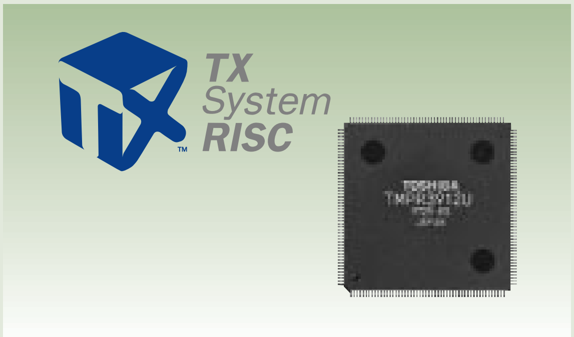
Toshiba's cutting-edge second clean room at the Yokkaichi Works started production in July 1997. The facility is equipped for design rules from 0.35 to 0.15 microns.

Q. With sales of system LSIs climbing sharply, what specific market sectors is Toshiba stressing?

This "dRAMASIC," memory-embedded device was made possible by Toshiba's original trench structure technology. Sales are rising for use in LCD modules and other applications.



A. Semiconductor demand is gravitating from chip sets for PCs to network equipment, set-top boxes and other multimedia equipment. Toshiba has combined various IP (intellectual property) cores, or functional blocks, to offer a range of system support. Portable terminals, image processing, CD-ROM and DVD storage devices and network equipment are a few applications. Our goal is to raise system LSI and logic IC sales to a constant 40 percent of our semiconductor business. In CD-ROM chip sets, our market share is already about 60 percent. Toshiba also leads in system LSIs that

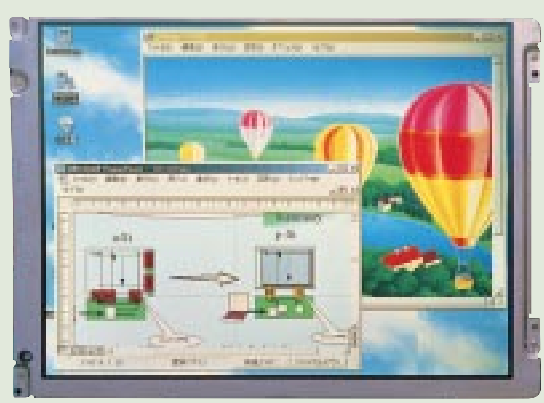


Users in many industries are adopting the “TX System RISC” series of processors, which draw on MIPS Technologies’ architecture. Networking devices, printers, mobile data terminals and game units are just a few of the many potential markets.

combine trench-type memories with logic circuitry. With both DRAM and logic functions on a single chip, data throughput efficiency is improved dramatically. We first commercialized this in 1995 for graphic workstations. Since then, there have been a growing number of inquiries, mainly about applications involving imaging. We have good momentum in system LSIs. Our “TX System RISC” series processors, which are based on architecture from MIPS Technologies, Inc., have been chosen as the main processor in many widely used systems.

Q. During the past year, big swings in the supply and demand for LCDs created a challenging situation. What is Toshiba’s strategy for shielding LCD performance from this volatility?

A. We carefully examine the LCD market before approving new investments. We have concluded that further price reductions are inevitable, since sales of notebook PCs, the largest market for LCDs, are growing. One goal is cutting costs for conventional amorphous TFT LCDs. We are raising productivity and yields while reducing the cost of parts and materials. Another element of our strategy is to differentiate ourselves with low-temperature polysilicon TFT LCD technology. Polysilicon TFT LCDs have both of the key qualities demanded by mobile products: high resolution and low power requirements. We are working on ways to cut costs more, even in polysilicon products. One breakthrough is an internal driver IC. That means fewer external tabs and big savings in parts and materials. The combination of polysilicon TFT LCD technology and lower cost amorphous TFT LCDs should yield a reliable base for generating profits.



In a breakthrough, Toshiba developed an 8.4-inch SVGA low-temperature polysilicon TFT LCD. Its low power consumption and slender profile are precisely what makers of mobile data products are seeking.

Toshiba has concluded manufacturing alliances with other prominent companies with a view to quickly adding skills in new technologies. In September 1997, the Dominion Semiconductor, L.L.C. joint-venture company with IBM started wafer production for 64M DRAMs. Toshiba is providing 64M DRAM technology to its Asian partner Winbond Electronics Corp. Production is proceeding on schedule, serving as an important source of these sophisticated memory chips.

Production of 0.35-micron-rule 64M DRAMs started in the fall of 1997 at Dominion Semiconductor, a joint-venture company with IBM. Plans call for a switch to 0.25-micron technology in the second half of 1998.

LIQUID CRYSTAL DISPLAYS

The industry leader in 12.1-inch panels, Toshiba posted record sales in the first half of the fiscal year. Growth was mainly the result of full-scale production at a phase-three production line that boosted productivity. Although prices declined during the second half, LCD sales for the entire year were unchanged from the prior year's level. Volatility persists in the LCD markets due to shifts in the balance between supply and demand. Toshiba's strategy is to accelerate the development of displays for next-generation products, while keeping performance high and cutting costs. The mainline Supershrink series, which has the world's smallest external dimensions, permits 12.1-inch TFT LCD displays to fit in A4 size notebook computers. This series is now the de-facto standard in its class.

Low-temperature polysilicon TFT LCDs, which offer high resolution and low power consumption, are viewed as the next core technology in the LCD market. Toshiba has commercialized an 8.4-inch SVGA LCD module for mobile products, as well as a 13.3-inch XGA model. Another achievement is the first reflective 8.4-inch low-temperature polysilicon TFT LCD with high resolution and light weight. This reflective LCD has 40 percent fewer parts than an amorphous silicon type requires. Power consumption is cut by 75 percent. With a system for mass production in place, Toshiba plans to reap the benefits of its position as the pioneer in low-temperature polysilicon TFT LCDs.

OTHER ELECTRON DEVICES

Conditions were difficult for TV color picture tubes. In Japan, the market for wide-screen models was weak. Toshiba reinforced its product development activities. One result was the January 1998 launch of the first shadow-mask flat picture tube—the Flat Super Brightron.

Color display tubes for computers were hurt by stiff competition from makers in Korea and Taiwan and by a steep drop in OEM prices. Toshiba strengthened its global production system to stay competitive. Domestic output of 17- and 19-inch models was raised while speeding up the transfer of 15-inch production to Toshiba Display Devices (Thailand) Co., Ltd. With monitor production in the NAFTA zone rising, Toshiba Display Devices Inc. of the United States plans to begin making 17-inch tubes in the summer of 1998.

In rechargeable batteries, expansion of production capacity and improvements in battery performance have led to market share gains for Toshiba. Much higher demand for lithium-ion batteries for portable telephones has been a major contributor to growth in battery sales. Committed to sustaining this momentum, Toshiba plans to introduce new products for personal computers in the second half of fiscal 1998.

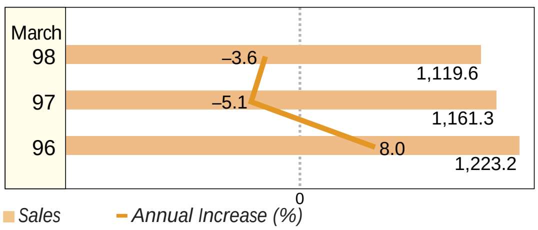
Covering a broad range of products, Toshiba Battery Co., Ltd. has a product line that extends from alkaline-manganese cells to lithium-ion, nickel-metal hydride and other rechargeable batteries.

Power & Industrial Systems

RESULTS

Although overseas orders for power plants and equipment rose, Japanese electric utilities continued to make demands for significant cost reductions. This resulted in a 3.6 percent decline in segment sales to ¥1,119.6 billion. Toshiba is responding by cutting costs even further and bolstering expertise in key technologies in a drive to capture more orders.

Sales (¥ billion)



Share of Net Sales %

Mar.	’96	’97	’98
	21.5	18.9	18.3

Notes: 1. See segment information on page 29.
2. Segment sales include intersegment transactions.

TOPICS

NUCLEAR POWER PLANTS

Toshiba is focusing on maintenance of existing plants and on highly-efficient generating systems such as advanced boiling water reactors (ABWRs) in anticipation of future growth in orders for new plants. Fiscal 1997 saw the commencement of operations of Toshiba’s second ABWR, Kashiwazaki-Kariwa Nuclear Power Station Unit No. 7 (1,356MW) of Tokyo Electric Power Co., Inc. (TEPCO). Another highlight of the year was TEPCO’s selection of Toshiba as the main contractor to replace a reactor shroud at Unit No. 3 of the Fukushima No. 1 Nuclear Power Station. This is the first project of its kind in the world. The new shroud will employ a new material that is highly resistant to stress cracks caused by corrosion, underscoring Toshiba’s leading-edge expertise in the nuclear power field.

Overseas, particularly in Asia, Toshiba is aggressively promoting its technical prowess in ABWRs. This has led to an order for reactor facilities for the Lungmen Nuclear Power Station in Taiwan. Toshiba is extending assistance for China’s nuclear power plant construction plans. Further, in collaboration with the Japan Consulting Institute, Toshiba is playing a central role in a nuclear power feasibility study project for the Vietnamese government. The project covers a wide range of subjects, from estimates of energy demand and a plant’s economic viability to the training of operating technicians. The objective is construction of a 800MW-class boiling water reactor.

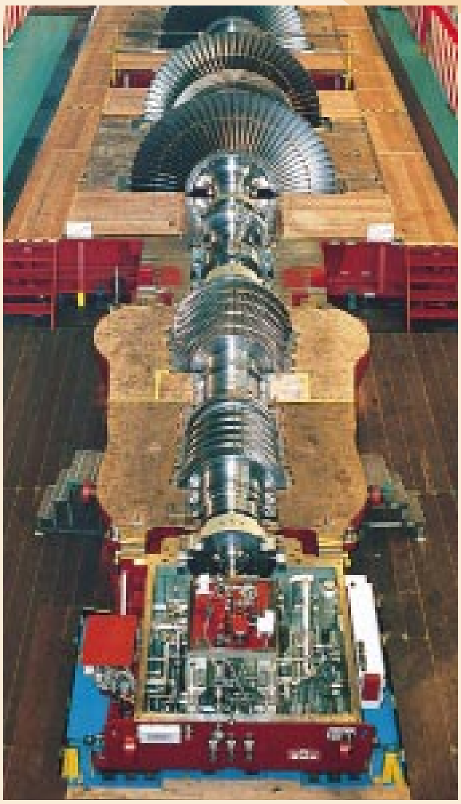
OTHER POWER PLANTS AND EQUIPMENT

In thermal power generation facilities, Toshiba is stressing orders for combined-cycle projects. Growth potential for this technology is immense in Japan and overseas markets. In fiscal 1997, construction proceeded on the combined-cycle Unit No. 7 at Shin-Nagoya Thermal Power Station of Chubu Electric Power Co., Inc. Commercial operation began at another combined-cycle facility that was constructed at TEPCO’s Yokohama Thermal Power Station Unit No. 7. Offering extremely high efficiency, combined-cycle systems are viewed as the core thermal power technology of the future. Toshiba is

Fuel cells are an environmentally benign source of electricity. Toshiba recently installed this unit at a brewery to enable the generation of power from biogas.

➔ *Page 17.*

Q. As Japan's electric utilities ask Toshiba to supply equipment at even lower prices, what actions is Toshiba taking to cut its own costs?



For Japan's Hokuriku Electric Power Co., Inc., Toshiba manufactured this turbine for the 700MW Unit No. 2 of the Nanao-Ota Thermal Power Station. Cumulative output from all Toshiba-made turbines now tops 100,000MW.

A. We implemented a three-year cost-cutting program that ended in March 1997. This program targeted every product and project in this segment. The benefits were enormous. Expenses were reduced across the board—in sales, head office engineering, design, manufacture, procurement, distribution, construction and at subsidiaries. Both costs and manufacturing times were cut, thereby reducing total expenses by one third. But global prices are still falling. So we have initiated another cost-cutting campaign to supply products at prices that are competitive worldwide. To bring about structural improvements, we are slimming down our organization. Recently, joint-venture companies have been set up in Japan and Mexico with the U.S.'s General Electric to manufacture steam turbine blades. This will permit both partners to consolidate production activities in order to realize more economies of scale.

Q. With nuclear power-related demand now slowing, what will be the segment's primary sources of sales and earnings?

Toshiba was selected as the main contractor to build a new reactor shroud at TEPCO's Fukushima No. 1 Nuclear Power Station, Unit No. 3. Unprecedented in the world, this undertaking called for a host of sophisticated technology, including radiation cleansing techniques for the reactor core.

A. Over the near term, we are placing more emphasis on the thermal power business, especially on overseas contracts. Business outside Japan is essential to gaining new skills and staying competitive in international markets. Overseas contracts are now about 10 percent of power system sales; our objective is 20 ~ 30 percent. In combined-cycle generation, which cuts carbon dioxide emissions as well as raises efficiency, Toshiba is collaborating globally with General Electric on next-generation systems using 1,500ºC gas turbines. We expect this joint effort to lead to more orders. Over the intermediate term, expectations are for sharp growth in domestic nuclear power generation demand beginning in 2000. Here, Toshiba's safe and economical ABWR technology will be invaluable. We plan to use this advantage to raise our market share.

In fiscal 1997, Unit No. 7 at TEPCO's Kashiwazaki-Kariwa Nuclear Power Station started commercial operations.

Q. In the face of a lackluster domestic market, other heavy electrical firms are looking more to Asia. What distinguishes Toshiba from them?

A. As more companies shift their focus to Asia, competition is heating up. Toshiba is distinguished most by its deep base of sophisticated technology. In Japan, Toshiba's market share exceeds 30 percent in nuclear, thermal and hydroelectric power generation. Our name and track record are well known in Asia as well. In China, there are many nuclear power projects being planned. Thailand, Indonesia and other countries have shown strong interest in building nuclear power stations. In 1996, Toshiba created an organization with Hitachi to promote ABWR exports. This organization, in concert with our many accomplishments in Japan, makes us able to cooperate fully with requests from Asian countries. Already business related to distribution systems and substations in Asia is accelerating. And in May 1997, a factory of ours making large transformers began operations in China's Changzhou Province. We intend to enlarge the factory's operations to serve as a comprehensive supply base for power equipment and systems for all of Asia.

reinforcing ties with General Electric, the world leader in this area, to develop new technologies for Toshiba. Orders for coal-fired plants are being aggressively pursued. Toshiba captured new business during fiscal 1997 in Thailand, Taiwan and other countries. In Japan, construction is under way at Unit No. 2 of the Nanao-Ota Thermal Power Station of Hokuriku Electric Power.

Toshiba received several notable orders for hydroelectric power facilities in fiscal 1997. Among them were equipment for power stations in Pakistan, Vietnam, Nepal and Indonesia.

INDUSTRIAL ELECTRICAL APPARATUS AND MACHINERY

Sales of products in this sector were generally weak as competition forced prices down while the Asian currency crisis held down exports of Japanese machinery suppliers. Toshiba concentrated on power electronics devices such as inverters and UPS, all products where demand is growing. Sales of the VF-S7/S7e series of compact general-use inverters posted particularly strong growth. The inverter lineup was enhanced with a high-performance 400V series featuring internal filters to reduce noise.

In the control systems sector, users prefer cost-efficient open systems built around such standardized platforms as PCs and workstations. For large-scale plants, Toshiba offers the CIEMAC-DS integrated control system with a 100Mbps Ethernet control LAN, an industry first. Factory automation equipment is relying increasingly on PCs, while machine tools incorporate panel computers. Toshiba has responded to these trends with the FA3100MX series of industrial-use PCs, which boast the highest speeds in their class, together with the FP3100 series panel computers.

TRANSPORTATION EQUIPMENT, ELEVATORS AND ESCALATORS

A stagnant economy meant fewer passengers for Japan's railway companies. Consequently, capital spending decreased. In this difficult environment, Toshiba aggressively pursued orders for electrical equipment for rolling stock used in the Shinkansen (bullet train) and by private railways, and public and municipal transportation systems. There were several major orders for this equipment for Series 300 Shinkansen trains of Central Japan Railway Company, Series 500 Shinkansen trains of West Japan Railway Company, and No. 12 subway line in Tokyo. Outside Japan, similar orders were received from the state railways of Egypt and Venezuela.

In the elevator and escalator field, small-scale projects are accounting for a rising share of sales in Japan. Overall, demand was strong. The upgrading and expansion of station buildings and shopping centers, along with construction of public welfare facilities, generated many orders. Toshiba captured orders from large redevelopment projects at railway stations in the cities of Sakai and Kitakyushu. Work continues on enhancing performance. Toshiba built a 150-meter-tall elevator research tower at its Fuchu plant. This new facility will accelerate the development of ultra-high speed and double-deck elevators. Another objective is the design and testing of models created specifically for fast-growing markets, such as those in China and Southeast Asia.

Toshiba's work on linear-motor trains spans more than three decades. Achievements include the development of superconducting magnets, roadbed coils, power switching equipment and train drive control systems.

Having earned the trust of customers worldwide, small, general-use VF-S7/S7e inverters are in increasing demand.

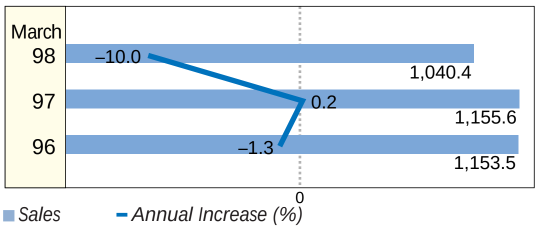
Towering over suburban Tokyo, Toshiba's new 150-meter-tall, ultra-high-speed elevator tower covers research themes as diverse as technology for deep underground structures and models designed for the needs of Asian customers.

Consumer Products

RESULTS

Impacted by weak consumer spending and a consumption tax rate hike in Japan, sales of TVs, washing machines, refrigerators and other appliances declined. Air conditioners, a major source of segment sales, were down sharply due to unseasonable summer weather. The result was a 10.0 percent decrease in sales to ¥1,040.4 billion. To improve this segment's performance, Toshiba is reviewing the profitability of each product and the structure of business sectors. Toshiba is also rapidly expanding its line of innovative, lifestyle-oriented products to stimulate demand.

Sales (¥ billion)



Share of Net Sales %

Mar.	'96	'97	'98
	20.3	18.9	17.0

Notes: 1. See segment information on page 29.
2. Segment sales include intersegment transactions.

TOPICS

TV/VIDEO PRODUCTS

Television sales in Japan were much lower as falling prices outpaced growth in demand for large-screen models. Overseas, color TV results were poor in Russia and Southeast Asia. In this challenging climate, Toshiba is targeting new demand by offering higher resolution and more functions. In March 1998, Toshiba began marketing "FACE," a 32-inch wide-screen TV with the world's first shadow-mask flat picture tube. This revolutionary TV uses Toshiba's Super Brightron tube to produce a sharp, vivid image. In addition, the image is uniform from the screen's center to the edges, thus enhancing text legibility. A member of the FACE lineup, the ZIP series was also successful. Incorporating digital progressive functions, this TV doubles the scanning lines to produce flicker-free images. Ideally suited to multimedia needs, these models attracted much attention immediately after their launch.

Launched in Japan in March 1998, the FACE TV has a completely flat picture tube to produce a vivid, distortion-free picture from edge to edge. Market acceptance has been strong.

Growth of the IT Vision interactive broadcasting system continues in Japan. Fiscal 1997 saw the expansion of this technology, in which Toshiba played a central role, to more regions of Japan. Furthermore, IT Vision has embarked on the nationwide development of subtitled and text broadcasts, making its tuners suitable for receiving text-based programming as well. In April 1998, IT Vision programs appeared on the WOWOW satellite broadcasting service in Japan. Potential exists outside the broadcasting field, too. IT Vision is being considered for order processing systems for agricultural and consumer cooperatives, information systems for local governments and other applications. In the United States, NBC and CNN have decided to adopt IT Vision.

In 1996 Toshiba transferred all responsibilities for its VCR operations to Toshiba Video Products Pte., Ltd. of Singapore. This company has been independently performing functions from product development through sales. Toshiba continues to place emphasis on cost-cutting to become more competitive.

➜ Page 21.

Q. Air conditioners were the biggest cause for fiscal 1997's higher operating loss in this segment. What countermeasures are being taken?

A. The segment's operating loss rose from fiscal 1996's ¥15.9 billion to ¥45.3 billion. The air conditioner business, previously a stable source of earnings, was hurt by Japan's unseasonable summer weather. As a result, inventories swelled and production at the Fuji plant was suspended from February to March 1998. From now on, we will no longer base production on projected sales. We will make air conditioners at the same rate they are sold to hold down inventories. Currently, it takes 11 days to ship an air conditioner from the time an order is received. We want to cut that to less than a week by the end of fiscal 1998. Closer cooperation with Toshiba's semiconductor division will shorten time needed to procure microprocessors. Our sales force is another target. We are adding people who can accurately monitor inventory levels and demand dynamics, as well as consumers' preferences. Together, these measures should return air conditioners to consistent profitability.

Air conditioner plants in Japan are switching to a production system based on actual sales rather than projections. This will cut inventories and stabilize earnings.

Q. What progress is being made in cost-cutting and restructuring to return the consumer products segment to profitability?

A. We are examining the ability of each product to yield a profit. Decisive actions are being taken in instances where improvements are unlikely. Overseas manufacturing to cut costs or the transfer to subsidiaries are two possibilities. For example, all of our small color TVs are made in Indonesia and China. Our fan and heater lines have been shifted to Toshiba Home Technology Corp. Profitability rose in both cases. Other examples abound. When the VCR business stagnated, we moved everything to Toshiba Video Products in Singapore. In December 1997, production in Singapore was halted. We now have these decks made under consignment in Thailand and China. Profits have risen. We have reinforced

Answers

the functions of Toshiba Singapore Pte., Ltd., part of our drive to move business development closer to markets. Responsibility for forming Asian product strategies and the design, manufacturing and marketing of TVs has been transferred to this subsidiary from Japan. Another illustration is the December 1997 start of TV manufacture and sales at Dalian Toshiba Television Co., Ltd. in China in response to rising local demand.


At Dalian Toshiba Television, production of 21- to 29-inch color TVs commenced in December 1997. In the near future, the facility will begin assembling 34-inch models and projection TVs.

Q. What are Toshiba's plans for stimulating consumer demand in the mature home appliance market?

A. We often hear that the home appliance market is mature. But when consumers see appliances that offer them value, sales tend to rise. Toshiba's "Kawaribanko" refrigerator is number one in its category and contributed to a 4 percentage-point gain in domestic market share in the second half of fiscal 1997, compared with one year earlier. We also had a hit with the "DD Inverter Ginga" ultra-quiet washing machine; market share rose by 3.2 percentage points. In refrigerators, our competitors have gradually changed sizes of vegetable trays, freezers and other compartments to meet consumers' needs. We came up with an entirely new concept: a versatile compartment that can be switched to various temperatures. This is an excellent example of how demand can be stimulated. In April 1997, we set in motion a project we call "Only One." It cuts across organizational lines to quickly create ideas for products that reflect changes in lifestyles. Accomplishments already include the Kawaribanko and other hit products. We are determined to continue devising original ideas that set Toshiba apart from the competition.

DIGITAL IMAGING EQUIPMENT

In imaging systems, Toshiba's high-resolution LCD data projectors and "Video Wall" large-scale projection system generated substantially higher revenues. In the United States, Video Wall captured more than half of the market in its category. Brightness and focus were improved during fiscal 1997. SVGA compatibility to permit connection to PCs was another important advance. For LCD projectors, widely used as presentation tools, Toshiba reinforced its leadership by creating the world's first compact, lightweight XGA-compatible model with a video camera.

Unveiled in June 1998, the "Allegretto 5" digital still camera has a 2.5-inch reflective LCD monitor. At the same time, Toshiba began selling the "Allegretto M1," which features a 1.5 million-pixel CCD.

Satellite digital broadcasts made their debut in Japan in October 1996. With the May 1998 commencement of SKY PerfecTV! broadcasting, the multi-channel era has now come to Japan. Toshiba was ready, having unveiled in April 1998 a receiver for SKY PerfecTV! that features simple remote control and timer recording.

In the camera sector, sales of surveillance cameras were higher. And Toshiba generated a strong response with its "Allegretto PDR-2." Launched in August 1997, this model has a CMOS sensor and built-in PC card interface for "SmartMedia" solid-state floppy-disk cards (SSFDC).

HOUSEHOLD APPLIANCES

Sales of household appliances were down sharply. Fierce price competition was the main reason. In response, Toshiba concentrated on offering appliances embodying distinctive features to enhance living environments. Toshiba is also taking a closer look at the earnings of individual products and reviewing everything from production through distribution.

An unseasonable summer sent fiscal 1997 home air conditioner shipments in Japan far below the previous year's level. Toshiba's own sales also plummeted. In response, Toshiba moved away from the system of making air conditioners based on demand projections. Products are now assembled at the same rate as they can be sold, a system that cuts inventories. Raising the appeal of products is also imperative. Toshiba strives to offer functions like air purifiers that make models more useful. "Daiseikai," a model launched in November 1997, removes dust, pollen and tobacco smoke while cutting energy consumption.

In refrigerators, Toshiba's "Kawaribanko" has been a best seller, contributing substantially to sales since its February 1997 introduction. The model has a compartment that can be switched among several temperature settings. Building on this accomplishment, Toshiba plans to add more features, including high-capacity and energy-saving designs, to extend the popularity of this unique concept.

Toshiba's washing machines have long offered compact size with large capacities. Now, Toshiba has created models that also boast quiet operation. Boasting extremely low noise levels, "DD Inverter Ginga" models can be used late at night. A new function that reduces tangling of laundry makes these machines even more popular. To meet demand, Toshiba has boosted output by 50 percent.

Toshiba Lighting & Technology Corp. designed and installed the striking studio-like illumination for this Warner Brothers Studio Store in Tokyo.

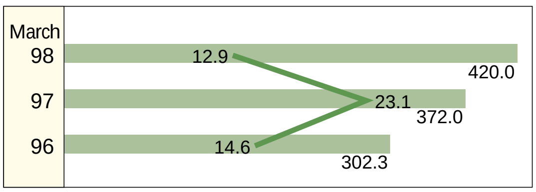
The recently completed International Stadium Yokohama sports a huge "Super Color Vision" display to give all fans a good look at the action.

Services & Other

RESULTS

Operations in this segment mainly represent financial services, real estate leasing and sales, and logistics. These and other service-related activities of the Toshiba Group generated net sales of ¥420.0 billion, 12.9 percent more than one year earlier.

Sales (¥ billion)



Sales — Annual Increase (%)

Share of Net Sales

Mar.	'96	'97	'98
%	5.3	6.1	6.9

Notes: 1. See segment information on page 29.
2. Segment sales include intersegment transactions.

TOPICS

In the real estate business, Toshiba continued to face challenges posed by declining rental rates and sales prices in Japan. Two central themes of the past year were raising occupancy rates at large office buildings and participating in the development of new buildings.

Financial services encompass transactions in a variety of forms in Japan, including installment sales of consumer and other products, leasing, and credit assurance. In fiscal 1997, financing for consumer products was weak, but there was a rise in demand for finance related to PCs and other types of information and communications equipment. To differentiate leasing services, Toshiba focused on the development of new products outside the field of office equipment. This policy is behind ongoing work with Toshiba's power systems divisions during the past fiscal year in leasing in-house power generation systems, a market where demand is projected to grow. Following the March 1998 termination of an agreement between Toshiba Credit Corp. and Nippon Shinpan Co., Ltd., Toshiba Credit is poised to offer new services as a wholly owned subsidiary of Toshiba.

As demand for strategic logistics rises, Toshiba is improving the efficiency and international reach of its own logistics services. A regional management system introduced in April 1997 led to higher productivity. In Japan, the primary goal is expanding general services for customers outside the Toshiba Group. Seven offices throughout the nation provide a solid foundation for strengthening sales capabilities. Bolstering international services is another objective. Overseas bases are steadily extending their scope of knowledge. In the Philippines, for example, services cover export-related matters for semiconductors and other products of Toshiba Information Equipment (Philippines), Inc.

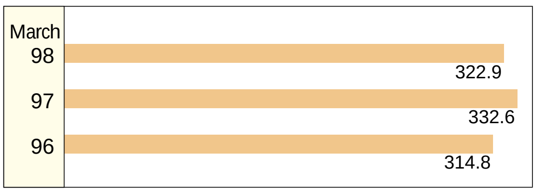
Complementing the quality of Toshiba's products, Toshiba Logistics offers a comprehensive line of transportation and installation services. Activities extend even to such massive projects as power generation equipment.

Research and Development

OVERVIEW

Toshiba maintains a powerful R&D infrastructure capable of major technical advances and the creation of de-facto global standards. There were a number of significant achievements during fiscal 1997, often reflecting the key theme of networking. Toshiba is raising its profile in the fields of system integration, wireless communications and computer-on-silicon architecture.

R&D Expenditures (¥ billion)



Share of Net Sales %

Mar.	'96	'97	'98
	6.1	6.0	5.9

TOPICS

■ WORLD'S FIRST MPEG 4 ENCODING/DECODING LSI

In February 1998, Toshiba completed development of an LSI compatible with the next-generation MPEG 4 video signal compression format. MPEG 4 is expected to enable transmission of moving images to wireless information terminals. This LSI, the first of its type in the world, employs Toshiba's exclusive threshold-voltage CMOS technology to cut power consumption. Other advances include improved resistance to errors to keep moving images sharp and a concept to separate compression of foreground objects and backgrounds.

■ THE FIRST FLAT PICTURE TUBE WITH A SHADOW MASK

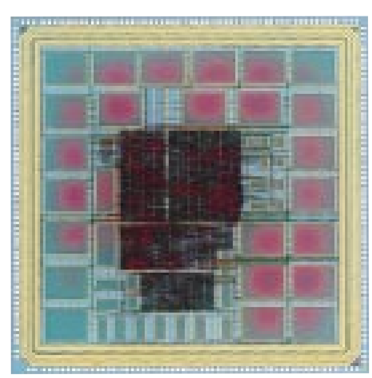
In an industry first, Toshiba succeeded in creating a shadow-mask picture tube that has a flat surface. Shadow-mask designs account for more than 90 percent of TVs sold today. Called the Flat Super Brightron, this tube boasts a 15 percent improvement in electron gun focusing. Sharpness along the image's periphery is 20 percent better. Overall, the tube maintains the same brightness and resolution from the center to the edges, a level of uniformity unmatched by any other manufacturer.

■ THE FASTEST CALCULATION METHOD FOR NEXT-GENERATION ENCRYPTION

To improve Internet security, Toshiba has developed a next-generation elliptical encryption method that is much faster than RSA, currently the world standard. The new system applies Montgomery calculations to the existing elliptical encryption system. This cuts processing times by as much as 50 percent compared with current encryption, making the system by far the fastest in the world. Encrypted numerical expressions are converted into a format for Montgomery calculations. As a result, the calculator no longer needs to perform division, the most time-consuming task. This breakthrough holds the promise for making electronic commerce and transmissions of digital content more secure. Incorporation in information terminals for the home and IC cards is also being studied.

■ NEW R&D CENTER FOR MOBILE TELECOMMUNICATIONS

To enhance capabilities in mobile telecommunications, Toshiba in June 1997 formed a research organization called the Wireless Technology Development Center. Much work targets the GSM and CDMA standards for digital mobile phones. Emerging technologies like UMTS and wide-band CDMA are other themes. Technicians at the center also develop chip sets and products such as PCs and mobile information terminals that use wireless technology.



A new video signal compression standard, MPEG 4 holds the promise of bringing moving images to wireless information terminals. Toshiba developed the world's first LSI to encode and decode signals using this standard in February 1998.

Toshiba and the Environment

OVERVIEW

Environmental activities are an integral element of Toshiba's management policies. Every aspect of operations reflects these issues. There were many accomplishments in fiscal 1997. Among them were more environmentally conscious products, programs to promote recycling, and acquisition of international certification. Toshiba plans to further emphasize these activities. Specific goals include reinforcing programs overseas and accelerating the introduction of products with a minimal environmental impact.

TOPICS

■ ALL DOMESTIC BASES ISO 14001 CERTIFIED OVERSEAS CERTIFICATION NOW PROCEEDING

Toshiba is firmly resolved to earning ISO 14001 certification. The goal of certifying all 21 Japanese operating bases was fulfilled in September 1997. Now, work has started to gain certification at all overseas subsidiaries by March 1999 and all domestic group companies by September 1999. This process has already been completed in Europe. Group members in Asia and the Americas are currently moving toward certification.

■ RECYCLING PROMOTION GROUP ESTABLISHED

To provide a unified organization for all environmental activities, Toshiba formed the Corporate Environmental Protection Council in 1991. The conference sets goals and conducts periodic progress reviews. Oversight covers management systems, new technologies, production, sales and all other elements of operations. Each division and operating base in Japan has its own conference, which constantly seeks to improve environmental programs. In fiscal 1997, Toshiba established a Recycling Promotion Group. The aim is to prepare for the mandatory household appliance recycling standards that will become effective in Japan in 2001. Toshiba plans to have an efficient, low-cost used appliance collection system in place as well as methods for efficient dismantling and the reuse of waste materials.

■ EASY-LCA SYSTEM DEVELOPED

Toshiba's Environmental Engineering Laboratory has developed a system to measure the environmental impact of specific products. Called "Easy-LCA," this system calculates environmental impact based on the materials used and helps design products. Potential effects of a product on the atmosphere and water, energy consumption and many other variables are taken into account. Presently, the group is studying how to incorporate the analysis of harmful substances in products into the evaluation process.

At its Environmental Engineering Laboratory, Toshiba is refining its system for assessing the environmental impact of products from their design through the entire life cycle.

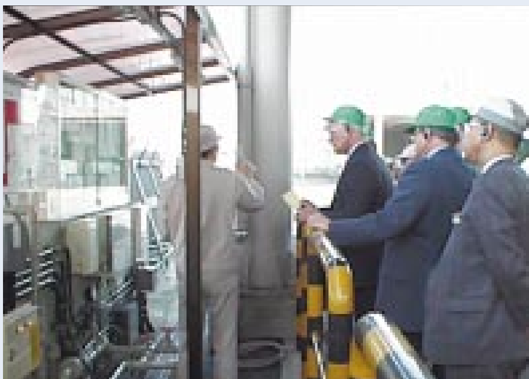
■ TOSHIBA LAUNCHES ENVIRONMENTAL BUSINESSES

Drawing on its extensive base of technology, Toshiba develops a variety of environmental systems. Fiscal 1997 saw completion of work on a system that transforms discarded plastics into fuel oil. This was made possible by overcoming a major obstacle: devising a practical method for removing chlorine, essential for recycling plastics with a high polyvinyl chloride (PVC) content. Toshiba succeeded in facilitating recycling for plastics containing up to 50 percent PVC.

In a major advance, Toshiba discovered a system that transforms used plastics containing up to 50 percent PVC into fuel oil.

Q. What actions is Toshiba taking to expand environmental programs overseas?

A. We divide operations outside Japan into four geographical areas: the Americas, Europe, Asia and China. Each area has an environmental conference to encourage the sharing of information and improve programs. The head office in Tokyo periodically checks on environmental activities to monitor progress and make improvements where needed. Thanks to this stance, Toshiba receives high marks around the world. In Europe, we have implemented the Eco-Management and Audit Scheme, a 1995 EU regulation, making us one of the first companies to do so. In the United States, the microelectronics center of Toshiba America Electronic Components, Inc. operates a model semi-conductor plant with regard to environmental standards. This accomplishment was recognized in April 1997 by an award from the city of Sunnyvale, California, where the plant is located. In Asia, Toshiba Display Devices (Thailand) Co., Ltd. has received an environ-mental award from the Thai Ministry of Industry for three consecutive years.



Awards for environmental achievements have gone to the microelectronics center of Toshiba America Electronic Components in California (above) and Toshiba Display Devices (Thailand) Co., Ltd. (right).

Q. Most manufacturers are focusing on the development of environmentally conscious products. What is Toshiba doing in this regard?

A. We have a voluntary plan that sets numerical targets for reducing the environmental impact of individual products. An exhaustive assessment system examines products from the start of their development to use fewer resources, promote recycling, cut power consumption and facilitate other improvements. This plan applies to consumer products as well as many other items, from information equipment to power systems. We have made much progress in refrigerators, which account for about 20 percent of a typical household's electricity needs. But larger models are becoming more popular; some weigh 90 kilograms. That means ease of dismantling is essential. Toshiba altered the layout of the compressor and fan motor to create a better air flow. This greatly reduced the amount of heat generated. New ideas like this have allowed us to cut refrig-erator power consumption by roughly 20 percent annually over the past several years. For example, a 34-kilowatt-hour model today is basically equivalent to a 1994 unit that consumed 73 kilowatt hours.

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Masayoshi Motoki
Kenjiro Hayashi
Kazuo Chiba
Osamu Mimura

(As of June 26, 1998)

FIVE-YEAR SUMMARY

Toshiba Corporation and its subsidiaries
Years ended March 31

	Millions of yen, except per share amounts				
	1998	1997	1996	1995	1994
Net sales	**¥5,458,498**	¥5,521,887	¥5,192,244	¥4,864,015	¥4,702,334
Cost of sales	**3,960,158**	3,932,585	3,647,624	3,435,146	3,371,517
Selling, general and administrative expenses	**1,416,046**	1,391,471	1,282,053	1,260,053	1,224,081
Income before income taxes and minority interest	**18,748**	125,456	177,749	120,674	90,190
Income taxes	**24,475**	71,593	102,965	67,607	75,506
Net income	**7,337**	67,077	90,388	44,693	12,140
Per share of common stock:					
Net income—					
Basic	**¥ 2.28**	¥20.84	¥28.08	¥13.89	¥ 3.78
Diluted	**2.28**	20.06	26.85	13.54	3.78
Cash dividends	**10.00**	10.00	10.00	10.00	10.00
Total assets	**¥6,062,141**	¥5,809,285	¥5,560,484	¥5,463,290	¥5,350,690
Shareholders' equity	**1,201,615**	1,264,775	1,202,265	1,118,808	1,117,725
Number of employees	**186,000**	186,000	186,000	190,000	175,000

Notes:
1. *The above net income per share data are computed based on Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share," which Toshiba adopted in the fiscal year ended March 31, 1998. All prior-period EPS data presented have been restated to conform with SFAS No. 128. Basic earnings per share is computed based on the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share assumes the dilution that would occur if dilutive convertible debentures were converted into common stock.*
2. *The company has not adopted Statement of Financial Accounting Standards (SFAS) No. 115 "Accounting for Certain Investments in Debt and Equity Securities" which became effective for the fiscal year beginning April 1, 1994. The effects on the consolidated financial statements of not adopting SFAS No. 115 and the disclosures required by SFAS No. 115 are summarized in a note to the consolidated financial statements.*
3. *Beginning with the fiscal year ended March 31, 1998, revenues and expenses from financial services, real estate leasing and sales, and other operations are reported as operating activities, whereas they were reported as non-operating activities in prior periods. Prior-period data for the fiscal years ended from March 31, 1994 through 1997 have been reclassified to conform with the current classification.*

RESULTS OF OPERATIONS (See segment information on page 29)

Net Sales

Consolidated net sales decreased 1 percent compared with the previous year, to ¥5,458.5 billion (US$41,352 million) in Toshiba's 1997 fiscal year, which ended on March 31, 1998. During the year, the yen weakened against a number of major currencies. The average U.S. dollar exchange rate for sales rose from ¥112 in fiscal 1996 to ¥122 in fiscal 1997. Overall, foreign exchange movements had the net effect of increasing net sales by ¥60.0 billion. Consolidated data include the results of 221 subsidiaries in Japan and 85 overseas subsidiaries.

By region, sales in Japan decreased 3 percent to ¥3,418.8 billion (US$25,900 million). Overseas sales increased 2 percent to ¥2,039.7 billion (US$15,452 million) and accounted for 37 percent of total sales, up from 36 percent in the prior fiscal year. Overseas production increased from ¥910.0 billion in fiscal 1996 to ¥940.0 billion (US$7,121 million) in fiscal 1997. This was 46 percent of overseas sales, the same as in the prior fiscal year.

Information & Communication Systems—Sales increased 2 percent from the previous year to ¥2,184.1 billion (US$16,546 million). Overseas sales decreased 1 percent to ¥947.7 billion (US$7,179 million), while domestic sales rose 4 percent to ¥1,236.4 billion (US$9,367 million). PC sales were down 7 percent to ¥690.0 billion (US$5,227 million). PC sales increased in Europe, but price erosion and intense competition in the United States impacted results. Sales of computer systems for corporate clients rose in the domestic market. CD-ROM and hard disk drives turned in strong performances overseas. In mobile telecommunications equipment, sales declined as soft domestic demand for personal handy-phones offset growth in overseas cellular phone markets. Medical systems sales benefited from strong growth in orders for MRIs and ultrasound diagnostic equipment.

Electronic Devices & Materials—Sales increased 5 percent compared with the previous year, to ¥1,341.8 billion (US$10,165 million). Overseas sales were up 6 percent to ¥656.9 billion (US$4,977 million) and domestic sales climbed 3 percent to ¥684.9 billion (US$5,188 million). Semiconductor sales decreased 2 percent to ¥870.0 billion (US$6,591 million). Higher sales of logic ICs and discrete devices were insufficient to offset a steep drop in sales prices of 16M DRAMs. Liquid crystal display sales were almost unchanged compared with the previous year, at ¥115.0 billion (US$871 million) as record sales in the first half of the year were offset by lower demand and sales prices in the second half. Overseas sales of color picture tubes for TVs and display tubes for computers were up by 14 percent. Rechargeable batteries also turned in a good performance.

Power & Industrial Systems—Sales decreased 4 percent compared with the previous year, to ¥1,119.6 billion (US$8,482 million). Overseas sales increased 18 percent to ¥132.2 billion (US$1,001 million), but declined 6 percent domestically to ¥987.4 billion (US$7,481 million). The decline was mostly the result of lower orders for nuclear and thermal power generation equipment in Japan as Japanese utilities held back on capital expenditures. Contracts for power generation equipment outside Japan rose, mainly in Asia.

Consumer Products—Sales declined 10 percent compared with the previous year, to ¥1,040.4 billion (US$7,882 million). Unseasonable summer weather in Japan brought about a drop in sales of air conditioners, a major element of this segment. Weak domestic demand, due in part to a consumption tax hike from 3 to 5 percent, along with a decline in prices led to lower sales of televisions, washing machines, refrigerators and other products. Toshiba achieved higher sales of some newly introduced home appliances offering enhanced performance and new functions, but domestic sales sank by 13 percent compared with the previous year, to ¥740.0 billion (US$5,606 million). Overseas sales decreased 2 percent to ¥300.4 billion (US$2,276 million), mostly because of weakness in China and Southeast Asia.

Services & Other—Sales advanced 13 percent compared with the previous year, to ¥420.0 billion (US$3,182 million). This growth was mainly due to a newly consolidated subsidiary, Toshiba Building & Lease Co., Ltd. Most sales represent transactions of domestic subsidiaries involved in financial services, real estate leasing and sales, and logistics. The main subsidiaries in this segment are Toshiba Credit Corporation, Toshiba Building & Lease Co., Ltd. and Toshiba Logistics Corporation.

Net Sales by Region

	Millions of yen		
Years ended March 31	**1998**	1997	1996
Japan	**¥3,418,807**	¥3,523,636	¥3,523,220
North America	**794,241**	852,214	671,219
Asia	**627,328**	595,209	543,668
Europe	**496,309**	439,346	364,203
Other	**121,813**	111,482	89,934
Net sales	**¥5,458,498**	¥5,521,887	¥5,192,244

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 in segment information on page 31, which are determined based upon where the sales originated.

Japan—Sales in Japan decreased 3 percent from the prior fiscal year. This was mostly the result of weakness in orders for power generation equipment and lower sales of air conditioners, televisions and other consumer products.

North America—Sales in North America decreased 7 percent from the prior fiscal year. This was caused primarily by a drop in PC sales, along with substantial memory price declines. Sales of CD-ROM and hard disk drives rose. Mobile telephone sales increased slightly.

Asia—Sales in this region increased 5 percent from the prior fiscal year. Sales of color picture tubes for TVs and display tubes for computers were up. Semiconductor subsidiaries also made a positive contribution. Sales of such consumer products as air conditioners were down considerably due to the currency crisis.

Europe—Sales in Europe increased 13 percent from the prior fiscal year, mainly because of growth in PC results. CD-ROM drives, hard disk drives and other PC peripherals, and medical systems also performed well. Lower memory prices were responsible for a small decline in semiconductor sales.

Net Income

Cost of sales increased 1 percent to ¥3,960.2 billion (US$30,001 million). Selling, general and administrative expenses were up 2 percent to ¥1,416.0 billion (US$10,728 million). Operating income was down 58 percent compared with the previous year, to ¥82.3 billion (US$623 million). Declines in prices of such important products as PCs, semiconductors and consumer products outpaced progress in raising manufacturing efficiencies and cutting costs. Depreciation and advertising expenses increased while R&D and personnel expenses were lower.

Information & communication systems operating income decreased 69 percent compared with the previous year, to ¥43.1 billion (US$326 million). This was mainly attributable to lower PC sales volumes and prices in the United States and PC inventory reductions. Electronic devices & materials operating income rose 116 percent compared with the previous year, to ¥40.5 billion (US$306 million) as the benefits of higher sales of discrete devices and logic ICs, along with cost cutting, were greater than the impact of the drop in memory sales prices. In addition, good results were seen overseas in cathode ray tubes and lithium-ion batteries. Power & industrial systems operating income was down 48 percent compared with the previous year, to ¥18.7 billion (US$141 million) because of a decline in sales of power plants and equipment to Japanese utilities. Consumer products had an operating loss of ¥45.3 billion (US$343 million), compared with a loss of ¥15.9 billion in the prior fiscal year. A poor performance by air conditioners, lower sales prices of refrigerators and washing machines, and a restructuring of the domestic consumer product marketing companies were all behind the rise in the operating loss. In Asia, the currency crisis brought down operating income in this segment. Services & other reported a 34 percent increase in operating income to ¥24.8 billion (US$188 million) because of a newly consolidated subsidiary.

Toshiba estimates that the net effect of foreign exchange movements during the fiscal year was a ¥38.0 billion increase in operating income. This is due to the following factors. Foreign exchange movements raised net sales by ¥60.0 billion and raised procurement expenses by ¥22.0 billion. Foreign exchange losses in non-operating expenses increased by ¥11.8 billion because of the fall in Asian currencies.

Net financial expenses rose from ¥31.6 billion in the previous year, to ¥32.5 billion (US$246 million) because of increases in interest payments by subsidiaries and other factors. By category, interest expenses rose by ¥2.6 billion to ¥54.0 billion (US$409 million), interest received increased by ¥1.3 billion to ¥12.6 billion (US$96 million), and dividends received increased by ¥0.4 billion to ¥8.9 billion (US$67 million). Declining interest rates in Japan limited the growth in expenses to some degree. Other income includes a substantial gain on the sale of shares of Time Warner Inc.

Income before income taxes and minority interest decreased 85 percent from the prior year to ¥18.7 billion (US$142 million). Income taxes were down to ¥24.5 billion (US$185 million). Income taxes includes a ¥8.7 billion (US$66 million) charge due to the revaluation of deferred tax assets and liabilities resulting from the reduction in Japan’s corporate income tax rate. Equity in income of affiliated companies was down to ¥11.7 billion (US$88 million), primarily because of lower earnings at a Brazilian consumer products manufacturing and sales affiliate. Net income was down 89 percent to ¥7.3 billion (US$56 million) and both basic and diluted earnings per share were ¥2.28 (US$0.02). Cash dividends applicable to the fiscal year were unchanged at ¥10.00 (US$0.08).

SEGMENT INFORMATION

The following segment information is based on Japanese accounting standards. Beginning with the fiscal year ended March 31, 1998, Toshiba has expanded its industry segment reporting to make the information more useful and respond to rising demands from financial statement users for more detailed segment information. The three segments reported in prior years—Information/Communication Systems and Electronic Devices, Heavy Electrical Apparatus, and Consumer Products and Others—have been reorganized into four segments: Information & Communication Systems, Electronic Devices & Materials, Power & Industrial Systems, and Consumer Products. A fifth segment called Services & Other has been added to encompass financial services, real estate leasing and sales, and other activities. Consolidated financial data for previous years have been reclassified to conform with the current classification and segments.

Industry Segments

Years ended March 31	Millions of yen 1998	1997	1996	Thousands of U.S. dollars 1998
Net sales:				
Information & Communication Systems				
Unaffiliated customers	**¥2,101,808**	¥2,069,269	¥1,563,395	**$15,922,788**
Intersegment	**82,270**	78,226	65,007	**623,257**
Total	**2,184,078**	2,147,495	1,628,402	**16,546,045**
Electronic Devices & Materials				
Unaffiliated customers	**1,157,267**	1,104,147	1,215,675	**8,767,174**
Intersegment	**184,527**	179,824	156,241	**1,397,932**
Total	**1,341,794**	1,283,971	1,371,916	**10,165,106**
Power & Industrial Systems				
Unaffiliated customers	**1,061,107**	1,108,761	1,178,612	**8,038,690**
Intersegment	**58,542**	52,559	44,608	**443,499**
Total	**1,119,649**	1,161,320	1,223,220	**8,482,189**
Consumer Products				
Unaffiliated customers	**1,015,494**	1,136,995	1,132,142	**7,693,136**
Intersegment	**24,889**	18,646	21,397	**188,553**
Total	**1,040,383**	1,155,641	1,153,539	**7,881,689**
Services & Other				
Unaffiliated customers	**122,822**	102,715	102,420	**930,470**
Intersegment	**297,208**	269,268	199,844	**2,251,575**
Total	**420,030**	371,983	302,264	**3,182,045**
Eliminations	**(647,436)**	(598,523)	(487,097)	**(4,904,816)**
Consolidated	**¥5,458,498**	¥5,521,887	¥5,192,244	**$41,352,258**
Operating income (loss):				
Information & Communication Systems	**¥ 43,058**	¥ 140,124	¥ 57,711	**$ 326,197**
Electronic Devices & Materials	**40,453**	18,708	168,823	**306,462**
Power & Industrial Systems	**18,671**	35,660	48,939	**141,447**
Consumer Products	**(45,251)**	(15,921)	(28,037)	**(342,811)**
Services & Other	**24,762**	18,542	15,608	**187,591**
Eliminations	**601**	718	(477)	**4,553**
Consolidated	**¥ 82,294**	¥ 197,831	¥ 262,567	**$ 623,439**
Identifiable assets:				
Information & Communication Systems	**¥1,445,964**	¥1,512,588	¥1,311,021	**$10,954,273**
Electronic Devices & Materials	**1,565,124**	1,483,063	1,344,379	**11,857,000**
Power & Industrial Systems	**1,136,984**	1,121,714	1,175,903	**8,613,515**
Consumer Products	**701,434**	751,636	684,153	**5,313,894**
Services & Other	**927,496**	667,084	662,389	**7,026,485**
Corporate and Eliminations	**285,139**	273,200	382,639	**2,160,144**
Consolidated	**¥6,062,141**	¥5,809,285	¥5,560,484	**$45,925,311**

Years ended March 31	Millions of yen 1998	1997	1996	Thousands of U.S. dollars 1998
Depreciation and amortization:				
Information & Communication Systems	¥ **43,297**	¥ 39,239	¥ 34,838	$ **328,008**
Electronic Devices & Materials	**162,833**	147,769	159,313	**1,233,583**
Power & Industrial Systems	**29,669**	27,197	28,523	**224,765**
Consumer Products	**30,586**	30,911	31,097	**231,712**
Services & Other	**27,427**	10,306	11,047	**207,780**
Corporate	–	–	–	–
Consolidated	¥ **293,812**	¥ 255,422	¥ 264,818	$ **2,225,848**
Capital expenditures:				
Information & Communication Systems	¥ **57,183**	¥ 54,045	¥ 37,226	$ **433,205**
Electronic Devices & Materials	**181,982**	198,613	201,928	**1,378,651**
Power & Industrial Systems	**38,360**	38,774	36,395	**290,606**
Consumer Products	**39,457**	45,034	27,450	**298,917**
Services & Other	**29,433**	8,033	9,100	**222,977**
Corporate	–	–	–	–
Consolidated	¥ **346,415**	¥ 344,499	¥ 312,099	$ **2,624,356**

Note: Segment information for the fiscal years ended March 31, 1996 and 1997 has been reclassified to conform with the current classification and segments.

Geographic Segments

Years ended March 31	Millions of yen 1998	1997	1996	Thousands of U.S. dollars 1998
Net sales:				
Japan				
Unaffiliated customers	¥ **3,847,070**	¥ 3,943,808	¥3,892,447	**$29,144,470**
Intersegment	**961,017**	956,550	831,937	**7,280,432**
Total	**4,808,087**	4,900,358	4,724,384	**36,424,902**
Overseas				
Unaffiliated customers	–	1,578,079	1,299,797	–
Intersegment	–	158,198	64,289	–
Total	–	1,736,277	1,364,086	–
North America				
Unaffiliated customers	**741,524**			**5,617,606**
Intersegment	**63,108**			**478,091**
Total	**804,632**			**6,095,697**
Asia				
Unaffiliated customers	**353,913**			**2,681,159**
Intersegment	**226,919**			**1,719,083**
Total	**580,832**			**4,400,242**
Europe & Other				
Unaffiliated customers	**515,991**			**3,909,023**
Intersegment	**21,495**			**162,841**
Total	**537,486**			**4,071,864**
Eliminations	**(1,272,539)**	(1,114,748)	(896,226)	**(9,640,447)**
Consolidated	¥ **5,458,498**	¥ 5,521,887	¥5,192,244	**$41,352,258**

Years ended March 31	Millions of yen			Thousands of U.S. dollars
	1998	1997	1996	1998
Operating income (loss):				
Japan	¥ 75,441	¥ 188,468	¥ 232,282	$ 571,523
Overseas	–	10,409	37,465	–
North America	(22,538)			(170,742)
Asia	16,606			125,803
Europe & Other	7,323			55,477
Eliminations	5,462	(1,046)	(7,180)	41,378
Consolidated	¥ 82,294	¥ 197,831	¥ 262,567	$ 623,439
Identifiable assets:				
Japan	¥ 4,934,728	¥ 4,604,366	¥4,465,996	$37,384,303
Overseas	–	940,133	697,018	–
North America	344,515			2,609,962
Asia	288,972			2,189,182
Europe & Other	268,624			2,035,030
Corporate and Eliminations	225,302	264,786	397,470	1,706,834
Consolidated	¥ 6,062,141	¥ 5,809,285	¥5,560,484	$45,925,311

Notes: 1. Segment information for the fiscal years ended March 31, 1996 and 1997 has been reclassified to conform with the current classification and segments.
2. As Japanese accounting standards do not require retroactive application of newly adopted standards, certain columns in the above tables are left blank for periods which precede the adoption of new disclosure requirements.

RESEARCH AND DEVELOPMENT

Consolidated R&D expenditures decreased 3 percent to ¥322.9 billion (US$2,446 million). This was 5.9 percent of net sales, compared with 6.0 percent one year earlier. A significant amount of R&D expenditure was applied to multimedia-related activities, including next-generation networking technology, portable PCs and DVD, achieving finer design rules in semiconductor production, polysilicon-type LCDs, combined-cycle power generation, nuclear power plants, lithium-ion rechargeable batteries, fuel cells and environmental systems. Toshiba estimates that fiscal 1998 R&D expenditures will decrease to approximately ¥310.0 billion (US$2,348 million).

CAPITAL EXPENDITURES

Capital expenditures, which include investments in property, plant and equipment of ¥339.6 billion (US$2,573 million), were ¥346.4 billion (US$2,624 million), an increase of 0.6 percent from the prior year. Electronic devices & materials accounted for 53 percent of capital expenditures. Significant elements of these expenditures were 64M DRAM production facilities and clean room equipment at the Yokkaichi Works; memory-embedded and other logic LSI production facilities at the Oita Works; and a production line for next-generation polysilicon LCDs. Capital expenditures in information & communication systems totaled ¥57.2 billion (US$433 million). Capital expenditures in power & industrial systems totaled ¥38.4 billion (US$291 million). In consumer products, capital expenditures were ¥39.5 billion (US$299 million). In fiscal 1998, current plans call for capital expenditures of approximately ¥400.0 billion (US$3,030 million).

FINANCIAL POSITION

As of March 31, 1998, total assets were ¥6,062.1 billion (US$45,925 million), an increase of ¥252.9 billion from the prior year. Current assets declined by ¥30.7 billion. Cash and cash equivalents rose by ¥35.5 billion, but inventories were down by ¥66.4 billion due to power plant completions and reductions in inventories of air conditioners and PCs. Growth in total finance receivables was attributable to a newly consolidated subsidiary, Toshiba Building & Lease Co., Ltd. Production and research facilities for semiconductors were responsible for most of the ¥78.9 billion increase in property, plant and equipment, net of depreciation. Other assets increased ¥116.2 billion because of an increase in intangible fixed assets resulting from recognition of a minimum pension liability adjustment. Total debt increased by ¥306.8 billion to ¥2,260.8 billion (US$17,127 million), mainly due to the increase in parent-company debt resulting from the issuance of bonds. Liability for severance indemnities increased by ¥123.6 billion because projected benefit obligations rose due to a decline in the applicable discount rate. Lower retained earnings and the recognition of a minimum pension liability adjustment caused shareholders' equity to decrease by ¥63.2 billion compared with the previous year, to ¥1,201.6 billion (US$9,103 million).

CASH FLOWS

Net cash provided by operating activities was ¥272.8 billion (US$2,066 million), compared with ¥143.5 billion in the prior year. This was mainly attributable to a decrease in notes and accounts receivable, trade of ¥59.4 billion (US$450 million) and an increase in depreciation and amortization to ¥293.8 billion (US$2,226 million), primarily for semiconductor-related facilities.

Net cash used in investing activities rose to ¥300.2 billion (US$2,274 million). Proceeds from sale of property and securities increased to ¥79.4 billion (US$602 million), mainly due to the sale of shares of Time Warner Inc. and other marketable securities. Acquisition of property and equipment increased as the company made investments in semiconductors and other strategic products.

Net cash provided by financing activities rose to ¥65.6 billion (US$497 million). Progress continued in reducing short-term borrowings, while long-term debt rose, mainly the result of straight bond issues in Japan.

The result of the above activities was a net increase of ¥35.5 billion in cash and cash equivalents to ¥615.9 billion (US$4,666 million).

PRINCIPAL SUBSIDIARIES AND AFFILIATED COMPANY

As of March 31, 1998	*Percentage held by Group*
Consolidated Subsidiaries:	
Kitsuki Toshiba Electronics Corporation	100
Kyodo Building Corporation	100
Shibaura Engineering Works Co., Ltd.	58
Toshiba Battery Co., Ltd.	100
Toshiba Building & Lease Co., Ltd.	100
Toshiba Chubu Lifestyle-Electronics Corporation	100
Toshiba Credit Corporation	100
Toshiba Device Corporation	100
Toshiba Elevator Technos Co., Ltd.	100
Toshiba Engineering Corporation	100
Toshiba Home Technology Corporation	100
Toshiba Information Systems (Japan) Corporation	88
Toshiba Insurance Service Corporation	100
Toshiba Kansai Lifestyle-Electronics Corporation	100
Toshiba Kyushu Lifestyle-Electronics Corporation	100
Toshiba Logistics Corporation	100
Toshiba Microelectronics Corporation	100
Toshiba Plant Kensetsu Co., Ltd.	52
Toshiba Shutoken Lifestyle-Electronics Corporation	99
Toshiba TLC Inc.	100
Guangdong Toshiba Macro Compressor Ltd.	60
Toshiba (Australia) Pty., Ltd.	100
Toshiba America Consumer Products, Inc.	100
Toshiba America Electronic Components, Inc.	100
Toshiba America Information Systems, Inc.	100
Toshiba America MRI Inc.	100
Toshiba America, Inc.	100
Toshiba Consumer Products (Thailand) Co., Ltd.	89
Toshiba Display Devices Inc.	100
Toshiba Electronics Asia (Singapore) Pte. Ltd.	100
Toshiba Electronics Asia, Ltd.	100
Toshiba Electronics Malaysia Sdn. Bhd.	100
Toshiba Europe GmbH	100
Toshiba Information Systems (UK) Ltd.	100
Toshiba Medical Systems Europe B.V.	100
Toshiba Systèmes (France) S.A.	100
Affiliated Company:	
TEC Corporation	47

Consolidated Balance Sheets

Toshiba Corporation and its subsidiaries
As of March 31, 1998 and 1997

ASSETS	Millions of yen 1998	Millions of yen 1997	Thousands of U.S. dollars (Note 3) 1998
Current assets:			
Cash and cash equivalents	¥ 615,935	¥ 580,420	$ 4,666,174
Marketable securities (Note 4)	120,748	126,770	914,758
Notes and accounts receivable, trade—			
Notes	224,130	240,557	1,697,955
Accounts	1,033,368	1,073,259	7,828,545
Allowance for doubtful notes and accounts	(38,603)	(41,578)	(292,447)
Finance receivables, net (Note 5 and 8)	250,535	195,306	1,897,992
Inventories (Note 6)	1,001,801	1,068,154	7,589,402
Prepaid expenses and other current assets (Note 13)	224,044	219,762	1,697,303
Total current assets	3,431,958	3,462,650	25,999,682
Long-term receivables and investments:			
Long-term receivables	45,916	32,170	347,848
Long-term finance receivables, net (Note 5 and 8)	318,368	242,080	2,411,879
Investments in and advances to affiliated companies (Note 7)	203,590	186,461	1,542,349
Other investments (Note 4)	136,992	155,682	1,037,818
	704,866	616,393	5,339,894
Property, plant and equipment (Note 8):			
Land	154,514	159,642	1,170,561
Buildings	1,034,029	998,064	7,833,553
Machinery and equipment	2,934,697	2,592,019	22,232,553
Construction in progress	106,995	130,221	810,568
	4,230,235	3,879,946	32,047,235
Less – Accumulated depreciation	(2,726,039)	(2,454,647)	(20,651,811)
	1,504,196	1,425,299	11,395,424
Other assets (Note 9 and 13)	421,121	304,943	3,190,311
	¥ 6,062,141	¥ 5,809,285	$ 45,925,311

The accompanying notes are an integral part of this statement.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 1998	Millions of yen 1997	Thousands of U.S. dollars (Note 3) 1998
Current liabilities:			
Short-term borrowings (Note 8)	¥ 880,855	¥1,030,128	$ 6,673,144
Current portion of long-term debt (Note 8)	367,552	205,633	2,784,485
Notes payable, trade	215,144	299,983	1,629,879
Accounts payable, trade	766,318	729,994	5,805,439
Notes and accounts payable for construction	83,237	107,979	630,583
Accrued income and other taxes	48,658	60,264	368,621
Advance payments received	253,541	305,131	1,920,765
Employees' savings deposits	102,051	110,379	773,114
Accrued expenses and other current liabilities	523,173	485,466	3,963,432
Total current liabilities	3,240,529	3,334,957	24,549,462
Long-term liabilities:			
Long-term debt (Note 8)	1,012,350	718,220	7,669,318
Liability for severance indemnities (Note 9)	545,293	421,663	4,131,008
	1,557,643	1,139,883	11,800,326
Minority interest in consolidated subsidiaries	62,354	69,670	472,379
Shareholders' equity (Note 14):			
Common stock, ¥50 par value –			
Authorized – 10,000,000,000 shares			
Issued and outstanding:			
1998 – 3,218,999,545 shares	274,916	–	2,082,697
1997 – 3,218,999,545 shares	–	274,916	–
Additional paid-in capital	285,727	285,727	2,164,599
Legal reserve	76,419	72,783	578,932
Retained earnings appropriated for cash dividends	16,094	16,094	121,924
Retained earnings (Note 8)	620,756	649,243	4,702,697
Cumulative translation adjustment	(41,488)	(33,988)	(314,303)
Minimum pension liability adjustment (Note 9)	(30,809)	–	(233,402)
	1,201,615	1,264,775	9,103,144
Commitments and contingent liabilities (Note 17)			
	¥6,062,141	¥5,809,285	$45,925,311

Consolidated Statements of Operations and Retained Earnings

Toshiba Corporation and its subsidiaries
For the years ended March 31, 1998 and 1997

	Millions of yen		Thousands of U.S. dollars (Note 3)
	1998	1997	1998
Sales and other income:			
Net sales	¥5,458,498	¥5,521,887	$41,352,258
Other income	80,406	65,335	609,136
	5,538,904	5,587,222	41,961,394
Costs and expenses:			
Cost of sales (Note 10)	3,960,158	3,932,585	30,001,197
Selling, general and administrative (Note 10 and 11)	1,416,046	1,391,471	10,727,621
Interest	54,022	51,449	409,258
Other (Note 12)	89,930	86,261	681,288
	5,520,156	5,461,766	41,819,364
Income before income taxes and minority interest	18,748	125,456	142,030
Income taxes (Note 13):			
Current	27,315	71,253	206,932
Deferred	(2,840)	340	(21,515)
	24,475	71,593	185,417
(Loss) income before minority interest	(5,727)	53,863	(43,387)
Minority interest in (loss) income of consolidated subsidiaries	(1,387)	1,310	(10,508)
(Loss) income from consolidated companies	(4,340)	52,553	(32,879)
Equity in income of affiliated companies	11,677	14,524	88,462
Net income	7,337	67,077	55,583
Retained earnings:			
Balance at beginning of year	649,243	618,089	4,918,508
Cash dividends	(32,188)	(32,188)	(243,849)
Transfer to legal reserve	(3,636)	(3,735)	(27,545)
Balance at end of year	¥ 620,756	¥ 649,243	$ 4,702,697

	Exact yen		U.S. dollars (Note 3)
Per share of common stock (Note 15):			
Net income—			
Basic	¥ 2.28	¥20.84	$0.017
Diluted	¥ 2.28	¥20.06	$0.017
Cash dividends	¥10.00	¥10.00	$0.076

The accompanying notes are an integral part of this statement.

Consolidated Statements of Cash Flows

Toshiba Corporation and its subsidiaries
For the years ended March 31, 1998 and 1997

	Millions of yen		Thousands of U.S. dollars (Note 3)
	1998	1997	1998
Cash flows from operating activities:			
Net income	¥ 7,337	¥ 67,077	$ 55,583
Adjustments to reconcile net income to net cash provided by operating activities –			
Depreciation and amortization	293,812	255,422	2,225,848
Provision for severance indemnities, less payments	3,445	3,459	26,099
Deferred income taxes	(2,840)	340	(21,515)
Equity in income of affiliated companies	(11,677)	(14,524)	(88,462)
(Gain) loss on sale and disposal of property and securities, net	(18,100)	6,603	(137,121)
Minority interest in (loss) income of consolidated subsidiaries	(1,387)	1,310	(10,508)
Decrease (increase) in notes and accounts receivable, trade	59,367	(50,052)	449,750
Decrease (increase) in finance receivables, net	30,597	(10,210)	231,795
Decrease in inventories	64,736	38,362	490,424
Increase in other current assets	(6,112)	(10,547)	(46,303)
Increase in long-term receivables	(13,817)	(18,979)	(104,674)
(Increase) decrease in long-term finance receivables, net	(20,163)	2,620	(152,750)
Decrease in notes and accounts payable, trade	(67,499)	(30,229)	(511,356)
Decrease in accrued income and other taxes	(12,622)	(50,248)	(95,621)
Decrease in advance payments received	(53,179)	(49,179)	(402,871)
Increase in other current liabilities	20,872	2,267	158,121
Net cash provided by operating activities	272,770	143,492	2,066,439
Cash flows from investing activities:			
Proceeds from sale of property and securities	79,424	42,241	601,697
Acquisition of property and equipment	(365,757)	(313,081)	(2,770,886)
Purchase of marketable securities	(15,378)	(13,934)	(116,500)
Decrease (increase) in investments in affiliated companies	4,309	(22,588)	32,644
Decrease in other investments	16,615	33,237	125,871
Increase in other assets and other	(19,419)	(7,647)	(147,114)
Net cash used in investing activities	(300,206)	(281,772)	(2,274,288)
Cash flows from financing activities:			
Proceeds from long-term debt	530,023	225,773	4,015,326
Repayment of long-term debt	(265,564)	(383,048)	(2,011,848)
Dividends paid	(32,188)	(32,188)	(243,849)
(Decrease) increase in short-term borrowings	(166,692)	216,767	(1,262,818)
Net cash provided by financing activities	65,579	27,304	496,811
Effect of exchange rate changes on cash and cash equivalents	(2,628)	11,988	(19,909)
Net increase (decrease) in cash and cash equivalents	35,515	(98,988)	269,053
Cash and cash equivalents at beginning of year	580,420	679,408	4,397,121
Cash and cash equivalents at end of year	¥ 615,935	¥ 580,420	$ 4,666,174
Supplemental disclosure of cash flow information:			
Cash paid during the year for –			
Interest	¥ 71,285	¥ 63,597	$ 540,038
Income taxes	¥ 65,230	¥ 121,930	$ 494,167

The accompanying notes are an integral part of this statement.

1. COMPANY OPERATIONS:

Toshiba Corporation and its subsidiaries are engaged in research and development, manufacture and sales of electronic and energy high-technology products, which span (1) information & communication systems, (2) electronic devices & materials, (3) power & industrial systems, (4) consumer products, and (5) services & other. For the year ended March 31, 1998, sales in information & communication systems represented the most significant portion at over one-third of the company's total sales, while sales in electronic devices & materials, power & industrial systems, and consumer products were approximately equal in amount. Sales in services & other were considerably small compared to those derived from other business activities. The products are manufactured and marketed throughout the world with approximately 60 percent of sales in Japan and the remainder in North America, Asia, Europe and elsewhere.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Preparation of financial statements –

The company and its domestic subsidiaries maintain their records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, and its foreign subsidiaries in conformity with those of the countries of their domicile.

Certain adjustments and reclassifications, including those relating to the tax effects of temporary differences and the accrual of certain expenses, have been incorporated in the accompanying consolidated financial statements to conform with accounting principles generally accepted in the United States of America. These adjustments were not recorded in the statutory books.

Basis of consolidation and investments in affiliated companies –

The consolidated financial statements include the accounts of the company and those of its subsidiaries. All significant intercompany transactions and accounts are eliminated in consolidation.

Investments in affiliated companies (20 to 50 percent-owned companies) in which the ability to exercise significant influence exists are stated at cost plus equity in undistributed earnings (losses). Net consolidated income includes the company's equity in the current net earnings (losses) of such companies, after elimination of unrealized intercompany profits.

Goodwill recognized at the time of investments in subsidiaries and affiliated companies is amortized on a straight-line basis over the estimated period of benefit.

Use of estimates –

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 those estimates.

Consolidated statement of cash flows –

For purposes of the statement of cash flows, the company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

Foreign currency translation –

The assets and liabilities of foreign subsidiaries that operate in a local currency environment are translated into Japanese yen at applicable current exchange rates at year end. Income and expense items are translated at average exchange rates prevailing during the year. The effects of these translation adjustments are reported in the cumulative translation adjustment component of shareholders' equity. Exchange gains and losses resulting from foreign currency transactions and translation of assets and liabilities denominated in foreign currencies are included in the consolidated statements of operations.

Revenue recognition –

Sales of finished products, other than under long-term contracts, are recorded in the accounts as shipments are made, except for sales of certain products which are recorded in the accounts upon customer acceptance.

Sales under long-term contracts are generally recorded in the accounts upon acceptance of equipment and related installation work for each contract stage.

Marketable securities and other investments –

Marketable equity securities included in marketable securities (current) and other investments (non-current) are stated at the lower of cost or market in the aggregate. Other marketable securities included in marketable securities (current) are stated at the lower of cost or market in the aggregate and investments other than marketable equity securities in other investments (non-current) are stated at cost less any significant decline in fair value assessed to be other than temporary.

Realized gains and losses on the sale of securities are based on the average cost of all the units of a particular security held at the time of sale.

Inventories –

Raw materials and finished products are stated at the lower of cost or market, cost being determined principally by the average and first-in, first-out methods, respectively.

Work in process is stated at the lower of cost or estimated realizable value, cost being determined by accumulated production costs for contract items and at production costs determined by the first-in, first-out method for regular production items.

In accordance with general industry practice, items with long manufacturing periods are included among inventories even when not realizable within one year.

Property, plant and equipment and depreciation –

Property, plant and equipment, including significant renewals and additions, are carried at cost. When retired or otherwise disposed of, the cost and related depreciation are cleared from the respective accounts and the net difference, less any amount realized on disposal, is included in earnings. Maintenance and repairs, including minor renewals and betterments, are charged to income as incurred.

Depreciation is computed generally by a declining-balance method at rates based on the estimated useful lives of the related assets, according to general class, type of construction and use.

Income taxes –

Deferred income taxes are recorded to reflect the expected future tax consequences of temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, and are measured by applying currently enacted tax laws.

Liability for severance indemnities –

The company and its subsidiaries have various retirement benefit plans covering substantially all employees. Current service costs of the retirement benefit plans are accrued in the period. Prior service costs resulting from amendments to the plans are amortized over the average remaining service period of employees expected to receive benefits (See Note 9).

Net income per share –

The company adopted Statement of Financial Accounting Standards (SFAS) No. 128, “Earnings per Share” (EPS) in the year ended March 31, 1998. This standard prescribes the method for calculating basic and diluted EPS, and also requires dual presentation of these two EPS amounts on the face of the income statement and requires a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation (See Note 15). Basic EPS is computed based on the weighted-average number of shares of common stock outstanding during each period. Diluted EPS assumes the dilution that would occur if dilutive convertible debentures were converted into common stock. All prior-period EPS data presented have been restated to conform with SFAS No. 128.

Financial instruments –

The company uses a variety of derivative financial instruments, which include forward exchange contracts, interest rate swap agreements and currency swap agreements, for the purpose of currency exchange rate and interest rate risk management. Refer to Note 16 for descriptions of these financial instruments, including the methods used to account for them.

New accounting standards –

In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No.130, “Reporting Comprehensive Income” and No. 131, “Disclosures about Segments of an Enterprise and Related Information”. In February 1998, the FASB issued SFAS No. 132, “Employers’ Disclosures about Pensions and Other Postretirement Benefits”.

SFAS No. 130 requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. In the case of the company, this statement is effective for the fiscal year beginning April 1, 1998.

SFAS No. 131 changes the way that public business enterprises report certain information about operating segments, the geographic areas in which they operate, and their major customers. SFAS No. 131 supercedes SFAS No. 14. In the case of the company, this statement is effective for the fiscal year beginning April 1, 1998. The segment information required to be disclosed in financial statements under the provision of SFAS No. 14 is not currently presented in the accompanying consolidated financial statements.

SFAS No. 132 standardizes the disclosure requirements for pensions and other postretirement benefits. In the case of the company, SFAS No. 132 is effective for the fiscal year beginning April 1, 1998.

Since these FASB statements are primarily disclosure oriented, the company does not believe that the new standards will have a material effect on the consolidated financial position or operating results of the company.

In March 1998, the American Institute of Certified Public Accountants issued Statement of Position (SOP) 98-1, “Accounting for the Costs of Computer Software Developed or Obtained for Internal Use”. This SOP provides guidance on accounting for the costs of computer software developed or obtained solely to meet the company’s internal needs and, in the case of the company, is effective for the fiscal year beginning April 1, 1999. At this stage, the impact of adoption of this SOP on the company’s financial position or results of operations is not estimable.

Reclassifications –

Certain reclassifications of previously reported amounts have been made to conform with current classifications.

3. U.S. DOLLAR AMOUNTS:

U.S. dollar amounts are included solely for convenience. These translations should not be construed as representations that the yen amounts actually represent, or have been or could be converted into, U.S. dollars. The amounts shown in U.S. dollars are not intended to be computed in accordance with generally accepted accounting principles for the translation of foreign currency amounts. The rate of ¥132=US$1, the approximate current rate of exchange at March 31, 1998, has been used throughout for the purpose of presentation of the U.S. dollar amounts in the accompanying consolidated financial statements.

4. MARKETABLE SECURITIES AND OTHER INVESTMENTS:

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards (SFAS) No. 115, “Accounting for Certain Investments in Debt and Equity Securities”, addressing the accounting and reporting for certain investments in debt and equity securities classified as held-to-maturity, trading, or available-for-sale securities. Under SFAS No. 115, the debt and equity securities owned by the company should be classified as available-for-sale securities and should be reported at fair value with unrealized gains and losses, net of related taxes, excluded from earnings and reported in a separate component of shareholders’ equity until realized. However, the company has not adopted this standard which became effective for the fiscal year beginning April 1, 1994.

The effects on balance sheet items of the company’s departure from the provisions of SFAS No. 115 as of March 31, 1998 and 1997 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
March 31	**1998**	1997	**1998**
Shareholders’ equity as reported	**¥1,201,615**	¥1,264,775	**$9,103,144**
Net increase in the carrying amount of:			
Marketable securities	**129,250**	195,117	**979,167**
Other investments	**64,202**	41,697	**486,379**
Net decrease in deferred tax assets:			
Prepaid expenses and other current assets	**(61,710)**	(100,197)	**(467,500)**
Other assets	**(30,614)**	(21,375)	**(231,924)**
Net decrease in minority interest	**149**	132	**1,128**
Net increase in investments in affiliated companies	**3,054**	8,678	**23,136**
Net unrealized gain on available-for-sale securities	**104,331**	124,052	**790,386**
Shareholders’ equity in accordance with accounting principles generally accepted in the United States of America	**¥1,305,946**	¥1,388,827	**$9,893,530**

The net unrealized gain on available-for-sale securities decreased by ¥19,721 million ($149,402 thousand) and ¥58,265 million during the years ended March 31, 1998 and 1997, respectively.

The aggregate carrying amount, gross unrealized holding gains and losses, and aggregate fair value for marketable equity securities and debt securities classified as available-for-sale securities by security type at March 31, 1998 and 1997 are as follows:

(Millions of yen)

	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
March 31, 1998:				
Equity securities	**¥172,097**	**¥205,561**	**¥13,110**	**¥364,548**
Debt securities	**15,326**	**1,073**	**72**	**16,327**
	¥187,423	**¥206,634**	**¥13,182**	**¥380,875**
March 31, 1997:				
Equity securities	¥192,281	¥245,321	¥ 9,992	¥427,610
Debt securities	20,315	1,513	28	21,800
	¥212,596	¥246,834	¥10,020	¥449,410

(Thousands of U.S. dollars)

	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
March 31, 1998:				
Equity securities	**$1,303,765**	**$1,557,280**	**$99,318**	**$2,761,727**
Debt securities	**116,106**	**8,129**	**545**	**123,690**
	$1,419,871	**$1,565,409**	**$99,863**	**$2,885,417**

At March 31, 1998, debt securities mainly consist of bank and corporate debt securities.

Contractual maturities of debt securities classified as available-for-sale were as follows at March 31, 1998:

	Millions of yen		Thousands of U.S. dollars	
	Carrying amount	Fair value	Carrying amount	Fair value
Due within one year	**¥10,824**	**¥11,833**	**$ 82,000**	**$ 89,644**
Due after one year	**4,502**	**4,494**	**34,106**	**34,046**
	¥15,326	**¥16,327**	**$116,106**	**$123,690**

The proceeds from sales of available-for-sale securities for the years ended March 31, 1998 and 1997 were ¥71,139 million ($538,932 thousand) and ¥37,966 million, respectively. The gross realized gains on those sales for the years ended March 31, 1998 and 1997 were ¥28,099 million ($212,871 thousand) and ¥6,452 million, respectively. The gross realized losses on those sales for the years ended March 31, 1998 and 1997 were ¥351 million ($2,659 thousand) and ¥64 million, respectively.

5. FINANCE RECEIVABLES:

Finance receivables comprise the following:

March 31	Millions of yen 1998	Millions of yen 1997	Thousands of U.S. dollars 1998
Investment in financing leases:			
Total minimum lease payments receivable	**¥ 356,070**	¥ 250,304	**$ 2,697,500**
Estimated executory costs	**(15,609)**	(12,211)	**(118,250)**
Unearned income	**(20,287)**	(16,613)	**(153,690)**
Estimated residual values	**7,064**	–	**53,515**
	327,238	221,480	**2,479,075**
Less – Allowance for doubtful accounts	**(1,758)**	(1,299)	**(13,318)**
	325,480	220,181	**2,465,757**
Less – Current portion	**(114,632)**	(74,268)	**(868,424)**
	¥ 210,848	¥ 145,913	**$ 1,597,333**
Other finance receivables	**¥ 263,760**	¥ 219,810	**$ 1,998,182**
Less – Allowance for doubtful accounts	**(20,337)**	(2,605)	**(154,068)**
	243,423	217,205	**1,844,114**
Less – Current portion	**(135,903)**	(121,038)	**(1,029,568)**
	¥ 107,520	¥ 96,167	**$ 814,546**

Investment in financing leases consists of sales-type and direct financing leases mainly of information systems, medical equipment, agricultural and industrial equipment and others.

Other finance receivables represent transactions in a variety of forms, including commercial loans, and installment sales of consumer products manufactured by the company.

At March 31, 1998, the contractual maturities of minimum lease payments of the investment in financing leases and the other finance receivables are as follows:

Year ending March 31	Investment in financing leases: Millions of yen	Investment in financing leases: Thousands of U.S. dollars	Other finance receivables: Millions of yen	Other finance receivables: Thousands of U.S. dollars
1999	¥122,314	$ 926,621	¥138,252	$1,047,364
2000	88,941	673,796	40,132	304,030
2001	66,520	503,939	25,781	195,311
2002	45,494	344,652	14,042	106,379
2003	23,924	181,242	19,884	150,636
Thereafter	8,877	67,250	25,669	194,462
	¥356,070	$2,697,500	¥263,760	$1,998,182

Allowance for doubtful accounts is provided upon past loss experience and the estimation of mortgaged asset values.

6. INVENTORIES:

Inventories comprise the following:

March 31	Millions of yen 1998	Millions of yen 1997	Thousands of U.S. dollars 1998
Finished products	¥ 368,652	¥ 376,661	$2,792,818
Work in process:			
Long-term contracts	294,275	345,662	2,229,356
Other	215,185	224,030	1,630,190
Raw materials	123,689	121,801	937,038
	¥1,001,801	¥1,068,154	$7,589,402

7. INVESTMENTS IN AFFILIATED COMPANIES:

Of the affiliated companies which are accounted for by the equity method, the investment in common stock of the listed companies is carried at ¥131,302 million ($994,712 thousand) and ¥122,441 million at March 31, 1998 (eight companies) and 1997 (eight companies), respectively. The company's investments in these companies had a market value of ¥156,879 million ($1,188,477 thousand) and ¥200,919 million at March 31, 1998 and 1997, respectively, based on quoted market prices at those dates.

Summarized financial information of the affiliated companies accounted for by the equity method is shown below:

March 31	Millions of yen 1998	Millions of yen 1997	Thousands of U.S. dollars 1998
Current assets	¥ 680,088	¥ 730,593	$5,152,182
Other assets including property, plant and equipment	570,330	679,277	4,320,682
Total assets	¥1,250,418	¥1,409,870	$9,472,864
Current liabilities	¥ 492,169	¥ 570,523	$3,728,553
Long-term liabilities	273,881	382,499	2,074,856
Shareholders' equity	484,368	456,848	3,669,455
Total liabilities and shareholders' equity	¥1,250,418	¥1,409,870	$9,472,864

Years ended March 31	Millions of yen 1998	Millions of yen 1997	Thousands of U.S. dollars 1998
Sales	¥1,059,466	¥1,120,148	$8,026,258
Net income	¥ 23,831	¥ 44,101	$ 180,538

A summary of transactions and balances with the affiliated companies accounted for by the equity method is presented below:

Years ended March 31	Millions of yen 1998	Millions of yen 1997	Thousands of U.S. dollars 1998
Sales	¥ 19,287	¥ 43,785	$ 146,114
Purchases	¥205,428	¥193,703	$1,556,273

March 31	Millions of yen 1998	Millions of yen 1997	Thousands of U.S. dollars 1998
Notes and accounts receivable, trade	¥ 4,455	¥11,449	$ 33,750
Other receivables	¥ 1,809	¥ 1,495	$ 13,705
Notes and accounts payable	¥58,606	¥58,174	$443,985

8. SHORT-TERM BORROWINGS AND LONG-TERM DEBT:

Short-term borrowings primarily consist of overdrafts and short-term notes in Euro yen, of which ¥5,125 million ($38,826 thousand) and ¥3,866 million at March 31, 1998 and 1997, respectively, are secured by a pledge of certain fixed assets and finance receivables; the remaining balance of such short-term borrowings is unsecured. Substantially all of the short-term borrowings are with banks which have written basic agreements with the company to the effect that, with respect to all present or future loans with such banks, the company shall provide collateral (including sums on deposit with such banks) or guarantors immediately upon the bank's request and that any collateral furnished pursuant to such agreements or otherwise will be applicable to all indebtedness to such banks.

The average interest rate for short-term borrowings outstanding at March 31, 1998 and 1997 was approximately 2.3 percent and 1.8 percent, respectively.

Long-term debt at March 31, 1998 and 1997 included:

	Millions of yen		Thousands of U.S. dollars
March 31	**1998**	1997	**1998**
Loans, principally from banks and insurance companies, due 1998 to 2028 with interest ranging from 0.57 percent to 15.37 percent at March 31, 1998 and due 1997 to 2027 with interest ranging from 0.65 percent to 15.37 percent at March 31, 1997:			
Secured	**¥ 62,372**	¥ 71,486	**$ 472,515**
Unsecured	**643,640**	443,084	**4,876,061**
Unsecured yen bonds, due 1999 to 2008 with interest ranging from 1.25 percent to 3.025 percent at March 31, 1998 and due 1998 to 2006 with interest ranging from 1.25 percent to 3.4 percent at March 31, 1997	**390,000**	190,000	**2,954,545**
Zero percent to 2.0 percent Euro yen medium-term notes due 2001 to 2008 (swapped for LIBOR related or fixed rate yen obligations)	**30,500**	–	**231,061**
6.75 percent Euro U.S. dollar medium-term notes due 2008 (swapped for LIBOR related or fixed rate yen obligations)	**630**	–	**4,773**
JGB futures-linked series A and B floating rate unsecured Euro yen bonds of a subsidiary due 1998 (swapped for LIBOR related U.S. dollar obligations)	**–**	8,886	**–**
3.1 percent and 2.8 percent unsecured yen bonds of subsidiaries due 2000	**10,000**	10,000	**75,757**
Unsecured convertible debentures:			
1.4 percent yen debentures due 1999 convertible currently at ¥1,307 per share	**149,004**	149,004	**1,128,818**
1.8 percent yen debentures due 2002 convertible currently at ¥724 per share	**17,747**	17,747	**134,447**
0.20 percent to 15.00 percent at March 31, 1998 and 0.62 percent to 6.85 percent at March 31, 1997 yen or U.S. dollar medium-term notes of subsidiaries due 1998 to 2007 at March 31, 1998 and due 1997 to 2004 at March 31, 1997 (swapped for LIBOR related U.S. dollar obligations)	**76,009**	33,646	**575,826**
	1,379,902	923,853	**10,453,803**
Less – Portion due within one year	**(367,552)**	(205,633)	**(2,784,485)**
	¥1,012,350	¥ 718,220	**$7,669,318**

Certain of the secured loan agreements contain provisions which permit the lenders to require additional collateral. Substantially all of the unsecured loan agreements permit the lenders to require collateral or guarantors for such loans. Certain of the secured and unsecured loan agreements require prior approval by the banks and trustees before any distributions (including cash dividends) may be made from current or retained earnings.

Assets pledged as collateral for short-term borrowings and long-term debt at March 31, 1998 are property, plant and equipment with a book value of ¥38,927 million ($294,902 thousand), finance receivables, net of ¥1,403 million ($10,629 thousand) and long-term finance receivables, net of ¥845 million ($6,402 thousand).

The agreements of the convertible yen debentures (1) establish certain restrictions on the payment of dividends and (2) permit early redemption of the debentures at the option of the company, in whole or in part, at defined prices.

At March 31, 1998, 138,517 thousand shares of common stock would be issued upon conversion of all convertible debentures of the company.

The aggregate annual maturities of long-term debt are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
1999	¥ 367,552	$ 2,784,485
2000	221,754	1,679,954
2001	224,337	1,699,523
2002	117,825	892,614
2003	156,354	1,184,500
Thereafter	292,080	2,212,727
	¥1,379,902	$10,453,803

9. LIABILITY FOR SEVERANCE INDEMNITIES:

All employees whose services with the company and its subsidiaries are terminated are usually entitled to lump-sum severance indemnities determined by reference to their current basic rate of pay, length of service and conditions under which the termination occurs. The obligation for the severance indemnity benefits is provided for through accruals and funding of tax-qualified pension plans and contributory trusteed employee pension funds.

Certain subsidiaries have tax-qualified pension plans which cover all or a part of the indemnities payable to qualified employees at the time of termination. The funding policy for the plans is to contribute amounts required to maintain sufficient plan assets to provide for accrued benefits, subject to the limitation on deductibility imposed by Japanese income tax laws.

The company and several subsidiaries also have contributory trusteed employee pension funds. The contributory employee pension funds are comprised of a portion covering part of the severance indemnities benefits and another portion covering social security benefits, to which the company, subsidiaries and employees make contributions.

The transition obligation resulting from the adoption of SFAS No. 87, “Employers’ Accounting for Pensions”, and prior service cost are being amortized over the remaining service years of the employees, and the “projected unit credit” actuarial method is being used to determine the net periodic pension cost and the projected benefit obligation.

Net periodic pension cost for 1998 and 1997 included the following components:

	Millions of yen		Thousands of U.S. dollars
Years ended March 31	**1998**	1997	**1998**
Service cost – benefits earned during the year	**¥ 40,781**	¥ 40,648	**$ 308,947**
Interest cost on projected benefit obligation	**56,552**	51,993	**428,424**
Actual return on plan assets	**(18,194)**	(31,368)	**(137,833)**
Net amortization and deferral	**5,431**	24,054	**41,144**
Net periodic pension cost	**¥ 84,570**	¥ 85,327	**$ 640,682**

A weighted average discount rate of 4.0 percent and 4.5 percent, an expected long-term rate of return on plan assets of 4.0 percent, and an assumed rate of increase in salary levels of 3.0 percent were used in developing the net periodic pension cost for 1998 and 1997, respectively.

The funded status of the plans and amounts recognized in the consolidated balance sheets at March 31, 1998 and 1997, were as follows:

	Millions of yen		Thousands of U.S. dollars
March 31	**1998**	1997	**1998**
Actuarial present value of benefit obligation:			
Vested	**¥1,005,824**	¥ 862,978	**$ 7,619,879**
Non vested	**217,040**	196,292	**1,644,242**
Accumulated benefit obligation	**¥1,222,864**	¥1,059,270	**$ 9,264,121**
Projected benefit obligation	**¥1,448,320**	¥1,263,801	**$10,972,121**
Plan assets at fair value, primarily stocks, bonds and other fixed income investments	**677,571**	637,607	**5,133,114**
Excess of projected benefit obligation over plan assets	**770,749**	626,194	**5,839,007**
Unrecognized net obligation at transition	**(97,264)**	(109,289)	**(736,848)**
Unrecognized prior service cost	**(49,346)**	(53,766)	**(373,833)**
Unrecognized net loss	**(284,364)**	(126,999)	**(2,154,273)**
Minimum pension liability adjustment	**205,518**	85,523	**1,556,955**
Net pension liability (liability for severance indemnities)	**¥ 545,293**	¥ 421,663	**$ 4,131,008**

At March 31, 1998 and 1997, the company recognized an additional minimum pension liability of ¥205,518 million ($1,556,955 thousand) and ¥85,523 million, and an intangible asset of ¥146,610 million ($1,110,682 thousand) and ¥85,523 million in accordance with SFAS No. 87, respectively. At March 31, 1998, an adjustment to recognize minimum pension liability resulted in a reduction in shareholders' equity, net of income taxes, of ¥30,809 million ($233,402 thousand).

10. RESEARCH AND DEVELOPMENT:

Research and development costs are charged to expense as incurred and amounted to ¥322,928 million ($2,446,424 thousand) and ¥332,555 million for the years ended March 31, 1998 and 1997, respectively.

11. ADVERTISING:

Advertising costs are expensed as incurred. Advertising expenses amounted to ¥79,693 million ($603,735 thousand) and ¥75,709 million for the years ended March 31, 1998 and 1997, respectively.

12. FOREIGN EXCHANGE GAINS AND LOSSES:

For the years ended March 31, 1998 and 1997, the net foreign exchange loss was ¥33,229 million ($251,735 thousand) and ¥21,385 million, respectively.

13. INCOME TAXES:

The company is subject to a number of different taxes based on income which, in the aggregate, indicate a normal statutory tax rate in Japan of approximately 51.4 percent for the years ended March 31, 1998 and 1997. Due to a change in Japanese income tax regulations, the normal statutory tax rate in Japan was reduced to approximately 47.7 percent effective April 1, 1998. The revised tax rate was used in the measurement of deferred tax assets and liabilities at March 31, 1998. A reconciliation between the reported income tax expense and the amount computed by multiplying the income before income taxes and minority interest by the applicable normal statutory tax rate is as follows:

	Millions of yen		Thousands of U.S. dollars
Years ended March 31	**1998**	1997	**1998**
Computed expected income tax expense	**¥ 9,636**	¥64,484	**$ 73,000**
Increase (reduction) in taxes resulting from:			
Non-deductible expenses for tax purposes	**5,441**	5,627	**41,220**
Net valuation allowance for losses of subsidiaries	**3,550**	2,695	**26,894**
Effect of change in the statutory tax rate	**8,668**	–	**65,667**
Other	**(2,820)**	(1,213)	**(21,364)**
Income tax expense	**¥24,475**	¥71,593	**$185,417**

The significant components of deferred tax assets and deferred tax liabilities recorded on the consolidated balance sheets as of March 31, 1998 and 1997 are as follows:

	Millions of yen		Thousands of U.S. dollars
March 31	**1998**	1997	**1998**
Gross deferred tax assets:			
Inventories	**¥ 33,433**	¥ 27,956	**$ 253,280**
Liabilities for severance indemnities	**96,833**	100,420	**733,584**
Tax loss carryforwards	**36,104**	27,502	**273,515**
Minimum pension liability adjustment	**28,099**	–	**212,871**
Other	**86,413**	87,931	**654,644**
	280,882	243,809	**2,127,894**
Valuation allowance for deferred tax assets	**(38,271)**	(38,647)	**(289,932)**
Deferred tax assets	**242,611**	205,162	**1,837,962**
Gross deferred tax liabilities:			
Retained earnings appropriated for tax allowable reserves	**(23,425)**	(25,692)	**(177,462)**
Other	**(30,302)**	(30,460)	**(229,561)**
Deferred tax liabilities	**(53,727)**	(56,152)	**(407,023)**
Net deferred tax assets	**¥188,884**	¥149,010	**$1,430,939**

Net current and non-current deferred tax assets at March 31, 1998 and 1997 are reflected in the consolidated balance sheets under the captions of prepaid expenses and other current assets, ¥56,692 million ($429,485 thousand) and ¥58,708 million, and other assets, ¥132,192 million ($1,001,454 thousand) and ¥90,302 million, respectively.

The net changes in the total valuation allowance for the years ended March 31, 1998 and 1997 were a decrease of ¥376 million ($2,848 thousand) and an increase of ¥2,615 million, respectively.

Available corporate tax loss carryforwards of certain subsidiaries at March 31, 1998 amounted to approximately ¥77,632 million ($588,121 thousand), the majority of which will expire during the period from 1999 through 2003. Realization is dependent on such subsidiaries generating sufficient taxable income prior to expiration of the tax loss carryforwards. Although realization is not assured, management believes it is more likely than not that all of the deferred tax assets, less valuation allowance, will be realized. The amount of such net deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

Deferred income tax liabilities have not been provided on undistributed earnings of foreign subsidiaries and affiliated companies deemed indefinitely reinvested in foreign operations. It is not practicable to estimate the amount of the deferred income tax liabilities on such earnings.

14. SHAREHOLDERS' EQUITY:

For the year ended March 31, 1997, the increases in the common stock and additional paid-in capital accounts resulted from the conversion of debentures.

The increases in the legal reserve in the years ended March 31, 1998 and 1997 were appropriations required under the Japanese Commercial Code. No further appropriations (presently a minimum of 10 percent of cash dividends and other cash out-flow from retained earnings) are required by the Commercial Code when the legal reserve of each legal entity equals 25 percent of its stated capital.

Cash dividends, which are expected to be formally approved at the shareholders' meeting in June 1998, and will be payable subsequently, are shown as retained earnings appropriated for cash dividends.

An analysis of the changes for the years ended March 31, 1998 and 1997 in the cumulative translation adjustment is shown below:

	Millions of yen		Thousands of U.S. dollars
March 31	**1998**	1997	**1998**
Balance at beginning of period	**(¥33,988)**	(¥61,593)	**($257,485)**
Translation adjustment	**(7,500)**	27,605	**(56,818)**
Balance at end of period	**(¥41,488)**	(¥33,988)	**($314,303)**

15. NET INCOME PER SHARE:

A reconciliation of the numerators and denominators between basic and diluted EPS for the years ended March 31, 1998 and 1997 is as follows:

	Millions of yen		Thousands of U.S. dollars
Years ended March 31	**1998**	1997	**1998**
Net income available to common shareholders	**¥7,337**	¥67,077	**$55,583**
Net income effect of dilutive convertible debentures	**–**	1,797	**–**
Net income available to common shareholders and assumed conversions	**¥7,337**	¥68,874	**$55,583**

	Thousands of shares	
Years ended March 31	**1998**	1997
Number of shares for basic EPS computations:		
weighted – average number of shares of common stock outstanding for the year	**3,218,992**	3,218,979
Incremental shares from assumed conversions of dilutive convertible debentures	**–**	214,565
Number of shares for diluted EPS computations	**3,218,992**	3,433,544

	Yen		U.S. dollars
Years ended March 31	**1998**	1997	**1998**
Net income per share of common stock			
– Basic	**¥2.28**	¥20.84	**$0.017**
– Diluted	**¥2.28**	¥20.06	**$0.017**

16. FINANCIAL INSTRUMENTS:

The company operates internationally, giving rise to exposure to market risks from fluctuations in foreign currency exchange and interest rates. In the normal course of its risk management efforts, the company employs a variety of derivative financial instruments, which are comprised principally of foreign currency forward exchange contracts, interest rate swap agreements and currency swap agreements, to reduce its exposures. The company does not hold or issue financial instruments for trading purposes. The company does not anticipate any credit loss from nonperformance by the counterparties to foreign exchange contracts, interest rate swap agreements and currency swap agreements.

The company and several subsidiaries have entered into forward exchange contracts with banks as hedges against assets and liabilities denominated in foreign currencies. The forward exchange contracts related to accounts receivable and payable, and commitments on future trade transactions denominated in foreign currencies mature primarily within a few months subsequent to the balance sheet date. Gains and losses explicitly deferred, arising from contracts related to future trade transactions, are insignificant. Forward exchange contracts related to long-term indebtedness denominated in foreign currencies mature in 1998, which correspond with the maturities of such indebtedness. As these foreign exchange forward contracts are utilized solely for hedging purposes, the resulting gains or losses are offset against foreign exchange gains or losses on the underlying hedged assets and liabilities. Gains and losses related to qualifying hedges of firm commitments denominated in foreign currencies are deferred and are recognized in income when the hedged transaction occurs.

Interest rate swap agreements and currency swap agreements are used to limit the company's exposure to losses in relation to underlying debt instruments and a certain foreign currency denominated accounts receivable resulting from adverse fluctuations in foreign currency exchange and interest rates. These agreements mature during the period 1998 to 2008. The related differentials to be paid or received under the interest rate swaps are recognized in interest expense over the terms of the agreements. Currency swaps are accounted for in a manner similar to the accounting for forward exchange contracts.

The company's forward exchange contract amounts, the aggregate notional principal amounts of interest rate swap agreements and the principal amounts of currency swap agreements outstanding at March 31, 1998 and 1997 are summarized below:

	Millions of yen		Thousands of U.S. dollars
March 31	**1998**	1997	**1998**
Forward exchange contracts:			
To sell foreign currencies	**¥241,779**	¥311,515	**$1,831,659**
To buy foreign currencies	**12,296**	13,750	**93,152**
Interest rate swap agreements	**454,349**	253,467	**3,442,038**
Currency swap agreements	**137,866**	61,195	**1,044,439**

The estimated fair values of the company's financial instruments at March 31, 1998 and 1997 are summarized as follows:

	Millions of yen				Thousands of U.S. dollars	
	1998		1997		**1998**	
March 31	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Nonderivatives:						
Assets–						
Marketable securities	**¥ 120,748**	**¥ 249,998**	¥ 126,770	¥ 321,887	**$ 914,758**	**$ 1,893,924**
Other investments	**136,992**	**201,194**	155,682	197,379	**1,037,818**	**1,524,197**
Long-term finance receivables, net	**107,520**	**110,655**	96,167	99,866	**814,546**	**838,295**
Liabilities–						
Long-term debt, including current portion	**(1,379,902)**	**(1,402,365)**	(923,853)	(944,108)	**(10,453,803)**	**(10,623,977)**
Derivative financial instruments:						
Forward exchange contracts	**(1,037)**	**(1,999)**	(1,170)	(5,656)	**(7,856)**	**(15,144)**
Interest rate swap agreements	**–**	**(5,146)**	–	(3,150)	**–**	**(38,985)**
Currency swap agreements	**(2,508)**	**(2,218)**	(2,080)	(2,584)	**(19,000)**	**(16,803)**

The above table excludes the financial instruments for which fair values approximate their carrying values and those related to leasing activities.

In assessing the fair value of these financial instruments, the company has used a variety of methods and assumptions, which were based on estimates of market conditions and risks existing at that time. For certain instruments, including cash and cash equivalents, notes and accounts receivable, trade, finance receivables, net, short-term borrowings, notes payable, trade, accounts payable, trade, notes and accounts payable for construction and employees' savings deposits, it was assumed that the carrying amount approximated fair value for the majority of these instruments because of their short maturities. Quoted market prices were used for marketable securities and a part of other investments. Other techniques, such as estimated discounted value of future cash flows, and replacement cost, have been used to determine fair value for the remaining financial instruments. These estimated fair values are not necessarily indicative of the amounts that could be realized in a current market exchange.

Other investments includes investment securities which represent holdings in a number of non-public companies. The aggregate carrying amount of these investments in non-public companies was ¥48,591 million ($368,114 thousand) and ¥47,028 million at March 31, 1998 and 1997, respectively. However, the corresponding fair value of these investments at those dates was not computed as such estimation was not practicable.

17. COMMITMENTS AND CONTINGENT LIABILITIES:

Commitments outstanding at March 31, 1998 for the purchase of property, plant and equipment approximated ¥65,556 million ($496,636 thousand).

Rental expense for the years ended March 31, 1998 and 1997 aggregated ¥99,979 million ($757,417 thousand) and ¥98,824 million, respectively. Substantially all such rental expenses are related to cancellable leases for office space, warehouses, and employees' residential facilities. Such leases are customarily renewed.

At March 31, 1998, contingent liabilities, principally for loans guaranteed, approximated ¥334,009 million ($2,530,371 thousand).

Management of the company believes that there are no legal actions pending against the company and its subsidiaries which could result in damages against the company which would have a material effect on the company's consolidated financial statements.

Yebisu Garden Place Tower
20-3, Ebisu 4-chome
Shibuya-ku, Tokyo 150-6013

Price Waterhouse

May 25, 1998

To the Board of Directors of
Toshiba Corporation

We have audited the consolidated balance sheets of Toshiba Corporation and its subsidiaries as of March 31, 1998 and 1997, and the related consolidated statements of operations and retained earnings and of cash flows for the years then ended, stated in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards 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.

The Company has not adopted Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities". The effects on the consolidated financial statements of not adopting SFAS No. 115 and the disclosures required by SFAS No. 115 are summarized in note 4 of notes to the consolidated financial statements.

The Company has not presented segment information for the years ended March 31, 1998 and 1997. The presentation of segment information concerning the Company's operations in different industries, its foreign operations and its export sales is required by accounting principles generally accepted in the United States of America for a complete presentation of consolidated financial statements.

In our opinion, except for the effects of the departure from SFAS No. 115 and the omission of segment information discussed in the third and fourth paragraphs of this report, the consolidated financial statements audited by us present fairly, in all material respects, the financial position of Toshiba Corporation and its subsidiaries at March 31, 1998 and 1997, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Price Waterhouse

OVERSEAS OFFICES

Latin America
Santa Fe de Bogotá
Rio de Janeiro
Buenos Aires

Europe
Vienna
Moscow

Africa
Cairo
Johannesburg

Middle East
Teheran
Baghdad
Abu Dhabi
Jeddah

Asia
Beijing
Shanghai
Guangzhou
Hong Kong
Manila
Bangkok
Jakarta
New Delhi

OVERSEAS SUBSIDIARIES AND AFFILIATES

North America
Toshiba of Canada, Limited *Toronto, Ontario, Canada*
Toshiba America, Inc. *New York, New York, U.S.A.*
Toshiba America Capital Corporation *New York, New York, U.S.A.*
Toshiba America Medical Systems, Inc. *Tustin, California, U.S.A.*
Toshiba America MRI Inc. *South San Francisco, California, U.S.A.*
Applied SuperConetics, Inc. *San Diego, California, U.S.A.*
Toshiba America Information Systems, Inc. *Irvine, California, U.S.A.*
Toshiba America Consumer Products, Inc. *Wayne, New Jersey, U.S.A.*
Toshiba Hawaii, Inc. *Honolulu, Hawaii, U.S.A.*
Toshiba International Corporation *Houston, Texas, U.S.A.*
Toshiba America Electronic Components, Inc. *Irvine, California, U.S.A.*
Toshiba Display Devices Inc. *Horseheads, New York, U.S.A.*
Dominion Semiconductor, L.L.C. *Manassas, Virginia, U.S.A.*
Toshiba America Venture Capital, Inc. *Lyndhurst, New Jersey, U.S.A.*
Toshiba Satellite Broadband, Inc. *New Castle, Delaware, U.S.A.*
Enceratec, Inc. *Columbus, Indiana, U.S.A.*

Latin America
Toshiba de Mexico, S.A. de C.V. *Mexico City, Mexico*
Toshiba Electromex, S.A. de C.V. *Ciudad Juárez, Mexico*
Toshiba de Venezuela C.A. *Caracas, Venezuela*
Toshiba Medical do Brasil Ltda. *São Paulo, Brazil*
Semp Toshiba Amazonas S.A. *Manaus, Brazil*
T and S Servicos Industrias s/c Ltda. *São Paulo, Brazil*
Toshiba do Brasil, S.A. *São Paulo, Brazil*

Europe
Toshiba of Europe Ltd. *London, U.K.*
Toshiba International Finance (UK) Plc. *London, U.K.*
Toshiba Cambridge Research Centre Ltd. *Cambridge, U.K.*
Toshiba Medical Systems Ltd. *Crawley, U.K.*
Toshiba Information Systems (UK) Ltd. *Weybridge, U.K.*
Toshiba (UK) Ltd. *Camberley, U.K.*
Toshiba International (Europe) Ltd. *Uxbridge, U.K.*
Toshiba Electronics (UK) Ltd. *Camberley, U.K.*
Toshiba Electronics Scandinavia AB *Bromma, Sweden*
Toshiba International Finance (Netherlands) B.V. *Haarlem, The Netherlands*
Toshiba Medical Systems Europe B.V. *Zoetermeer, The Netherlands*
Toshiba Medical Systems NV/SA *Antwerpen, Belgium*
Toshiba Medical Systems GmbH *Neuss, Germany*
Toshiba Europe GmbH *Neuss, Germany*
Toshiba Semiconductor GmbH *Braunschweig, Germany*
Toshiba Electronics Europe GmbH *Düsseldorf, Germany*
Toshiba Medical France S.A. *Boulogne, France*
Toshiba Systèmes (France) S.A. *Puteaux, France*
European Vacuum Interrupters S.A. *Lattes, France*
Toshiba Electronics France S.A.R.L. *Rosny-Sous-Bois, France*
Toshiba Medical Systems Gesellschaft m.b.H. *Wiener Neudorf, Austria*

Toshiba Medical Systems AG *Oetwil am See, Switzerland*
Toshiba Medical Systems S.R.L. *Rome, Italy*
Toshiba Electronics Italiana S.R.L. *Milan, Italy*
Toshiba Medical Systems S.A. *Madrid, Spain*
Toshiba Electronics España S.A. *Madrid, Spain*

Middle East
Toshiba Gulf FZE *Dubai, UAE*

Asia
Toshiba (China) Co., Ltd. *Beijing, The People's Republic of China*
Technology Development (Shanghai) Co., Ltd. *Shanghai, The People's Republic of China*
Toshiba Dalian Co., Ltd. *Dalian, The People's Republic of China*
Hangzhi Machinery & Electronics Co., Ltd. *Hangzhou, The People's Republic of China*
Shenyang NETS System Integration Co., Ltd. *Shenyang, The People's Republic of China*
Toshiba Copying Machine (Shenzhen) Co., Ltd. *Shenzhen, The People's Republic of China*
Dalian Toshiba Television Co., Ltd. *Dalian, The People's Republic of China*
Shanghai Jinzhi Electronics Co., Ltd. *Shanghai, The People's Republic of China*
Guangdong Toshiba Macro Compressor Ltd. *Guangdong, The People's Republic of China*
Guangdong Toshiba Macro Motor Ltd. *Guangdong, The People's Republic of China*
Changzhou Toshiba Transformer Co., Ltd. *Changzhou, The People's Republic of China*
Shenyang Toshiba Elevator Co., Ltd. *Shenyang, The People's Republic of China*
Shanghai GFC Toshiba Elevator Co., Ltd. *Shanghai, The People's Republic of China*
Wuxi Huazhi Semiconductor Co., Ltd. *Wuxi, The People's Republic of China*
Tsurong Xiamen Xiangyu Trading Co., Ltd. *Xiamen, The People's Republic of China*
Korea Electronic Material Co., Ltd. *Inchon, The Republic of Korea*
Hanji Electronic Engineering Co., Ltd. *Seoul, The Republic of Korea*
Toshiba Compressor (Taiwan) Corporation *Tao-yuan, Taiwan*
Taiwan Toshiba International Semiconductor Designing Corporation *Taipei, Taiwan*
Toshiba Electronics Taiwan Corporation *Taipei, Taiwan*
Toshiba Hong Kong Ltd. *Kowloon, Hong Kong*
Toshiba Electronics Asia, Ltd. *Kowloon, Hong Kong*
Toshiba Information Equipment (Philippines), Inc. *Manila, Philippines*
Toshiba Electronics Philippines, Inc. *Manila, Philippines*
Toshiba Thailand Co., Ltd. *Bangkok, Thailand*
Thai Toshiba Electric Industries Co., Ltd. *Bangkok, Thailand*
Toshiba Consumer Products (Thailand) Co., Ltd. *Pathumthani, Thailand*
Toshiba Display Devices (Thailand) Co., Ltd. *Pathumthani, Thailand*
Toshiba Semiconductor (Thailand) Co., Ltd. *Pathumthani, Thailand*
Toshiba Sales and Services Sdn. Bhd. *Selangor, Malaysia*
Toshiba Electronics Malaysia Sdn. Bhd. *Selangor, Malaysia*
Toshiba Electronics Trading (Malaysia) Sdn. Bhd. *Selangor, Malaysia*
Wah Seong Engineering Sdn. Bhd. *Penang, Malaysia*
WS Elevators Sdn. Bhd. *Penang, Malaysia*
Toshiba Capital (Asia) Ltd. *Singapore*
Toshiba Asia Pacific Pte., Ltd. *Singapore*
Toshiba Medical Systems Asia Pte., Ltd. *Singapore*
Toshiba Data Dynamics Pte., Ltd. *Singapore*
Toshiba Video Products Pte., Ltd. *Singapore*
International Video Products Pte., Ltd. *Singapore*
Toshiba Singapore Pte., Ltd. *Singapore*
GE Toshiba Appliances Company Pte., Ltd. *Singapore*
Toshiba Electronics Asia (Singapore) Pte., Ltd. *Singapore*
P.T. Toshiba Consumer Products (Indonesia) *Jawa Barat, Indonesia*
P.T. Tosummit Electronic Devices Indonesia *Jawa Barat, Indonesia*
P.T. Schneider Manufacturing Batam *Batam, Indonesia*

Oceania
Toshiba (Australia) Pty., Ltd. *Sydney, Australia*
Toshiba International Corporation Pty., Ltd. *Sydney, Australia*

(As of March 31, 1998)

Consolidated Subsidiaries

CONSOLIDATED DOMESTIC SUBSIDIARIES

A&T Battery Corporation
Fukuoka Toshiba Electronics Corporation
Iwate Toshiba Electronics Co., Ltd.
Kaga Toshiba Electronics Corporation
Kitashiba Electric Co., Ltd.
Kitsuki Toshiba Electronics Corporation
Kyodo Building Corporation
Shibaura Engineering Works Co., Ltd.
Toshiba Air Conditioning Co., Ltd.
Toshiba Battery Co., Ltd.
Toshiba Building & Lease Co., Ltd.
Toshiba Chemical Corporation
Toshiba Credit Corporation
Toshiba Device Corporation
Toshiba Electric Appliances Co., Ltd.
Toshiba Elevator Products Co., Ltd.
Toshiba Elevator Technos Co., Ltd.
Toshiba Engineering Corporation
Toshiba Finance Corporation
Toshiba Glass Co., Ltd.
Toshiba Hokuto Electronics Corporation
Toshiba Home Technology Corporation
Toshiba Information Equipments Co., Ltd.
Toshiba Information Systems (Japan) Corporation
Toshiba Kansai Lifestyle-Electronics Corporation
Toshiba Lighting & Technology Corporation
Toshiba Logistics Corporation
Toshiba Mechatronics Co., Ltd.
Toshiba Medical Finance Co., Ltd.
Toshiba Medical Systems Co., Ltd.
Toshiba Multi Media Device Co., Ltd.
Toshiba Plant Kensetsu Co., Ltd.
Toshiba Shutoken Lifestyle-Electronics Corporation
Toshiba Video Products Japan Co., Ltd.
Plus 187 other domestic subsidiaries

CONSOLIDATED OVERSEAS SUBSIDIARIES

Changzhou Toshiba Transformer Co., Ltd.
Dalian Toshiba Television Co., Ltd.
Guangdong Toshiba Macro Compressor Ltd.
Guangdong Toshiba Macro Motor Ltd.
Hangzhi Machinery & Electronics Co., Ltd.
P.T. Toshiba Consumer Products (Indonesia)
Shenyang Toshiba Elevator Co., Ltd.
Thai Shibaura Electric Co., Ltd.
Toshiba (Australia) Pty., Ltd.
Toshiba (China) Co., Ltd.
Toshiba (UK) Ltd.
Toshiba America Capital Corporation
Toshiba America Consumer Products, Inc.
Toshiba America Electronic Components, Inc.
Toshiba America Information Systems, Inc.
Toshiba America Medical Systems, Inc.
Toshiba America MRI Inc.
Toshiba America Venture Capital, Inc.
Toshiba America, Inc.
Toshiba Capital (Asia) Ltd.
Toshiba Chemical Singapore Pte., Ltd.
Toshiba Compressor (Taiwan) Corporation
Toshiba Consumer Products (Thailand) Co., Ltd.
Toshiba Consumer Products (UK) Ltd.
Toshiba Dalian Co., Ltd.
Toshiba Display Devices (Thailand) Co., Ltd.
Toshiba Display Devices Inc.
Toshiba do Brasil, S.A.
Toshiba Electromex, S.A. de C.V.
Toshiba Electronics (UK) Ltd.
Toshiba Electronics Europe GmbH
Toshiba Electronics Malaysia Sdn. Bhd.
Toshiba Electronics Taiwan Corporation
Toshiba Europe GmbH
Toshiba Information Equipment (Philippines), Inc.
Toshiba Information Systems (UK) Ltd.
Toshiba International Corporation
Toshiba International Finance (Netherlands) B.V.
Toshiba International Finance (UK) Plc.
Toshiba Medical Systems Asia Pte., Ltd.
Toshiba Medical Systems Europe B.V.
Toshiba Satellite Broadband, Inc.
Toshiba Semiconductor (Thailand) Co., Ltd.
Toshiba Semiconductor GmbH
Toshiba Singapore Pte., Ltd.
Toshiba Systèmes (France) S.A.
Toshiba Venture Capital, Inc.
Toshiba Video Products Pte., Ltd.
Wuxi Huazhi Semiconductor Co., Ltd.
Wuxi Tochemi Electro Chemical Co., Ltd.
Plus 35 other overseas subsidiaries

(As of March 31, 1998)

Founded
July 1875

Capital
¥274,916 million (US$2,083 million)

Employees
186,000

Common Stock
Authorized: 10,000,000,000 shares
Issued: 3,218,999,545 shares
No. of shareholders: 433,240
Average holding: 7,430 shares

Transfer Agent
The Mitsui Trust and Banking Co., Ltd.

Headquarters
1-1, Shibaura 1-chome, Minato-ku
Tokyo 105-8001, Japan

Hibiya Office
1-6, Uchisaiwai-cho 1-chome, Chiyoda-ku
Tokyo 100-8510, Japan

Shibaura Office
2-1, Shibaura 1-chome, Minato-ku
Tokyo 105-6791, Japan

Principal Shareholders:

The Dai-ichi Mutual Life Insurance Company	3.88%
The Sakura Bank, Ltd.	3.72%
Nippon Life Insurance Company	3.51%
The Sumitomo Trust and Banking Co., Ltd.	2.67%
Mitsui Mutual Life Insurance Company	2.59%
Employees Stock Ownership Plan	2.15%
The Mitsui Trust and Banking Co., Ltd.	1.92%
The Nippon Fire & Marine Insurance Co., Ltd.	1.84%
The Long-Term Credit Bank of Japan, Ltd.	1.83%
The Tokai Bank, Ltd.	1.81%

(As of March 31, 1998)

For further information, please contact:

Corporate Communications Office
TOSHIBA CORPORATION
1-1, Shibaura 1-chome, Minato-ku
Tokyo 105-8001, Japan
Phone: (03) 3457-2096
Facsimile: (03) 5444-9202
or via the Internet at:
http://www.toshiba.co.jp

Printed on recycled paper

TOSHIBA CORPORATION

Printed in Japan