TOSHIBA

EMBRACING THE FUTURE

ANNUAL REPORT 1999

Year Ended March 31, 1999

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

FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements concerning Toshiba's future plans, strategies and performance. These forward-looking statements are not historical facts, rather they represent assumptions and beliefs based on economic, financial and competitive data currently available. Furthermore, they are subject to a number of risks and uncertainties that, without limitation, relate to economic conditions, worldwide mega-competition in the electronics business, customer demand, foreign currency exchange rates, the Year 2000 issue, tax rules, regulations and other factors. Toshiba therefore wishes to caution readers that actual results may differ materially from our expectations.

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 ¥121=US$1.

TO OUR SHAREHOLDERS

Taizo Nishimuro, President and CEO

Mega-competition worldwide is a sign of the times. As the dawn of the new millennium approaches, Toshiba is meeting its challenges by bolstering its competitiveness through investments targeting promising fields and pushing ahead with management reforms. Why? To build a solid, highly profitable operating base and to continue to develop as one of the electronics industry's leading companies. In fiscal 1998, we implemented a host of programs as part of this drive. The discussion that follows explains them and management's vision for Toshiba.

THE FISCAL YEAR IN REVIEW

Fiscal 1998, the year ended March 31, 1999, was a tough one for Japan and for Toshiba.

Japan's economic situation remained severe. Despite the government's economic stimulus packages and increased public spending, unemployment edged up and real income levels fell; consumer spending slowed and the property market remained subdued. Capital expenditure in the private sector also fell sharply. The cumulative result was negative GDP growth for the second year running.

Overseas, the U.S. economy recorded another year of expansion. Europe was less buoyant and growth slipped down a gear. Asia continued to battle back from its financial crisis and the latter half of the year brought positive news in some key sectors, though the big picture remained one of soft demand and sagging export growth.

In this difficult operating climate, our priority on preserving profitability was undermined on many sides. Anemic private-sector demand in Japan had a major impact, as did a precipitous price decline in semiconductor memories, sluggish demand for semiconductors for consumer products, price erosion in PC peripherals due to the increasing popularity of low-priced PCs, and soft sales of power plant and equipment. The result was a 3 percent year-on-year decline in consolidated sales and a ¥13.9 billion (US$115 million) net loss.

REINVENTING TOSHIBA IN A FAST–CHANGING MARKETPLACE

We operate in highly demanding, fast-changing businesses across the global electronics industry. The Internet and network technologies are changing the ways in which information is gathered and processed and how products and information are merchandized. Corporate consolidations and reorganizations are driving change in the power generation and industrial systems businesses; transnational and transregional M&As are reforming communications, broadcasting and services. The speed, dynamism and extent of these shifts are breathtaking.

We have responded vigorously and lost no time in embarking on a program of far-reaching management reforms. Our current policies, designed to assure we remain one of the world's leading companies in the 21st century, are bringing fundamental transformations to our management systems, our business portfolio and our corporate culture.

TOSHIBA'S THREE-PRONGED REFORM PROGRAM

Management systems **—**We are reinforcing an agile decision-making system that supports swift responses to changes in our business environment. In June 1998, we introduced the post of executive officer and reduced the number of directors from 33 to 12. By doing so, we clearly demarcated the boundary between the duties of directors, who determine corporate and overall Toshiba Group strategy and management, and the executive officers, who are responsible for formulating and implementing strategies in the businesses they manage. The Board of Directors, unshackled from day-to-day management tasks, is now more closely focused on corporate strategy, while the executive officers can promote the business structures and practices suited to the markets they work in.

Our management reform continued with the April 1999 reorganization of our 15 business groups into 8 in-house companies and 1 joint venture. Each is a self-contained, specialist organization that is expected to operate at the forefront of its clearly defined market. Benchmarking against leading competitors will provide a clear, objective measure of individual performance. To emerge as winners, each in-house company has the enhanced autonomy required to execute timely strategies—including M&As. This freedom will be directed to fulfilling the medium-term goals each company has agreed to, and our corporate-level vision for Toshiba as a whole.

The corporate headquarters' staff also has a redefined role: to advance company-wide and group strategies and projects. Corporate Staff concentrates its energies on corporate planning, auditing and advice to top management. Corporate Project handles company-wide matters and promotes inter-company projects. Corporate Support Services provides the in-house companies with specialist services in fields as diverse as research and development, legal affairs, intellectual property, logistics and environmental issues.

***Change of business portfolio*—**We continue to shift resources to fields with high growth and earnings potential. In addition, we have added a resolute thrust toward a renewed business portfolio. The 21st century will see unabated progress in networking and an information society. Toshiba aims to support this evolution as a leading enterprise with core strengths in digital, mobile and networking technologies and services. We will promote development of key components, including semiconductors, LCDs, HDDs and optical disc drives. We will strengthen our capabilities in systems and services businesses. In matured businesses, we will enhance competitiveness and improve profitability through the strategic allocation of resources.

In preparation for this move, we introduced a system of eight in-house companies on April 1, 1999. We defined clear business areas and articulated clear objectives for each, assuring we are even better positioned to channel resources to highly promising businesses.

As we reinforce the organization and businesses that will support Toshiba's continued development, we will continue to take decisive measures to deal with unprofitable and underperforming business units, through such measures as downsizing, realignments, mergers and divestitures. Initiatives announced last fiscal year included a joint venture with U.S.-based Carrier Corporation, a unit of United Technologies Corporation, which will give global strength to our air conditioning business. We also transferred the small motor business of our subsidiary Shibaura Engineering Works Co., Ltd. to a joint venture with Nidec Corporation, and transferred our domestic ATM business to Oki Electric Industry Co., Ltd. Over 10 other recent moves include alliances with major companies outside the Toshiba Group, both in Japan and overseas, joint ventures and business transfers. The common thread running through all these actions is an aggressive leveraging of external resources to make each business a winner. Toshiba need no longer handle everything itself.

***Shaping a new corporate culture*—**As we change the way we manage our businesses and redefine our business portfolio, it is essential that we also change our corporate culture. With enhancement of customer satisfaction as a unifying goal, we have started a management-driven, company-wide initiative to bring innovation to management quality and productivity. This initiative integrates the gains of many years from past productivity programs with the statistical approaches of Six Sigma methodologies to create a new thrust to drive innovation. This program, dubbed Management Innovation (MI) 2001, debuted in selected businesses in the second half of fiscal 1998. Shorter delivery times for semiconductors and better manufacturing processes for generators have already confirmed its potential, and in April 1999, MI 2001 was extended throughout the company. We have high hopes for its continued success.

AN OVERVIEW OF SOME MAJOR BUSINESSES

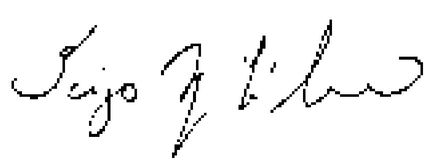
Each of our major businesses is guided by a basic strategy. We will continue to hold the top share in the world portable PC market with a steady stream of appealing, competitive products and through stepped-up customer support. In electronic devices, we will improve earnings and cash flows by reducing our exposure to the memory market and shifting resources to logic devices and system LSIs. An excellent example of this strategy in action is co-development of advanced microprocessors with Sony Computer Entertainment Inc. for its next-generation game consoles and the establishment of a manufacturing joint venture to promote the project. We will also rely more on alliances with other companies for R&D and manufacturing. In displays, we will establish superiority and realize the immense long-term potential of the LCD market by putting a primary emphasis on low-temperature polysilicon TFT LCDs.

In visual products, digitization is allowing us to add value to our products. In home appliances, we are reducing over-dependence on Japan with a new strategy that looks to the world and to markets with greater growth potential, particularly in Asia. Our complementary alliances with Carrier Corporation and AB Electrolux of Sweden are key elements of this plan, through which we are determined to reinforce our household appliance businesses.

The outlook of the Japanese market for power plants and equipment remains difficult. Utility companies have excess capacity and are responding to increasing pressure to cut costs by curbing capital expenditure. Teaming up with leading domestic and overseas companies will allow us to pare costs, boost productivity and enhance R&D as we look to expand in Asia and other regions outside Japan. Reinforcement of ties in thermal and nuclear power generation with General Electric Company of the United States is the locus of this drive.

As the new century approaches, we are convinced our reforms and business focus are allowing us to reinvent Toshiba. We ask our shareholders and business partners for their continued support and understanding as we advance this major undertaking.

July 1999



TAIZO NISHIMURO

President and Chief Executive Officer

A NEW LOOK. A NEW TOSHIBA.

April 1, 1999 marked the start of a new in-house company system at Toshiba Corporation. The following pages introduce the new companies and profile their basic strategies.

ORGANIZATIONAL REFORM
In-House Company System

On April 1, 1999, Toshiba Corporation introduced a new system, under which its 15 business groups were reorganized into 8 in-house companies. Each is responsible for creating its own approach to its businesses and for assuring its enhanced ability to meet customer needs. The companies have a clear mission: to identify their primary competitors, formulate plans for achieving a competitive edge and achieve clearly defined goals. The objective is nothing less than establishing a leading position in every field of business where Toshiba is active.

1998

HEADQUARTERS STAFF

BUSINESS GROUPS	
Information & Communications and Control Systems Group	▶1.
Info/Communication Platform & Products Group	▶1, 2.
Medical Systems Division	▶6.
International Operation - Information & Communication Systems and Industrial Plant	▶1.
Information Equipment Group	▶2.
Storage Media Business Group	▶2.
Video & Electronics Media Group	▶2.
Air Conditioners & Appliances Group	▶7, *.
Environmental Management Business Group	▶1.
Energy Systems Group	▶3.
Industrial Equipment Group	▶1, 8.
Electron Tube, Device & Material Group	▶5.
Semiconductor Group	▶4.
Liquid Crystal Display Division	▶5.
Electronic Devices Sales & Marketing Group	▶4.

APRIL 1999

CORPORATE PROJECT

IN-HOUSE COMPANIES

1. Information and Industrial Systems & Services Company
2. Digital Media Equipment & Services Company
3. Power Systems & Services Company
4. Semiconductor Company
5. Display Devices & Components Company
6. Medical Systems Company
7. Home Appliances Company
8. Elevator and Building Systems Company

Air-conditioning business was assumed by Toshiba Carrier Corporation in April 1999.

CORPORATE STAFF

CORPORATE SUPPORT SERVICES

BASIC COMMITMENT

Blending Toshiba's expertise in computer, communications and control systems, the company delivers optimized solutions and services to a broad range of customers. Markets served range from government agencies to the manufacturing, financial and distribution sectors, to broadcasting, transportation infrastructure and aviation and aerospace.

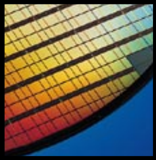
TADASHI OKAMURA
President and CEO

The company is taking advantage of the immense business opportunities created by the convergence of information technology (IT) that encompasses PCs, mobile equipment, and computer networks and audio and visual technologies, and provides sophisticated hardware, software and services that propose new and exciting forms of entertainment and lifestyle.

TETSUYA MIZOGUCHI
President and CEO

The ability to supply turnkey nuclear, thermal and hydroelectric power plants and substations enables the Power Systems & Services Company to support energy infrastructures around the world. Through strategic alliances with leading manufacturers in Japan and overseas, the company is bolstering cost competitiveness, even as it continues development of next-generation technologies that will cement its position as a world leader in power systems.

TOSHIKI MIYAMOTO
President and CEO



Semiconductors are the vital building block for the coming digital society. The Semiconductor Company will advance active business expansion in system LSIs and other growth areas. In doing so, the company will utilize its advanced process technology, highly sophisticated product development capabilities, and experience of selling a broad line of devices to customers around the world.

YASUO MORIMOTO
President and CEO

Driven by the spirit of innovation, the Display Devices & Components Company is leveraging established product strengths to develop the three pillars to its business: LCDs, CRTs and batteries. With product cycles becoming ever shorter, the company is focused on delivering technologies and products that promote the breakthrough in performance and functions of sets and systems required by customers.

TADASHI MATSUMOTO
President and CEO

Toshiba is one of the world's leading suppliers of medical equipment, particularly diagnostic imaging modalities such as X-ray diagnostic equipment, CT scanners, and diagnostic ultrasound systems. In addition to the latest equipment for medical facilities worldwide, the company is delivering total solutions for the information age, including comprehensive Hospital Information Systems (HIS) and Picture Archiving and Communications Systems (PACS).

MASAHIKO HASEGAWA
President and CEO

The Home Appliances Company contributes to raising the quality of life as a major supplier of innovative refrigerators, washing machines and small household appliances. Development and commercialization of products and services that provide real solutions to consumer needs is allowing the company to reinforce its operations in Japan and to pursue globalization through international alliances.

MAKOTO NAKAGAWA
President and CEO

A steady stream of high-value products promote the company's strategy of close cooperation with its affiliated companies to provide total solutions for buildings and other facilities, including upgrades and maintenance for installed equipment. From this base, the company is proactively promoting expanded overseas business.

TERUYUKI SUGIZAKI
President and CEO

A NEW LOOK. A NEW TOSHIBA.

Information and Industrial Sy

Blending Toshiba's expertise in computer, communications and control systems, the company delivers optimized solutions and services to a broad range of customers. Markets served range from government agencies to the manufacturing, financial and distribution sectors, to broadcasting, transportation infrastructure and aviation and aerospace.

Toshiba's traffic and facility control system speeds vehicles across the Akashi Straits Expressway Bridge, the world's longest suspension bridge.
(Above: The Akashi Straits Expressway Bridge. Both photographs courtesy of the Honshu-Shikoku Bridge Authority)

Toshiba's electric equipment is employed in the rolling stock for JR Central's *Nozomi* Shinkansen trains.

Toshiba draws on a fount of skills in information and communications, and on time-tested capabilities in system architecture, to create a comprehensive range of sophisticated, groundbreaking systems, among them Intelligent Transportation Systems that will improve traffic flows and safety; electronic commerce systems that will change the way business is transacted; and digital systems that will bring radical changes to broad-

Comprehensive production control system supplied to a major Japanese beer maker.

Artist's depiction of the Japanese Experiment Module (JEM) for the International Space Station. Toshiba is a participant in the JEM program.
Courtesy of NASDA

stems & Services Company

casting. The company will support customers in achieving business reforms through the adoption of supply chain management, and with its cumulative expertise gained through the supply of diverse plant systems, and sales, logistics, inventory control and other front-end systems. Leveraging its highly diverse experience enables the company to deliver high value-added services across the range of operations.

In all it does, whether providing comprehensive consultation on solutions or integrating systems to support sales, maintenance or management, the company is single-minded in its pursuit of total customer satisfaction.

Increasing demand for global data communications is spurring projects to lay international fiber-optic submarines cables. As an experienced provider of Network Protection Equipment, a key element of optical ring networks, the company is positioned to expand its business and record more successes in the years ahead.

As Toshiba continues its participation in projects for Japan's National Space Development Agency (NASDA), it is expanding business to the commercial sector. The company is aggressively working for orders for satellites for the SkyBridge Project. Initiated by Alcatel Alsthom, France's leading communications equipment manufacturer, SkyBridge aims to build a high-speed multimedia communications network using low-earth orbiting satellites by 2001.

As a new business field, we are developing infrastructure systems and terminal equipment for a multi-channel, multimedia broadcasting format using the 2.6 gigahertz, S-band frequency. This will deliver high-speed, high-quality transmissions to mobile users, whether in vehicles equipped with an antenna or on foot with a portable terminal. Mobile Broadcasting Corporation, a Toshiba-led entity that plans to offer services throughout Japan had already attracted equity participation from 33 leading companies as of April 1999, including Toyota Motor Corporation, Fujitsu Limited, Nippon Television Network Corporation and Matsushita Electric Industrial Co., Ltd.

Yet another area of focus is environment-related businesses. Activities here include recycling chloride-based plastics to extract fuel oil, home appliances recycling and advanced waste treatment by thermal decomposition and gasification.

As the Information and Industrial Systems & Services Company faces the realities of today's global markets and mega-competition, it is undertaking an extensive review of its business structure—and taking actions to assure its vitality. In April 99, it transferred its domestic ATM business to Oki Electric Industry Co., Ltd. It has also established a joint venture with the Japanese arm of France's Schneider Electric S.A. to fortify the development, manufacture, sales and maintenance of low-voltage power distribution and control equipment.

A NEW LOOK, A NEW TOSHIBA.

Toshiba's 65-inch rear-projection large-screen display has been a major hit in the U.S.

Toshiba was selected as a main supplier of IC cards to Barclays Bank, a leading British commercial bank.

Digital Media Equipme

In portable PCs, Toshiba is firmly positioned as the world's leading supplier. The achievement reflects a truly world-class competitive lineup, including the company's ultra-slim A-4 and B-5 sized models. Today, 18% of portable PC users worldwide use a Toshiba—almost one in five.

Underpinning this market leadership is the company's high-density packaging technology and the sophisticated expertise and components Toshiba puts into its storage devices and other PC peripherals. In 2.5-inch HDD and CD-ROM drives, Toshiba is a world leader. And in high-capacity DVD-ROM drives, where rapidly expanding demand is forecast to overtake the CD-ROM drive market in 2000, Toshiba is outpacing the rest of the world in product development.

The high-end features and functionality of Toshiba's MAGNIA series of PC servers achieve the highest level of reliability—a prerequisite for success in this demanding product segment. Combined with its expertise in notebook PCs, network equipment and other products, they allow Toshiba to deliver optimal systems solutions that match customer needs.

This portable cdmaOne cellular phone offers superb sound quality.

nt & Services Company

The company is taking advantage of the immense business opportunities created by the convergence of information technology (IT) that encompasses PCs, mobile equipment, and computer networks and audio and visual technologies, and provides sophisticated hardware, software and services that propose new and exciting forms of entertainment and lifestyle.

What do CD-ROM drives, DVD-ROM drives and 2.5-inch HDDs have in common? They are all product fields where Toshiba is the top-selling name.

Toshiba's MAGNIA series of PC servers has earned a trusted reputation.

In the Japanese cellular market, the company offers Personal Digital Cellular (PDC) terminals and cdmaOne terminals that excel in sound quality. The company has also been selected to supply next-generation devices to NTT Mobile Communications Network, Inc. and has already started to develop terminals. In the U.S., Toshiba enjoys a solid position through an OEM relationship with Audiovox Corporation, as a supplier of both analog and digital devices. In the area of network communications, the company has developed the PVX1000 cable modem for the North American market that supports high-speed Internet access utilizing CATV networks. Launches in Japan and other markets are planned.

Another core business of the Digital Media Equipment & Services Company is visual equipment, such as color TVs, DVD players, digital cameras and LCD data projectors. In the market for large-screen TVs, generally defined as models of 29 inches and over, flat picture tube models accounted for over 70% of the Japanese market in 1998. Toshiba enjoys strong sales in the segment, thanks to a broad lineup of models from 28 to 36 inches.

A NEW LOOK. A NEW TOSHIBA.

Power Systems & Servi

The ability to supply turnkey nuclear, thermal and hydroelectric power plants and substations enables the Power Systems & Services Company to support energy infrastructures around the world. Through strategic alliances with leading manufacturers in Japan and overseas, the company is bolstering cost competitiveness, even as it continues development of next-generation technologies that will cement its position as a world leader in power systems.

The combined-cycle Unit No. 7 at Chubu Electric Power's Shin-Nagoya Thermal Power Plant started full-scale operations in December 1998.
(Upper and lower photographs)

Proton exchange membrane (PEM) fuel cells like these are expected to find applications in cars and homes of the future.

Continuous curbs on capital expenditures by Japan's electric utilities are likely to limit domestic demand for power systems, but two encouraging trends point to the future. In the emerging economies, including China, Southeast Asia and Latin America, the company expects long-term

Toshiba produced the world's first 550kV single-point switchgear for a power transmission facility.

In a world first, Toshiba replaced the reactor shroud at Unit No. 3 of Tokyo Electric Power's Fukushima No. 1 Nuclear Power Station.

ces Company

demand for power infrastructures, from generation to transmission and distribution. And amid efforts to forestall global warming, nations are taking a second look at the advantages of nuclear power generation. This is an area where the company can point to a long list of achievements that will provide an invaluable introduction as Toshiba pushes into Asian markets.

Bolstering technological development capabilities and paring costs are crucial preparatory measures for expanding global operations. To make progress in both areas, Toshiba is expanding its strategic alliance with General Electric Company (GE) of the U.S., a long-standing partner in thermal power generation. The alliance reinforces Toshiba's competitiveness and sets the stage for the company to aggressively seize global business opportunities.

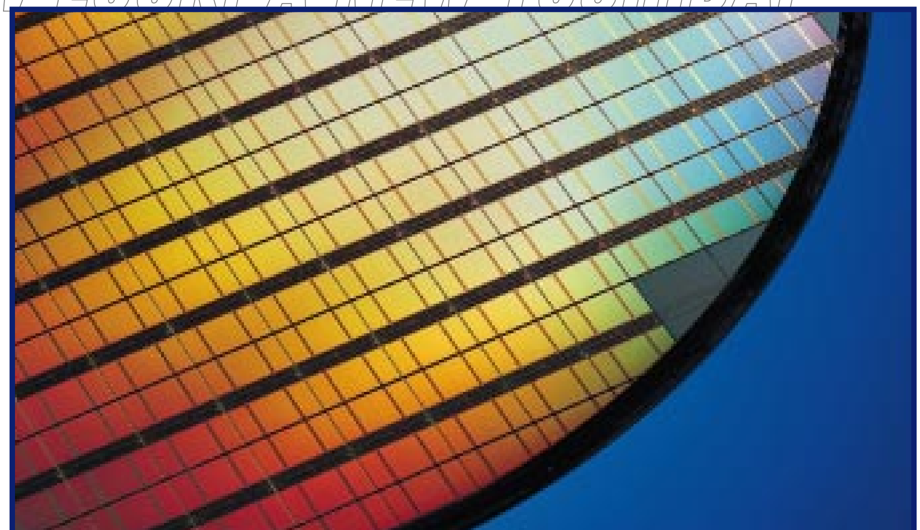
Two joint venture companies with GE, in Japan and Mexico, began to manufacture turbine airfoils for thermal power steam generators in April and June 1999, respectively. Toshiba is also allied with GE in the development, manufacture and sale of next-generation combined-cycle systems. This technology combines gas and steam turbines to raise operational efficiency and operates at temperatures of up to 1,500°C. Combined-cycle generation is also environmentally friendly. Together, both partners are promoting development of global operations.

Toshiba has a proud track record of achievement in hydroelectric power generation, outdistancing other Japanese companies in winning market share in Asia. The company aims to sustain this leadership.

High hopes are held for fuel cells as an environmentally benign source of electricity. Toshiba excels in the development and commercialization of phosphoric acid fuel cells. Toshiba is also developing proton exchange membrane fuel cells that are gaining wide attention as a future power source for vehicles and small facilities.

In the power transmission business, Toshiba has won high marks worldwide for advanced technologies used in its transformers and switchgear. We will seek further expansion in this business.

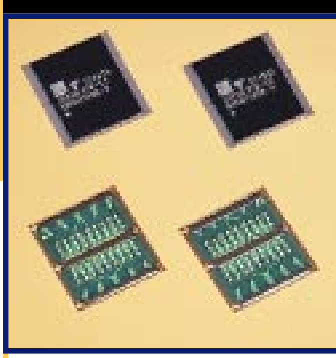
A NEW LOOK, A NEW TOSHIBA.



The Advanced Microelectronics Center in Yokohama is the focal point for joint research with Fujitsu into 0.13-micron process technology, the basis for post next-generation semiconductors.

Semiconductor Company

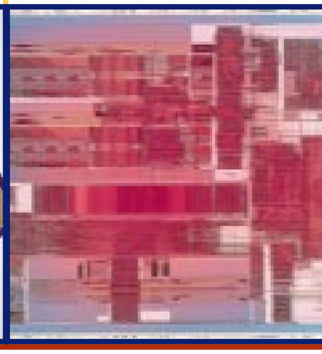
Semiconductors are the vital building block for the coming digital society. The Semiconductor Company will advance active business expansion in system LSIs and other growth areas. In doing so, the company will utilize its advanced process technology, highly sophisticated product development capabilities, and experience of selling a broad line of devices to customers around the world.



Toshiba is leading the industry in 128/144Mbit Rambus™ DRAMs.

The world semiconductor market posted negative growth in 1998, due to factors such as price erosion, particularly in memories, and sluggish demand for semiconductors for consumer products. Looking ahead, growth is expected, particularly in logic devices and system LSIs for game consoles, network equipment, PDAs and communications equipment. Toshiba is shifting resources to these growth fields and backing them up by forming key strategic alliances. Through these measures, the company will improve its ability to

Hopes are high for SmartMedia, a de facto standard for digital still picture storage, to also find applications in the recording of music and other types of content.



Toshiba teamed up with Sony Computer Entertainment to develop the 128-bit high-speed CPU for that company's next-generation home game console.

generate stable revenues and bolster cost competitiveness.

In the price-competitive memory market, Toshiba is redirecting its attention to building a strong presence in products offering higher profitability. While Toshiba leads in high-speed synchronous DRAM and Rambus™ DRAM, it is also expanding into non-PC markets, such as those for mobile communications and networking. Joint development of Fast Cycle RAM (FCRAM) with Fujitsu Limited is part of this endeavor.

In addition to these moves, Toshiba will promote development of a business model that is largely shielded from market cycles, raising the share of memory products other than DRAM in order to boost profitability. The prime drivers here are SRAMs and flash memories, particularly SmartMedia, the high-capacity data storage medium based on NAND flash memory pioneered by Toshiba. It is already the de facto standard storage device for digital still cameras, and will get a further boost in summer 1999, when the company commercializes a 64 megabyte SmartMedia card that will double the current capacity. SmartMedia is highly versatile and is expected to find expanded applications in such areas as recording music.

In terms of overall business structure, the Semiconductor Company is shifting to logic devices and system LSIs, where growth is higher than in the overall semiconductor market. By fiscal 2001, Toshiba aims for these products to account for at least 50% of the value of total semiconductor sales. As part of this drive, a joint-venture company was formed in June 1999 with Sony Computer Entertainment Inc., which holds the overwhelming share of the world's home game console market. This new company will develop, manufacture and supply the high-speed CPU for Sony's next-generation game console. Beyond this, Toshiba intends to position its TX System RISC, based on the architecture of MIPS Technologies, Inc., as the main processor for such applications as networking and digital home appliances.

Toshiba also intends to reinforce its position in the discrete semiconductor business. This business generates stable earnings and is an area where Toshiba holds the number one share worldwide.

In R&D, Toshiba aims to share development costs with other companies and shorten the time taken to bring new products to market. In this vein, Toshiba started joint development with Fujitsu Limited in December 1998 of 0.13-micron process technology for 1-gigabit DRAM class devices. Toshiba is also restructuring its worldwide network of production bases from a global perspective in an effort to improve efficiency.

A NEW LOOK, A NEW TOSHIBA.

Toshiba's new production line at the Fukaya Operations started manufacturing low-temperature polysilicon TFT LCDs in April 1999.

Display Devices & Components

Driven by the spirit of innovation, the Display Devices & Components Company is leveraging established product strengths to develop the three pillars to its business: LCDs, CRTs and batteries. With product cycles becoming ever shorter, the company is focused on delivering technologies and products that promote the breakthrough in performance and functions of sets and systems required by customers.

Rapid growth in mobile equipment is boosting demand for lithium-ion and other rechargeable batteries.

The liquid crystal display (LCD) has steadily extended the scope of its market and applications as an alternative to the CRT, the result of technical advances and a high level of manufacturing efficiency and performance. Toshiba regards LCDs as a strategic market where it can utilize its

The Toshiba-developed Super Brightron flat picture tube produces distortion-free images with crystal-clear realism.

Company

superior technology and maintain its overall competitive edge through differentiation, and will continue to direct major resources to this business.

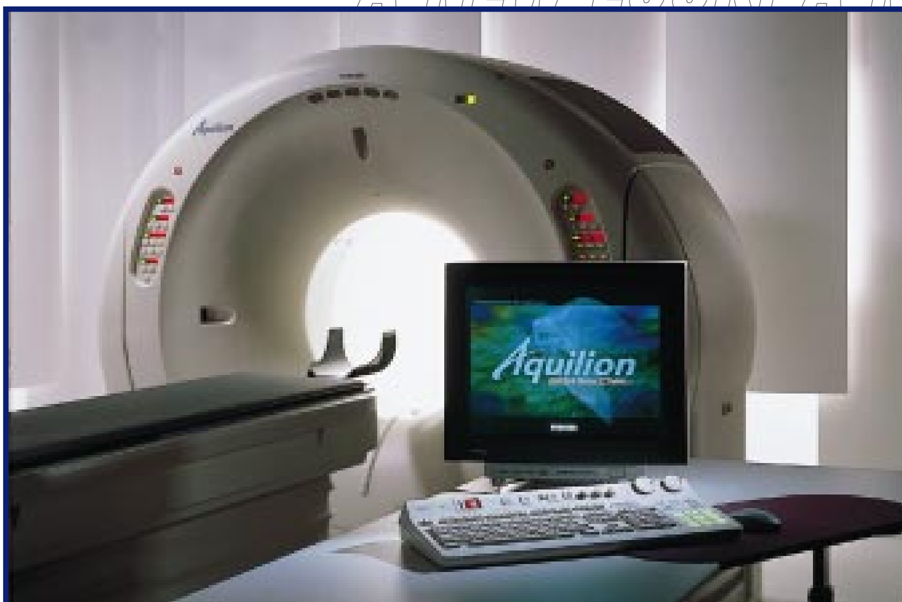
Toshiba is a leader in developing and bringing to market low-temperature polysilicon TFT LCDs, superior displays in terms of resolution, power consumption and high levels of integration. Toshiba already has a product line-up ranging from 2.7 to 11.3 inches, and start-up of a new production line at the Fukaya Operations in April 1999 is helping the company to maintain its industry leadership.

In Japan, satellite broadcasts are bringing viewers more channels and spurring demand for large-screen TVs. Toshiba has a broad lineup, from 28-inch to 36-inch models, all taking full advantage of the company's Super Brightron flat picture tube. Toshiba has demonstrated that it is one of only a few manufacturers capable of supplying flat picture tubes on a global scale, and is taking full advantage of this position to supply flat CRTs to many leading home appliance manufacturers.

Burgeoning digital broadcasts are likely to lead to more demand for large-format flat panel displays as well as CRTs. Toshiba is ready to meet this, thanks to a June 1999 agreement with Canon Inc. on joint development of Surface Conduction Electron Emitter Displays (SED). In terms of brightness, contrast, cost and power consumption, SED enjoys distinct advantages over the plasma display panels (PDP) some companies are now promoting.

In batteries, Toshiba is concentrating on rechargeable batteries and reinforcing its production capacities for NiMH and lithium-ion batteries. The company currently ranks third in rechargeable batteries, and is consolidating its R&D, product development and materials teams to advance the market trend to thinner, higher capacity batteries.

A NEW LOOK. A NEW TOSHIBA.



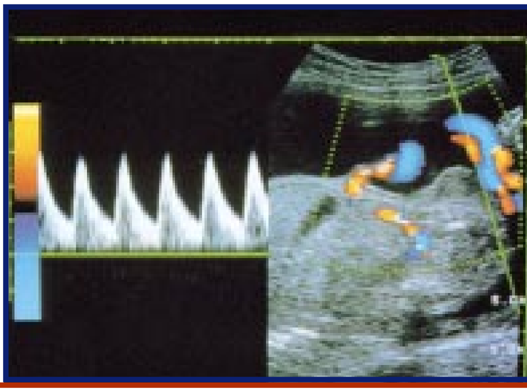
Medical System

Picture Archiving and Communications Systems (PACS) comprehensively manage digital imaging information from CTs, MRIs and other equipment.

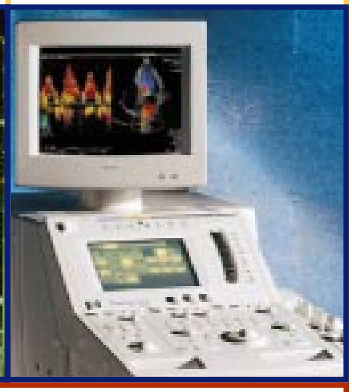
Toshiba is one of the world's leading suppliers of medical equipment, particularly diagnostic imaging modalities such as X-ray diagnostic equipment, CT scanners, and diagnostic ultrasound systems. In addition to the latest equipment for medical facilities worldwide, the company is delivering total solutions for the information age, including comprehensive Hospital Information Systems (HIS) and Picture Archiving and Communications Systems (PACS).

OPART, Toshiba's open, superconducting, cryogenless MRI

Toshiba excels in CT scanners, which take cross-sectional views of the human body. A 50 percent share of the domestic market, the number one position, is complemented by a 25 percent share of the world market. With Aquilion, the world's fastest CT scanner, the company has dramatically shortened scanning time and further contributed to improved image diagnostics. Aquilion is also designed to accommodate



PowerVision 6000 ultrasound diagnostic equipment



s Company

the new multislice technology Toshiba has developed and which can scan 12 cross-sectional images in a second—by far the fastest scanning speed ever achieved. Chest examinations that now take 30 seconds will soon be done in just four.

Aquilion, which is already in use in the University of Iowa in the U.S. and other facilities, is being lauded for significantly shortening examination times and opening the way to new clinical applications.

In diagnostic ultrasound systems, Toshiba continues to introduce a steady stream of competitive products that preserve its position atop the world ranking. PowerVision 6000 and MiniVision (Just Vision in overseas markets) are recent products that have won high marks. Toshiba's diagnostic ultrasound scanners offer a variety of transducers and software supporting use in a wide range of diagnostic applications—not only cardiac and abdominal imaging, but also endo-cavity observation in obstetrics, gynecology and urology.

In the U.S., which has the highest mortality rate from heart disease in the world, the Methodist Heart Center is reaping benefits in improved diagnostic efficiency from Toshiba's digital X-ray diagnostic systems. It has also improved archiving and storage efficiency through use of electronic image information processing. The Methodist Heart Center reported cost savings of US$230,000 in the first year after introducing Toshiba's CAS-8000V/cx.

In flat panel X-ray detectors—equipment that converts X-rays into digital images—Toshiba led the way in developing a detector capable of generating both still and moving images much more precisely than those taken by other X-ray films or image intensifiers. This breakthrough technology will reach the market in 2000. Shorter X-ray examination times are just one benefit. Others include the ability to send and receive images through networks and the elimination of labor-intensive, space-consuming X-ray film storage, freeing hospitals to concentrate on more important tasks. The result: greater efficiencies.

Looking ahead, it is clear that improved diagnostic efficiency, the need for rationalization and the greater use of information systems will all impact on hospital management. Toshiba aims to evolve from a leader in diagnostic imaging equipment to become an information-driven total solutions provider. The Medical Systems Company will achieve this by delivering comprehensive Hospital Information Systems (HIS), Radiology Information Systems (RIS) and Picture Archiving and Communications Systems (PACS) that draw on state-of-the-art digital imaging technologies. Ultimately, Toshiba will offer much more than just sales and maintenance services.

A NEW LOOK, A NEW TOSHIBA.

The "Miharibanko" refrigerator employs a "twin cooler format" to keep food fresh for twice as long while cutting power consumption.

Home Appliances Company

By using sophisticated inverter technology, the ER-GS8 microwave oven cuts the time needed to prepare food.

The binding concept is to develop products that will provide solutions to people's needs by capitalizing on advanced inverter control and motor technologies. Refrigerators, a company mainstay, are posting strong sales on the back of strong demand for "Miharibanko." Rave reviews welcomed its temperature stability, high operating efficiency, and "twin cooler format"—two specialized refrigeration units, one for freezing and the other for chilling—that operate alternately and keep food fresh for twice as long.

The "DD Inverter Washing Machine" was a huge hit in 1998. The secret of its success was a proprietary DD inverter motor that cut noise to a whisper and won the custom of singles, working couples and other consumers who wanted to do laundry even late at night.

The Japanese market for home appliances is matured, but that does not mean Toshiba is standing still. As it develops innovative products, the company is also extending the scope of its business to new areas, such as component supply, and is raising efficiency through a new system of supply chain management. The company is also preparing for aggressive development of the growing markets of ASEAN, China, India and other promising regions.

This stick-type vacuum cleaner uses an air-cycle system to efficiently clean surfaces.

In readying for global advancement, Toshiba is fully aware of the importance of marketing strategies that reflect regional and national differences in culture and lifestyle. In Africa and the Middle and Near East, Toshiba formed a production and sales alliance for washing machines and refrigerators with Egypt's El Araby Co. In May 1999, Toshiba entered an alliance with the Scandinavia-based AB Electrolux, the world's largest household appliance manufacturer. The agreement covers technology exchanges, joint product development, product sourcing and purchasing, environmental issues and other forms of cooperation.

Through these measures, the company aims to reinforce domestic operations and advance global strategies.

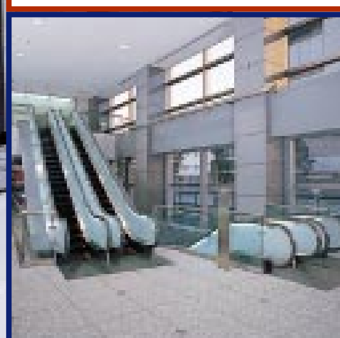
The Home Appliances Company contributes to raising the quality of life as a major supplier of innovative refrigerators, washing machines and small household appliances. Development and commercialization of products and services that provide real solutions to consumer needs is allowing the company to reinforce its operations in Japan and to pursue globalization through international alliances.

Featuring the Toshiba-developed DD inverter motor, this washing machine is the industry's quietest.

A NEW LOOK. A NEW TOSHIBA.

A steady stream of high-value products promote the company's strategy of close cooperation with its affiliated companies to provide total solutions for buildings and other facilities, including upgrades and maintenance for installed equipment. From this base, the company is proactively promoting expanded overseas business.

Elevator and Building Sy

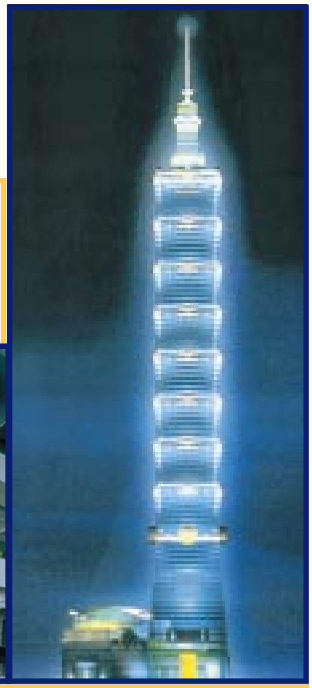


These observation elevators are a popular attraction at MIELPARQUE NAGANO in the city that hosted the 1998 Winter Olympics.

Shanghai's SENMAO International Building uses Toshiba's double-deck elevators.

The business environment surrounding the Elevator and Building Systems Company is challenging: construction demand in Japan is stagnant and economic conditions are sluggish in Southeast Asia, the

Toshiba's elevators and escalators serve the Saga Airport, which opened in July 1998, on Japan's western island of Kyushu.



The Taipei Financial Center, which has opted to use Toshiba elevators and escalators, is poised to be one of Asia's symbols in the 21st century. (Artist's depiction)

stems Company

result of unease surrounding financial systems. Nevertheless, Toshiba is working to expand its markets not just in Japan but overseas. Electronic control, systems technologies and other fields in which the company is adept are a central part of this strategy and will allow the company to deliver value-added products.

Toshiba launched the SPACEL™ new-generation space-saving elevators in Japan. This elevator, a result of collaboration with Kone Corp. of Finland, requires no machine room and was an instant success. Orders have already topped 1,000 units since marketing started in Japan in August 1998, a result that can be attributed to a concentration on energy savings and greater design freedom. These are benefits the company will use to promote a continued expansion of the business. Toshiba will offer optimum systems to meet a growing requirement for wheelchair lifts and escalators in station buildings and public facilities in line with Japan's graying population and consideration for the physically challenged.

Continuing demand for infrastructure development in China and Southeast Asia holds out promise. In China, forecasts promise rapid growth, and Toshiba is making steady gains in the elevator and escalator markets through local production and sales subsidiaries in Shanghai and Shenyang. In Southeast Asia, alliances with leading distributors are at the core of Toshiba's drive to achieve significant gains in sales.

Toshiba has racked up a number of accomplishments. Sets of double-deck elevators serve the Shanghai SENMAO International Building, a high-rise that has added a new landmark to the Shanghai skyline. In April 1999, the company won an exclusive order for a total of 97 elevators and escalators for the Taipei Financial Center, including the world's fastest elevators that run at a maximum speed of 1,000 meters per minute. On completion in 2002, the building will vie for the title of the world's tallest building. Toshiba was lauded for its high value-added products and technologies, which make maximum use of its knowledge of electronic control technologies.

FINANCIAL HIGHLIGHTS

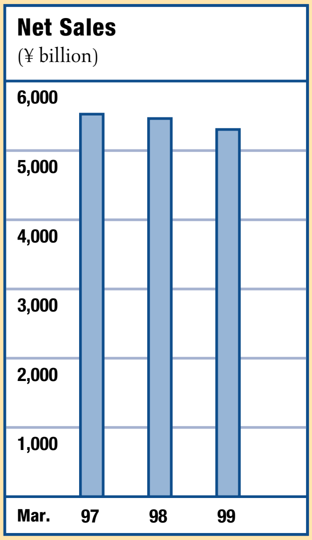
Toshiba Corporation and its subsidiaries
Years ended March 31, 1999 and 1998

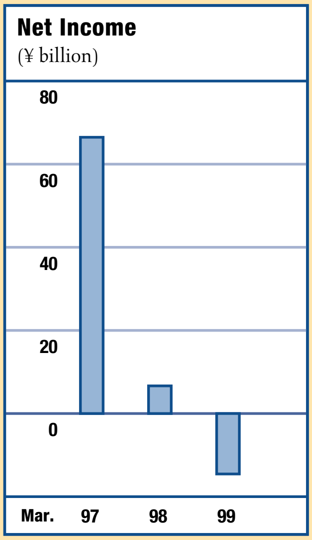
	Millions of yen		Thousands of U.S. dollars
	1999	1998	**1999**
Net sales – Japan	¥3,184,764	¥3,418,807	$26,320,363
– Overseas	2,116,138	2,039,691	17,488,744
Net sales	5,300,902	5,458,498	43,809,107
Operating income	30,483	82,294	251,926
Income before income taxes and minority interest	11,218	18,748	92,711
Net (loss) income	(13,896)	7,337	(114,843)
Research and development expenditures	316,703	322,928	2,617,380
Total assets	6,023,557	6,062,141	49,781,463
Shareholders' equity	1,050,336	1,201,615	8,680,463
	Yen		U.S. dollars
Per share of common stock:			
Net (loss) income – basic and diluted	¥(4.32)	¥ 2.28	$(0.036)
Cash dividends	6.00	10.00	0.050
Number of employees	198,000	186,000	

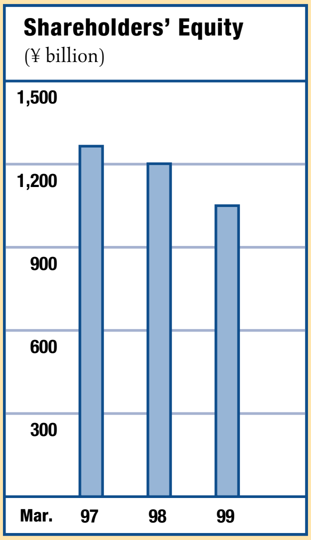
Notes: 1. Unless indicated otherwise, all dollar figures herein refer to U.S. currency. Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥121=US$1.

2. 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.





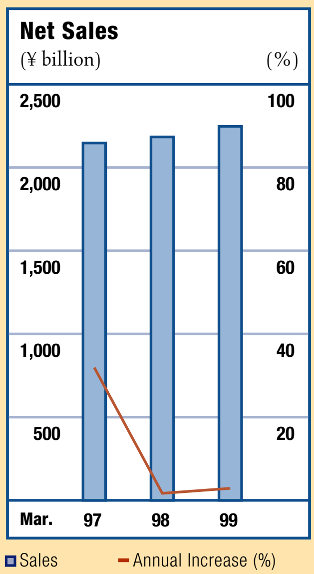


REVIEW OF OPERATIONS

INFORMATION & COMMUNICATION SYSTEMS

Sales in this segment increased 3 percent to ¥2,247.3 billion (US$18,573 million) and rose 2 percent to 38 percent of total sales.

Portable PCs performed well, mainly outside Japan, retaining Toshiba's number-one market share worldwide for the fifth consecutive year. Results were aided by reduction of excess inventory in the United States and a favorable expansion of demand in Europe. In July 1998, Toshiba introduced DynaBookSS PORTEGE 3000, a new, slim notebook PC that delivers advances in performance and simple operation in an easily portable format. The B5-sized PORTEGE is the world's slimmest at 19.8mm—and the lightest at about 1.19kg. The new series has earned many accolades, including MVP Product of the Year at COMDEX/Fall '98, the world's largest computer exhibition.



Share of Net Sales			%
Mar.	'97	'98	'99
	35.1	**35.8**	**37.8**

Note: Segment sales include intersegment transactions.

In the field of storage devices for computer peripherals, demand is rapidly shifting from CD-ROMs, where Toshiba is the world's largest supplier of drives, to DVD-ROM drives, where Toshiba aims to secure a market share of about 30 percent. The company is concentrating on developing the leading-edge, high-quality products needed to offer the reliability users expect. In the HDD market, Toshiba is at the forefront of progress in boosting recording density. One recent model, a mere 12.5mm thick, uses GMR heads to boost capacity to 10GB on 2.5-inch HDDs.

In mobile communications equipment, Toshiba is benefiting from a surge in demand in Japan to purchase upgraded handsets that accommodate e-mail and other new services. In North America, the rapid shift from analog to digital technology is presenting more opportunities. These trends enabled Toshiba to achieve good results with its CDMA handsets.

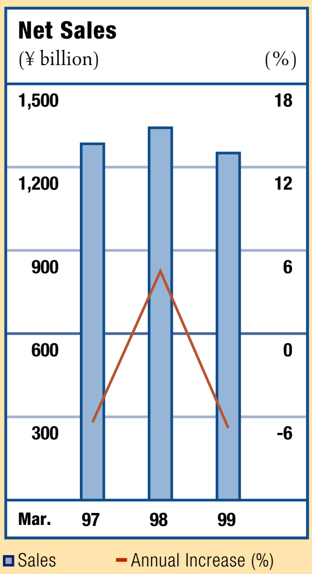
The plain paper copier sector was transferred to TEC Corporation on January 1, 1999. This move was made to unify the image processing and telecommunications technologies used in copiers, facsimiles and printers in a single company. Toshiba is now better able to plan and develop models at the speed necessary to stay ahead of changes in the market. Concurrent with this transfer, Toshiba raised its ownership of TEC Corporation over 50 percent and renamed the company Toshiba TEC Corporation.

In medical systems, Toshiba made headlines by becoming the first in the world to deliver the basic technology for multislice helical CT scanning. Cumulative sales of Toshiba's CT scanners reached the 10,000th unit in September 1998.

ELECTRONIC DEVICES & MATERIALS

Segment sales decreased 7 percent to ¥1,250.8 billion (US$10,337 million) and declined 1 percent to 21 percent of total sales.

In semiconductors, the market for DRAMs, particularly 64M DRAMs, was plagued by rapidly falling prices, sluggish demand for consumer products due to weakness in the Asian economies and a prolonged adjustment in production of mobile communications products. Logic ICs, discrete devices and other products also remained sluggish. The overall result was a substantial drop in the total semiconductor market compared with the previous year. At Toshiba, semiconductor sales were down for the third year in a row, falling 13 percent to ¥760.0 billion.



Share of Net Sales %

Mar.	'97	'98	'99
	21.0	22.0	21.0

Note: Segment sales include intersegment transactions.

Toshiba increased emphasis on logic devices and initiated full-scale production of DRAM-embedded logic devices using 0.25-micron processes. Additionally, steps were taken to raise sales of system LSIs for graphics and other demanding applications. Exemplifying this drive was the completion of development of a new microprocessor with Sony Computer Entertainment Inc. for its next-generation game console. The world's first 128-bit microprocessor, this device is capable of processing immense volumes of multimedia data at very high speeds. A production joint venture company located at Toshiba's Oita Operations was formed by the two partners in June 1999.

In memory devices, projections continue to indicate more growth in demand despite the recent sharp drop in sales. Expansion will be propelled by progress in multimedia applications that fuse data, communications and imaging functions. At its Yokkaichi Operations, Toshiba is currently producing 128M DRAMs on a commercial scale. Toshiba has strengthened its partnership with Winbond Electronics Corp. to cover technology transfer of 256M DRAMs, in addition to the relations in 16M and 64M DRAMs.

Applications for Toshiba's NAND EEPROM flash memories are growing. Currently used mainly to store images in digital still cameras, these devices are expected to gain acceptance as a music storage medium, too. Anticipating higher demand, Toshiba commercialized a 256M flash memory during the fiscal year.

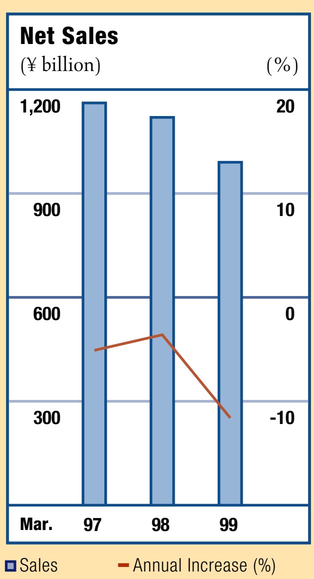
Global demand for color picture tubes is expanding at an annual rate of 3 to 4 percent with growth most pronounced in the larger size models. In Japan, the market for TVs with flat picture tubes, especially 29 inches and larger, is growing rapidly. To position itself in the mainstream of this market, Toshiba has added 29-inch and 36-inch models to its line of 28-inch and 32-inch flat-surface CRTs.

In liquid crystal displays (LCDs), Toshiba focused on improving resolution and brilliance while enhancing reliability by using fewer parts. The company demonstrated its technological leadership by commercializing the world's first low-temperature polysilicon TFT LCDs. Both power consumption and thickness are lower than in conventional amorphous LCDs. This revolutionary color display, already launched and adopted by set customers, ranges in size from a 4-inch type for PDAs to 8.4 inches for mobile terminals and 10.4 inches for notebook PCs. Mass production started in March 1999 and the sharp images and vivid colors of the displays have already won excellent reviews.

POWER & INDUSTRIAL SYSTEMS

Sales in this segment were down 12 percent to ¥990.0 billion (US$8,182 million). Both power plants and equipment and industrial equipment were hurt by low capital spending in Japan and the lingering effects of Asia's economic downturn.

Total orders received for power generation equipment and systems substantially declined against the previous year. Large orders awarded include inspection and upgrading work at Fukushima No. 1 Nuclear Power Station, operated by Tokyo Electric Power Co., Inc.; generating equipment for the Hekinan Thermal Power Station operated by Chubu Electric Power Co., Inc.; and construction of the Callide Thermal Power Station in Australia. Toshiba plans to seek business opportunities throughout Asia in an effort to raise the volume of orders. One highlight of the year was the October 1998 completion of replacement of a reactor shroud at Unit No. 3 of Fukushima No. 1, the first project of its kind in the world.



Share of Net Sales			%
Mar.	'97	'98	'99
	18.9	**18.3**	**16.6**

Note: Segment sales include intersegment transactions.

In power transmission, Toshiba demonstrated its technical edge by delivering a new type of GIS equipped with the world's first 550kV single-point circuit breaker (GCB) to the Nishishimane Substation of Chugoku Electric Power Co., Inc. and other facilities. Following up on a major backlog of orders for hydroelectric power contracts in Vietnam and the Philippines, Toshiba captured a large order from the Power Authority of Indonesia. Toshiba thus retained its position as Japan's largest supplier of hydroelectric power systems.

To preserve superiority in thermal power generation, Toshiba has formed an alliance with General Electric Company in the field of next-generation, combined-cycle generation systems that employ 1,500°C-class gas turbines. The two companies are cooperating in the development of the component systems as well as their manufacture, sale and maintenance worldwide. This gives Toshiba an enormous advantage in promoting this technology to prospective users in Asia and other parts of the world.

In the industrial systems sector, one major achievement of the year was the delivery of main power conversion systems and other key components for The 700 Series Shinkansen trains for the Central Japan Railway Company.

In the elevators and escalators business, Toshiba made vigorous marketing activities through the launch of differentiated products, including reinforcement of its lineup with SPACEL™, a new type of elevator that requires no separate room to house machinery.

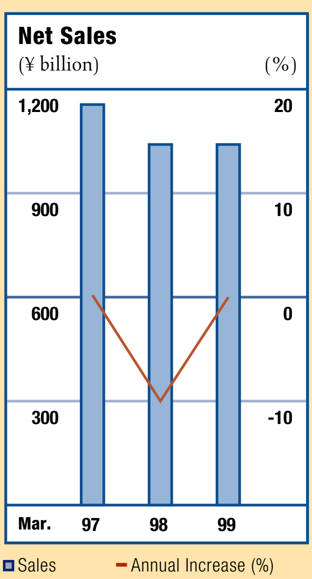
CONSUMER PRODUCTS

Sales of consumer products were about the same as in the previous fiscal year at ¥1,040.4 billion (US$8,599 million). Although overall domestic sales declined due to lackluster consumer spending and slow housing construction, Toshiba was able to record increased sales of washing machines by introducing highly competitive products. Overseas, large-screen TVs were popular.

In refrigerators, Toshiba launched the "Miharibanko" in November 1998 with much success. This model features a "twin cooler format"—two specialized refrigeration units, one for freezing and the other for chilling, that raise efficiency. Another feature is the ability to keep food fresh for twice as long as conventional refrigerators.

In washing machines, the "DD Inverter Washing Machine," which holds noise to extremely low levels and uses a proprietary DD inverter motor, was a huge hit in 1998. Single people and families where both partners are working, among other consumers, appreciate the fact that they can do their laundry late at night without disturbing their neighbors. Underpinned by such products that address people's needs, Toshiba was able to achieve significant market share gains in almost all white goods.

In TVs and other video products, Toshiba recorded strong sales of large-screen TVs in North America, thus maintaining total sales at approximately the same level as in the previous fiscal year. Consumer demand in Japan is increasing for larger, flatter and higher resolution TVs. By targeting these trends, Toshiba was able to post a positive performance amid persistently soft demand in Japan with its FACE series of TVs that feature Toshiba's own flat picture tube.



Share of Net Sales

Mar.	'97	'98	'99
%	18.9	17.0	17.5

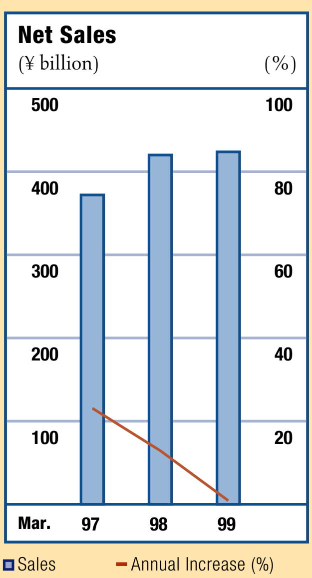
Note: Segment sales include intersegment transactions.

In air conditioners, Toshiba unveiled the "Daiseikai," the first-ever model in its class to have a full-fledged air cleaner, and the new R410A coolant that does not damage the ozone layer. Enthusiastic consumer evaluation of the product helped lift Toshiba's market share.

In order to create a robust and more stable foundation for air-conditioner operations, Toshiba entered into a joint venture agreement with Carrier Corp. of the U.S., the world's largest manufacturer of air conditioning equipment, in August 1999. The two companies established a joint venture company, Toshiba Carrier Corporation, which started operations in April 1999. The new company will seek to improve competitiveness in the global market, combining the technology, manufacturing and marketing and sales resources of the two partners.

Despite the current difficulties, all indications point to a solid and prolonged recovery in demand for visual and other consumer products in Asia. Based on this outlook, Toshiba established Toshiba Digital Consumer Technology Centre in Singapore to develop next-generation digital products for the region. Research in hardware and software performed at the center will be transformed into digital TVs, digital broadcasting tuners, DVD products and many other innovative products.

SERVICES & OTHER



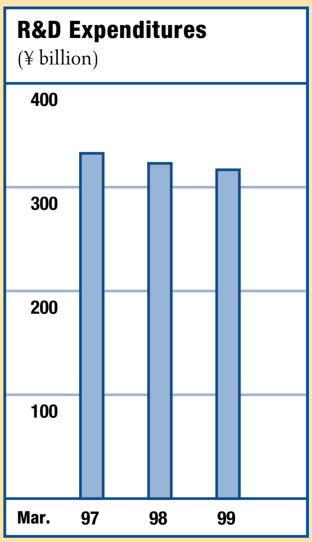
Share of Net Sales			%
Mar.	'97	'98	'99
	6.1	6.9	7.1

Note: Segment sales include intersegment transactions.

Major businesses in this segment are leasing and other financial services, real estate leasing and sales, and logistics. Segment sales increased 1 percent compared with the previous year, to ¥423.8 billion (US$3,503 million).

RESEARCH & DEVELOPMENT

Amid today's increasing pace of technology innovation, creating and sustaining corporate value in the 21st century demands R&D capabilities that can first of all generate products and services firmly grounded in market needs, and then assure that they are commercialized and brought to the market in a timely fashion.



Proportion of Net Sales			%
Mar.	'97	'98	'99
	6.0	5.9	6.0

In line with the April 1st company-wide reorganization to the in-house company system, Toshiba changed its R&D structure to shorten lead times from research to commercialization. A major change was to shift more researchers to the individual labs supporting the in-house companies. This crystallized a commitment to speeding up time to market for new products and to meeting the market needs properly.

The corporate R&D Center is charged with responsibility for development of common technology platforms supporting different business segments, market-oriented basic research, and the development of core technologies that will contribute to the entire Toshiba Group.

April also saw the establishment of the Corporate Development Center within the head office, which is charged with providing strong promotion of new projects and business development involving more than one in-house company under corporate initiatives.

GLOBALIZATION OF R&D

Globalization and mega-competition in key industries are making themselves felt in R&D, too. Recognizing this, Toshiba set up two new information and communications laboratories outside Japan in fiscal 1998, forming a tripolar structure.

Toshiba America Research, Inc. was established in New Jersey in December 1998. With Telcordia Technologies, formerly Bellcore, a leading US infrastructure developer, the lab is researching next-generation Internet and networking technologies. In Europe, the Telecommunications Research Laboratory was established in Bristol, England, in July 1998 to research communication protocols and wireless access technologies for next-generation mobile communications.

THE WORLD'S THINNEST IC PACKAGE

With its Paper-Thin Packages, Toshiba has developed the world's thinnest, lightest semiconductor packages. Thinner than a business card at a mere 0.13mm, they are about one-tenth the thickness and weight

of standard TSOP packages and offer much-improved mountability. The package meets needs for higher density ICs offering larger capacities, and are a perfect response to burgeoning demand for smaller portable products with higher performance.

REAL-TIME 3D IMAGE RECOGNITION AND PROCESSING

Real-time recognition and display of 3D images on PCs became a reality in July 1998. The company's new technology can accurately distinguish moving objects from their background, including the human body or a pair of hands. It opens the way to gesture-based interfacing with PCs, an approach enjoying advantages of greater simplicity and higher speeds than the voice or other methods. Ease-of-use and flexibility promise a high-potential alternative to the keyboard or mouse for input to PCs. Toshiba is investigating this with a prototype motion processor.

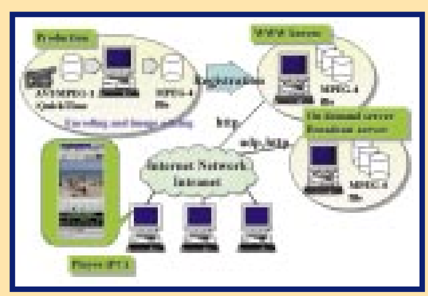
CO_2-ABSORBING CERAMIC CAN CUT EMISSIONS

Reducing emissions of carbon dioxide (CO_2) is a cornerstone of efforts for environmental protection. In April 1998, Toshiba developed a ceramic material able to absorb 400 times its own cubic volume of CO_2—more than ten times

that of any previous material. And as it does so at temperatures between 450-700°C, the ceramic is ideal for the high temperature environments of thermal power plants and automobiles, the main source of CO_2 emissions. Subsequent development of a second ceramic material with similar characteristics confirms that Toshiba is on the way to a promising solution to a pressing problem.

MOBILE MOTION™—MPEG-4 VIDEO STREAMING SYSTEM

Toshiba has developed Mobile Motion™, the world's first MPEG-4 video streaming system. MPEG-4 is a next-generation video signal compression standard that was approved in February 1999 by the International Organization for Standardization (ISO). MPEG-4 is highly resistant to errors and incorporates media object-based coding. Mobile Motion™ was created specifically to prevent signal degradation when sending video transmissions over the Internet and other low-bit-rate networks. A pre-filter eliminates the noise that is a byproduct of all MPEG compression and a post-filter raises the compression rate. Furthermore, a proprietary rate control mechanism ensures uniform intervals between frames to maintain smooth motion during playback.



ENVIRONMENTAL INITIATIVES

Involvement in a diverse range of businesses, including consumer products and power generation systems, prompts Toshiba to place environmental initiatives among the most important management issues, and to promote group-wide environmental protection activities that enter all aspects of business operations. Toshiba makes efficient use of valuable resources by promoting development of environmentally-friendly, energy-saving products, and is extending green procurement and recycling programs.

RESPECT FOR THE ENVIRONMENT

A key policy in product development is the creation of environmentally-friendly products that impose the smallest possible environmental loads throughout their lifecycle—from material procurement through manufacturing, distribution and consumption to end-of-life and disposal. An exhaustive environmental-impact assessment at the development stage minimizes the resources used in a product, while power consumption, ease of recycling and maximized reuse of materials after disassembly and recycling are all given careful consideration. This development philosophy is applied across a broad range of products, from consumer products to communications equipment and power systems.

Toshiba Group's symbol for environmental activities

READY FOR RECYCLING

In April 2001, a new law will come into force and make home appliance companies responsible for recycling the TVs, refrigerators, washing machines and air conditioners they manufacture. Toshiba is proactively involved in a company-wide initiative to establish an efficient recycling system to reduce environmental impact.

As early as December 1998, the company established Nishinihon Consumer Electronics Recycle Co., Ltd. to investigate means to effectively dismantle disposed products, differentiate reusable materials from waste, and to produce reusable materials and collect and process CFCs and other harmful substances. The system will be put to the test when trial operations start in March 2000, followed by full-scale operations in April 2001. In the longer term, Toshiba plans to extend the scope of recycling to include PCs and other office equipment, and will continue to promote optimized design for recycling and improvement of dismantling tools.

FIGHTING GLOBAL WARMING

The fight against global warming has become a worldwide common cause. Toshiba is addressing this issue through development of energy-efficient products and energy-saving initiatives in its facilities and offices. Toshiba's target goal is to cut energy consumption measured against net sales by 15 percent by fiscal 2000, with fiscal 1990 as the base year, and to reduce carbon dioxide emissions measured against net sales by 25% in fiscal 2010, with fiscal 1990 as the base year.

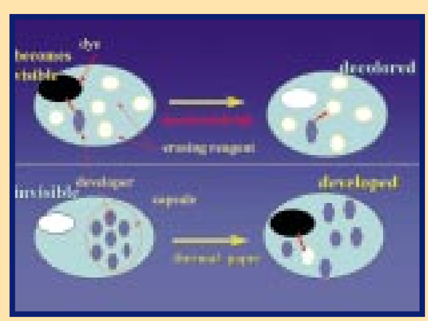
A super-cogeneration system at the company's Fuchu Operations fuses a gas-turbine cogeneration system with an ice heat storage system that uses inexpensive nighttime power.

REDUCING USE OF CHEMICALS

At a time of rising concern about hazardous chemical substances entering the environment, particularly dioxins, Toshiba is reinforcing management of environmentally relevant materials and reduction of harmful chemical substances. Since 1989, Toshiba has operated its own chemical material management system. The current focus of management efforts is elimination of environmental pollutants, and efficient data collection and reporting in compliance with the Pollutant Release and Transfer Register (PRTR) system. With its emphasis on controlling chemical movements and emissions, adoption of PRTR marks an essential, Group-wide shift away from managing the quantity of chemical substances used to a quantitative understanding of the volume of emissions.

DECOLORABLE INK

Toshiba has developed a decolorable ink, which allows decoloring of printed materials exposed to heat or a special solvent. It uses a different decoloring principle from that developed by other companies, which require individual sheets to be erased one by one, and supports bulk decoloring. A commercialized version of the system is expected to simplify paper recycling and to reduce its cost, and will promote a higher recycling rate for reused paper.



The principles of decoloration and development

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President and Chief Executive Officer and Director

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Director

TETSUYA YAMAMOTO*
Director

MASANOBU OHYAMA*
Director

TETSUO MACHII*
Director

TOMOHIKO SASAKI
Director

AKINOBU KASAMI
Director

KIYOAKI SHIMAGAMI*
Director

TADASHI OKAMURA
Director

KOZO WADA
Director

YASUO MORIMOTO
Director

KOSAKU INABA
Director

**Representative Director*

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Senior Executive Vice Presidents
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TETSUYA YAMAMOTO
MASANOBU OHYAMA
TETSUO MACHII

Executive Vice Presidents
TOMOHIKO SASAKI
AKINOBU KASAMI
KIYOAKI SHIMAGAMI
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Senior Vice Presidents
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MASAKI MATSUHASHI
MASAHIKO HASEGAWA

CORPORATE AUDITORS

ATSUMI UCHIYAMA
MASAYOSHI MOTOKI
KENJIRO HAYASHI
KAZUO CHIBA
OSAMU MIMURA

(As of June 25, 1999)

MANAGEMENT'S DISCUSSION & ANALYSIS

FIVE-YEAR SUMMARY

Toshiba Corporation and its subsidiaries
Years ended March 31

	Millions of yen, except per share amounts				
	1999	1998	1997	1996	1995
Net sales	¥5,300,902	¥5,458,498	¥5,521,887	¥5,192,244	¥4,864,015
Cost of sales	3,890,622	3,960,158	3,932,585	3,647,624	3,435,146
Selling, general and administrative expenses	1,379,797	1,416,046	1,391,471	1,282,053	1,260,053
Operating income	30,483	82,294	197,831	262,567	168,816
Income before income taxes and minority interest	11,218	18,748	125,456	177,749	120,674
Income taxes	25,494	24,475	71,593	102,965	67,607
Net (loss) income	(13,896)	7,337	67,077	90,388	44,693
Per share of common stock:					
Net (loss) income—					
Basic	¥(4.32)	¥ 2.28	¥20.84	¥28.08	¥13.89
Diluted	(4.32)	2.28	20.06	26.85	13.54
Cash dividends	6.00	10.00	10.00	10.00	10.00
Total assets	¥6,023,557	¥6,062,141	¥5,809,285	¥5,560,484	¥5,463,290
Shareholders' equity	1,050,336	1,201,615	1,264,775	1,202,265	1,118,808
Capital expenditures (property, plant and equipment)	375,464	339,584	341,020	308,653	293,823
Depreciation	309,836	291,418	252,732	261,985	283,575
R&D Expenditures	316,703	322,928	332,555	314,774	302,171
Number of employees	198,000	186,000	186,000	186,000	190,000

Notes: 1. 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.

RESULTS OF OPERATIONS

Net Sales

Consolidated net sales in fiscal 1998, the year ended March 31, 1999, decreased 3 percent compared to the previous year, to ¥5,300.9 billion (US$43,809 million). This decline was primarily attributable to three factors. First was a sudden drop in sales prices for semiconductor memories and sluggish demand for logic ICs and semiconductors used in consumer products. Second was a decline in demand for systems from corporate customers due to reduced private-sector capital expenditures in Japan. Third was soft sales of power and industrial systems. The average U.S. dollar exchange rate for sales rose from ¥122 in fiscal 1997 to ¥130 in fiscal 1998. Overall, foreign exchange movements had the net effect of increasing net sales by ¥60.0 billion. Consolidated data include the results of 219 subsidiaries in Japan and 102 overseas subsidiaries.

By region, sales in Japan decreased 7 percent to ¥3,184.8 billion (US$26,320 million). In contrast, overseas sales increased 4 percent to ¥2,116.1 billion (US$17,489 million) and accounted for 40 percent of total sales, up from 37 percent in the prior fiscal year. Overseas production increased from ¥940.0 billion in fiscal 1997 to ¥1,040.0 billion (US$8,595 million) in fiscal 1998. This accounted for 49 percent of overseas sales.

INFORMATION & COMMUNICATION SYSTEMS—Sales increased 3 percent from the previous year to ¥2,247.3 billion (US$18,573 million). Overseas sales climbed 12 percent to ¥1,057.1 billion (US$8,736 million), while domestic sales decreased 4 percent to ¥1,190.2 billion (US$9,837 million). PC sales rose 7 percent to ¥740.0 billion (US$6,116 million) on the back of strong demand overseas. Sales of systems for broadcasting, communications and financial services were strong. However, sales of computer systems for the government and public sector and corporate clients fell. In medical systems, there was a slight increase in sales due to strong demand overseas.

ELECTRONIC DEVICES & MATERIALS—Sales decreased 7 percent compared with the previous year, to ¥1,250.8 billion (US$10,337 million). Overseas sales dropped 7 percent to ¥610.2 billion (US$5,043 million) and domestic sales fell 6 percent to ¥640.6 billion (US$5,294 million). Sales of semiconductors and liquid crystal displays (LCDs) decreased 13 percent and 4 percent, respectively, to ¥760.0 billion (US$6,281 million) and ¥110.0 billion (US$909 million). Lower sales prices for semiconductor memories, sluggish sales of logic ICs and semiconductors for consumer products, and lower LCD sales prices from early in the fiscal year to midyear were the main factors behind decreased sales.

POWER & INDUSTRIAL SYSTEMS—Sales fell 12 percent compared with the previous year, to ¥990.0 billion (US$8,182 million). Overseas sales decreased 7 percent to ¥123.5 billion (US$1,021 million) and domestic sales dropped 12 percent to ¥866.5 billion (US$7,161 million). Sales of power plant and equipment and industrial equipment were down substantially due to curbs on domestic capital expenditures and weakness in Asian markets.

CONSUMER PRODUCTS—Sales were almost the same as in the previous year at ¥1,040.4 billion (US$8,599 million). Overseas sales increased 7 percent to ¥321.3 billion (US$2,656 million) and domestic sales decreased 3 percent to ¥719.1 billion (US$5,943 million). Weak consumer spending and housing investment was offset by sales growth in Japan for washing machines featuring innovative features and strong demand overseas for televisions.

SERVICES & OTHER—Sales increased 1 percent compared with the previous year, to ¥423.8 billion (US$3,503 million). The marginal gain was attributable to increased procurement of raw materials from overseas and other factors.

Net Sales by Region

	Millions of yen		
Years ended March 31	**1999**	1998	1997
Japan	¥3,184,764	¥3,418,807	¥3,523,636
North America	842,999	794,241	852,214
Asia	585,086	627,328	595,209
Europe	559,824	496,309	439,346
Other	128,229	121,813	111,482
Net sales	¥5,300,902	¥5,458,498	¥5,521,887

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 41, which are determined based upon where the sales originated.

JAPAN—Sales in Japan decreased 7 percent from the prior fiscal year. Sales were down in all segments as the operating environment, characterized by declining private-sector capital expenditures and sluggish personal consumption, continued to pose challenges.

NORTH AMERICA—Sales rose 6 percent from the prior fiscal year on the back of higher PC sales, as Toshiba unveiled new products, and strong television sales were fueled by robust consumer spending.

ASIA—Sales decreased 7 percent in this region from the prior fiscal year. In addition to soft demand caused by depression in Asian economies, sales prices of semiconductors for consumer products fell suddenly.

EUROPE—Sales in Europe climbed 13 percent from the prior fiscal year. Although the pace of economic expansion continues to decelerate in this region, good sales of PCs and medical systems contributed to the improved result.

Net Income

Cost of sales decreased 2 percent to ¥3,890.6 billion (US$32,154 million). Selling, general and administrative expenses decreased 3 percent to ¥1,379.8 billion (US$11,403 million). Operating income was down 63 percent compared with the previous year, to ¥30.5 billion (US$252 million). Declines in prices of such important products as semiconductors outweighed progress made in raising manufacturing efficiencies and cost cutting, and reductions in expenses such as personnel and R&D.

Information & communication systems posted a 120 percent increase in operating income compared with the previous year, to ¥94.7 billion (US$783 million). This was mainly attributable to significantly improved profitability in PCs. Electronic devices & materials had an operating loss of ¥68.7 billion (US$568 million), a sharp deterioration in profitability from the operating income of ¥40.5 billion recorded a year earlier. Lower sales prices for semiconductors, particularly for memories, hurt this segment. Power & industrial systems operating income was down 43 percent compared with the previous year, to ¥10.7 billion (US$88 million) in line with decreased sales. Consumer products recorded an operating loss of ¥31.2 billion (US$258 million), which was an improvement from the ¥45.3 billion operating loss of the previous year. This resulted from good overseas sales of TVs and improved profitability of washing machines and air conditioners in Japan. Services & other reported a 5 percent decrease in operating income to ¥23.4 billion (US$194 million).

Toshiba estimates that the net effect of foreign exchange movements during the fiscal year was a ¥41.0 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 ¥19.0 billion. Net foreign exchange losses in non-operating expenses were ¥22.6 billion lower than in the previous year. Reduced foreign exchange losses of Toshiba Corporation and a reduction in revaluation losses of dollar-denominated borrowings in line with increasing stability in many Asian currencies produced this result.

Net financial expenses decreased from ¥32.5 billion in the previous year, to ¥31.4 billion (US$259 million). Other income includes gains on the sale of securities, mainly shares of Time Warner Inc., and gains on sales of fixed assets, mainly land. Other expenses includes the cost of restructuring the air conditioner business, strengthening the home appliances business operated by sales subsidiaries in Japan and improvement of the semiconductor business structure.

Income before income taxes and minority interest decreased 40 percent compared with the previous year, to ¥11.2 billion (US$93 million). Income taxes increased to ¥25.5 billion (US$211 million). Income taxes includes a ¥16.8 billion (US$139 million) charge due to the revaluation of deferred assets resulting from the reduction in Japan's corporate income tax rate.

The result was a net loss of ¥13.9 billion (US$115 million) compared with net income of ¥7.3 billion in the previous year. This was Toshiba's first net loss in 23 years. However, net income for the fiscal year was ¥2.9 billion (US$24 million), if the effect of the tax rate reduction is excluded.

SEGMENT INFORMATION

The following segment information is based on Japanese accounting standards. As Japanese accounting standards do not require retroactive application of newly adopted standards, certain columns in the following tables are left blank for periods which precede the adoption of new disclosure requirements.

Industry Segments

	Millions of yen			Thousands of U.S. dollars
Years ended March 31	**1999**	1998	1997	**1999**
Net sales:				
Information & Communication Systems				
Unaffiliated customers	¥2,166,430	¥2,101,808	¥2,069,269	$17,904,380
Intersegment	80,851	82,270	78,226	668,190
Total	2,247,281	2,184,078	2,147,495	18,572,570
Electronic Devices & Materials				
Unaffiliated customers	1,052,740	1,157,267	1,104,147	8,700,331
Intersegment	198,070	184,527	179,824	1,636,942
Total	1,250,810	1,341,794	1,283,971	10,337,273
Power & Industrial Systems				
Unaffiliated customers	947,301	1,061,107	1,108,761	7,828,934
Intersegment	42,679	58,542	52,559	352,719
Total	989,980	1,119,649	1,161,320	8,181,653
Consumer Products				
Unaffiliated customers	1,013,507	1,015,494	1,136,995	8,376,090
Intersegment	26,932	24,889	18,646	222,579
Total	1,040,439	1,040,383	1,155,641	8,598,669

Years ended March 31	Millions of yen 1999	1998	1997	Thousands of U.S. dollars 1999
Services & Other				
Unaffiliated customers	120,924	122,822	102,715	999,372
Intersegment	302,885	297,208	269,268	2,503,182
Total	423,809	420,030	371,983	3,502,554
Eliminations	(651,417)	(647,436)	(598,523)	(5,383,612)
Consolidated	¥5,300,902	¥5,458,498	¥5,521,887	$43,809,107
Operating income (loss):				
Information & Communication Systems	¥ 94,717	¥ 43,058	¥ 140,124	$ 782,785
Electronic Devices & Materials	(68,722)	40,453	18,708	(567,950)
Power & Industrial Systems	10,652	18,671	35,660	88,033
Consumer Products	(31,239)	(45,251)	(15,921)	(258,174)
Services & Other	23,433	24,762	18,542	193,661
Eliminations	1,642	601	718	13,570
Consolidated	¥ 30,483	¥ 82,294	¥ 197,831	$ 251,925
Identifiable assets:				
Information & Communication Systems	¥1,592,963	¥1,445,964	¥1,512,588	$13,164,983
Electronic Devices & Materials	1,624,416	1,565,124	1,483,063	13,424,926
Power & Industrial Systems	1,103,725	1,136,984	1,121,714	9,121,694
Consumer Products	685,297	701,434	751,636	5,663,612
Services & Other	898,220	927,496	667,084	7,423,306
Corporate and Eliminations	118,936	285,139	273,200	982,942
Consolidated	¥6,023,557	¥6,062,141	¥5,809,285	$49,781,463
Depreciation and amortization:				
Information & Communication Systems	¥ 47,396	¥ 43,297	¥ 39,239	$ 391,703
Electronic Devices & Materials	176,162	162,833	147,769	1,455,884
Power & Industrial Systems	28,152	29,669	27,197	232,661
Consumer Products	31,551	30,586	30,911	260,752
Services & Other	29,694	27,427	10,306	245,405
Corporate	–	–	–	–
Consolidated	¥ 312,955	¥ 293,812	¥ 255,422	$ 2,586,405
Capital expenditures:				
Information & Communication Systems	¥ 57,247	¥ 57,183	¥ 54,045	$ 473,116
Electronic Devices & Materials	233,779	181,982	198,613	1,932,058
Power & Industrial Systems	25,910	38,360	38,774	214,132
Consumer Products	29,467	39,457	45,034	243,529
Services & Other	33,854	29,433	8,033	279,785
Corporate	–	–	–	–
Consolidated	¥ 380,257	¥ 346,415	¥ 344,499	$ 3,142,620

Geographic Segments

Years ended March 31	Millions of yen 1999	1998	1997	Thousands of U.S. dollars 1999
Net sales:				
Japan				
Unaffiliated customers	¥ 3,547,089	¥ 3,847,070	¥ 3,943,808	$ 29,314,785
Intersegment	953,186	961,017	956,550	7,877,570
Total	4,500,275	4,808,087	4,900,358	37,192,355
Overseas				
Unaffiliated customers	–	–	1,578,079	–
Intersegment	–	–	158,198	–
Total	–	–	1,736,277	–
North America				
Unaffiliated customers	788,687	741,524		6,518,074
Intersegment	75,575	63,108		624,587
Total	864,262	804,632		7,142,661
Asia				
Unaffiliated customers	379,562	353,913		3,136,876
Intersegment	223,686	226,919		1,848,645
Total	603,248	580,832		4,985,521
Europe				
Unaffiliated customers	541,246	475,367		4,473,107
Intersegment	10,919	14,711		90,240
Total	552,165	490,078		4,563,347
Other				
Unaffiliated customers	44,318	40,624		366,265
Intersegment	7,218	9,872		59,652
Total	51,536	50,496		425,917
Eliminations	(1,270,584)	(1,275,627)	(1,114,748)	(10,500,694)
Consolidated	¥ 5,300,902	¥ 5,458,498	¥ 5,521,887	$ 43,809,107
Operating income (loss):				
Japan	¥ 21,169	¥ 75,441	¥ 188,468	$ 174,950
Overseas	–	–	10,409	–
North America	(11,712)	(22,538)		(96,793)
Asia	9,128	16,606		75,438
Europe	4,529	5,581		37,430
Other	1,588	1,742		13,123
Eliminations	5,781	5,462	(1,046)	47,777
Consolidated	¥ 30,483	¥ 82,294	¥ 197,831	$ 251,925

Years ended March 31	Millions of yen 1999	1998	1997	Thousands of U.S. dollars 1999
Identifiable assets:				
Japan	¥ 5,157,299	¥ 4,934,728	¥ 4,604,366	$ 42,622,306
Overseas	–	–	940,133	–
North America	302,076	344,515		2,496,496
Asia	280,037	288,972		2,314,355
Europe	207,020	238,803		1,710,909
Other	27,493	29,821		227,215
Corporate and Eliminations	49,632	225,302	264,786	410,182
Consolidated	¥ 6,023,557	¥ 6,062,141	¥ 5,809,285	$ 49,781,463

Note: Geographic segment information for the fiscal years ended March 31, 1998 has been reclassified to conform with the current classification.

RESEARCH AND DEVELOPMENT

Consolidated R&D expenditures decreased 2 percent to ¥316.7 billion (US$2,617 million). This was 6.0 percent of net sales, compared with 5.9 percent one year earlier. A significant amount of R&D expenditures was applied to multimedia-related activities, including next-generation networking technology, portable PCs, digital broadcasting equipment and DVD, achieving finer design rules in semiconductor production, developing LSIs, polysilicon-type LCDs, nuclear power plants, new cellular telephones, digital copying machines and environmental systems. Furthermore, Toshiba established Power and Industrial Systems Research and Development Center staffed by 950 researchers during the fiscal year. Moreover, the company fortified its global R&D network with the establishment of information and communications laboratories in Europe and the U.S. Toshiba estimates that fiscal 1999 R&D expenditures will be ¥335.0 billion (US$2,769 million).

CAPITAL EXPENDITURES

Capital expenditures, which include investments in property, plant and equipment of ¥375.5 billion (US$3,103 million), were ¥380.3 billion (US$3,143 million), an increase of 9.8 percent from the prior year. Capital expenditures for electronic devices & materials were ¥233.8 billion (US$1,932 million), representing 61 percent of the total. Significant elements of these expenditures were memory production facilities at the Yokkaichi Operations and investments to begin operations at subsidiary Yokkaichi Toshiba Electronics Corporation. Capital expenditures in information & communication systems totaled ¥57.2 billion (US$473 million). In power & industrial systems, capital expenditures totaled ¥25.9 billion (US$214.1 million). In consumer products, capital expenditures were ¥29.5 billion (US$244 million).

FINANCIAL POSITION

As of March 31, 1999, total assets were ¥6,023.6 billion (US$49,781 million), a decrease of ¥38.6 billion from the prior year. Current assets declined by ¥133.4 billion. Cash and cash equivalents decreased by ¥118.2 billion as deposits were affected by adoption of committed lines of credit agreements. Notes and accounts receivable, trade declined due to asset-backed securitization programs by some U.S. subsidiaries. Investments in affiliated companies dropped mainly because Toshiba TEC Corporation became a consolidated subsidiary during the year due to a change in the ownership rate. Other assets increased ¥96.5 billion due to an increase in the deferred tax asset in line with an increase in the minimum pension liability and other factors. Total debt fell by ¥79.1 billion compared to the previous year, to ¥2,181.7 billion (US$18,030 million), as a result of Toshiba's continuous efforts to reduce its debt with funds from the asset-backed securitization programs and the more effective management of finances on a group-wide basis. Accrued pension and severance costs increased by ¥146.9 billion because of an increase in projected benefit obligations due to a decline in the applicable discount rate. The net loss and recognition of a minimum pension liability adjustment caused shareholders' equity to decrease by ¥151.3 billion compared with the previous year, to ¥1,050.3 billion (US$8,680 million).

CASH FLOWS

Net cash provided by operating activities was ¥264.9 billion (US$2,190 million), compared with ¥272.8 billion in the prior year. Net cash was mainly provided by depreciation and amortization of ¥313.0 billion (US$2,586 million), and a decrease in notes and accounts receivable, trade of ¥89.9 billion (US$743 million) and was used in a net loss of ¥13.9 billion (US$115 million), an increase in other current assets of ¥61.0 billion (US$504 million), and a decrease in other current liabilities of ¥65.6 billion (US$542 million).

Net cash used in investing activities fell to ¥280.1 billion (US$2,315 million). Proceeds from the sale of securities, particularly shares of Time Warner Inc., and the sale of property were ¥133.0 billion (US$1,099 million). Acquisition of property and equipment increased as the company made investments in semiconductors and other strategic products.

Net cash used in financing activities was ¥94.3 billion (US$780 million) as the company reduced debt.

The result of the above activities was a net decrease of ¥118.2 billion (US$977 million) in cash and cash equivalents to ¥497.8 billion (US$4,114 million).

TOSHIBA AND YEAR 2000 (Y2K) COMPLIANCE

1. Basic Stance and Action

(1) Policy

Toshiba is fully aware of the impact on business of Y2K, an issue associated with computer systems, including hardware and application programs, and equipment incorporating microprocessors. Recognizing the importance of this issue, the Toshiba Group, including subsidiaries and affiliates worldwide, is tackling the problem with the utmost vigor.

(2) Organizational structure

Toshiba began concerted efforts to deal with the Y2K issue in April 1995. October 1998 saw establishment of the Year 2000 Solution Division, a corporate-level organization that reports directly to the president, and the initiation of a corporate Y2K Project, under the leadership of a senior executive vice president and the deputy leadership of an executive vice president. The Y2K Project embraces activities in all of Toshiba's operations, including the corporate staff divisions, in-house companies, including factories, and branch offices. Subsidiaries and affiliates in Japan and overseas also have Y2K projects, which receive guidance from their supervisory organization in Toshiba. Employee awareness of Y2K-related issues is enhanced by means of in-house publicity and events and the company web site. Progress in Y2K readiness is reported periodically to the Board of Directors.

(3) Current situation

All Toshiba products have been checked for Y2K compliance. Where necessary, Toshiba is notifying customers of potential Y2K issues and implementing measures following discussions with customers. Furthermore, Toshiba is providing information on the Y2K compliance of mass-produced products on its web site and answering questions from customers. Where products require action but it is not possible for Toshiba to identify all the customers, the company provides information by means of newspaper advertisements.

Toshiba has inspected all of its facilities and systems to ensure that it will continue to be able to provide products and services, and has drawn up countermeasures where problems exist. At present, the company is replacing or remedying Y2K-affected facilities and systems. Remediation work for high-priority facilities is scheduled for completion in June 1999, and simulation tests and implementation of Y2K measures for other facilities and systems are scheduled for completion by September 1999. Toshiba has requested its suppliers to achieve Y2K compliance by September 1999. The company has surveyed compliance at its main suppliers and plans confirmatory visits. Connections between Toshiba's systems and those of outside parties with which Toshiba has EDI links are being checked and tested.

2. Expenditures on Y2K measures

Information systems at Toshiba are being reconstructed using ERP packages, and Y2K measures are included in the reconstruction. Expenditures exclusively on Y2K measures are expected to amount to ¥16.3 billion, ¥7.8 billion of which was expended by March 31, 1999. Expenditures on existing plans that include Y2K measures, such as reconstruction of information systems, are expected to amount to ¥27.9 billion, of which ¥19.7 billion had been expended by March 31, 1999. These expenditures are both necessary and sufficient for Y2K measures. The cost impact of the company's Y2K measures is slight within the context of Toshiba's overall operations, and funding is provided from cash flows from operating activities.

3. Risk

Toshiba's products and facilities and systems are extremely varied in nature. Furthermore, there are many cases where the company's products are used together with other products, including those made by other companies. As such, Toshiba cannot provide an assurance that Y2K-related problems will not arise. There may also be instances where Toshiba and suppliers fall behind their respective Y2K-compliance schedules and/or are not prepared for certain unforeseen problems.

Moreover, Toshiba cannot provide an assurance that its operations will not be affected by Y2K-related problems concerning transportation, communications, financial, public services and other systems and services of companies and government organizations.

There is a possibility that should these risks materialize that they will have an impact on Toshiba's business results and financial condition.

4. Contingency plans

Toshiba has formulated a contingency plan to prepare for unforeseen Y2K-related problems.

Customer support for products will be offered by emergency communication channels Toshiba will establish. In order to assure a swift response, these will also operate during holidays, particularly at 1999 year-end and the new year in 2000. Systems and procedures for customer support will include a 24-hour-service inquiry hot line.

Toshiba will do its utmost to ensure the Y2K compliance of its facilities and systems by means of simulation tests before 2000, data back-up at 1999 year-end, start-up prior to the start of operations in 2000, and other measures. Systems and procedures for recovery of facilities and systems will be established in readiness for unexpected eventualities resulting from oversights or errors in countermeasures. At the same time, alternative operations will be devised based on evaluation of risks to facilities and systems, including risks to suppliers and parties with which Toshiba has EDI connections. A contingency plan system, including communication and decision-making in the event of emergency, will be established.

5. Other

Toshiba is promoting Y2K solutions in terms of both products and facilities and systems in an effort to ensure that customers are not affected and that there is no serious impact on business activities. However, Y2K problems are multifaceted and a problem may arise that cannot be solved by Toshiba alone. Consequently, it is not possible for Toshiba to be certain that its thorough preparation and implementation of measures will preclude any impact on business or claims by third parties. Toshiba is establishing systems and procedures to enable the accurate assessment of situations and swift actions to minimize risks.

PRINCIPAL SUBSIDIARIES AND AFFILIATED COMPANIES

As of March 31, 1999 — *Percentage held by Toshiba Corporation*

CONSOLIDATED SUBSIDIARIES:

Japan

Iwate Toshiba Electronics Co., Ltd.	100
Kitashiba Electric Co., Ltd.	79
Kitsuki Toshiba Electronics Corporation	100
Kyodo Building Corporation	100
Shibaura NIDEC Corporation	60
Tokyo Electronic Industry Co., Ltd.	75
Toshiba Battery Co., Ltd.	100
Toshiba Building & Lease Co., Ltd.	100
Toshiba Carrier Air Conditioning Systems Corporation	100
Toshiba Chemical Corporataion	57
Toshiba Credit Corporation	100
Toshiba Device Corporation	100
Toshiba Elevator Corporation	100
Toshiba Engineering Corporation	100
Toshiba Home Technology Corporation	100
Toshiba Information Systems (Japan) Corporation	88
Toshiba Insurance Service Corporation	100
Toshiba Lighting & Technology Corporation	100
Toshiba Logistics Corporation	100
Toshiba Microelectronics Corporation	100
Toshiba Plant Kensetsu Co., Ltd.	56
Toshiba Shataku Corporation	100
Toshiba System Creator Co., Ltd.	100
Toshiba TEC Corporation	50
Toshiba TLC Inc.	100
Toshiba Video Products Japan Co., Ltd.	100
Yokkaichi Toshiba Electronics Corporation	100

Canada

Toshiba of Canada, Ltd.	100

U.S.A.

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 International Corporation	100
Toshiba Display Devices Inc.	100
Toshiba Satellite Broadband, Inc.	100

U.K.

Toshiba Information Systems (UK) Ltd.	100
Toshiba (UK) Ltd.	100

The Netherlands

Toshiba Medical Systems Europe B.V.	100

Germany

Toshiba Electronics Europe GmbH	100
Toshiba Europe GmbH	100

France

Toshiba Systèmes (France) S.A.	100

The People's Republic of China

Guangdong Toshiba Macro Compressor Ltd.	60
Guangdong Toshiba Macro Motor Ltd.	60
Toshiba Electronics Asia, Ltd.	100

Taiwan

Toshiba Electronics Taiwan Corporation	90

Philippines

Toshiba Information Equipment (Philippines), Inc.	100

Thailand

Toshiba Display Devices (Thailand) Co., Ltd.	93
Toshiba Semiconductor (Thailand) Co., Ltd.	95

Malaysia

TIM Electronics Sdn. Bhd.	100
Toshiba Electronics Malaysia Sdn. Bhd.	100

Singapore

TEC Singapore Electronics Pte. Ltd.	100
Toshiba Electronics Asia (Singapore) Pte., Ltd.	100
Toshiba Singapore Pte., Ltd.	100

Australia

Toshiba (Australia) Pty., Ltd.	100

AFFILIATED COMPANY:

Japan

Toshiba Ceramics Co., Ltd.	48

CONSOLIDATED BALANCE SHEETS

Toshiba Corporation and its subsidiaries
As of March 31, 1999 and 1998

	Millions of yen		Thousands of U.S. dollars (Note 3)
ASSETS	1999	1998	1999
Current assets:			
Cash and cash equivalents	¥ 497,752	¥ 615,935	$ 4,113,653
Marketable securities (Note 4)	124,017	120,748	1,024,934
Notes and accounts receivable, trade (Note 8)—			
Notes	199,416	224,130	1,648,066
Accounts	972,459	1,033,368	8,036,851
Allowance for doubtful notes and accounts	(34,267)	(38,603)	(283,199)
Finance receivables, net (Note 5)	259,665	250,535	2,145,992
Inventories (Note 6)	997,886	1,001,801	8,246,992
Prepaid expenses and other current assets (Note 13)	281,540	224,044	2,326,777
Total current assets	3,298,468	3,431,958	27,260,066
Long-term receivables and investments:			
Long-term receivables	43,008	45,916	355,438
Long-term finance receivables, net (Note 5)	335,137	318,368	2,769,727
Investments in and advances to affiliated companies (Note 7)	151,368	203,590	1,250,975
Other investments (Note 4)	128,020	136,992	1,058,017
	657,533	704,866	5,434,157
Property, plant and equipment (Note 8):			
Land	164,973	154,514	1,363,413
Buildings	1,076,050	1,034,029	8,892,975
Machinery and equipment	3,076,298	2,934,697	25,423,951
Construction in progress	72,684	106,995	600,694
	4,390,005	4,230,235	36,281,033
Less – Accumulated depreciation	(2,840,057)	(2,726,039)	(23,471,545)
	1,549,948	1,504,196	12,809,488
Other assets (Notes 9 and 13)	517,608	421,121	4,277,752
	¥ 6,023,557	¥ 6,062,141	$ 49,781,463

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 3)
	1999	1998	**1999**
Current liabilities:			
Short-term borrowings (Note 8)	¥ 767,417	¥ 880,855	$ 6,342,289
Current portion of long-term debt (Note 8)	235,846	367,552	1,949,140
Notes payable, trade	190,451	215,144	1,573,975
Accounts payable, trade	823,689	766,318	6,807,347
Notes and accounts payable for construction	50,106	83,237	414,099
Accrued income and other taxes	50,212	48,658	414,975
Advance payments received	298,272	253,541	2,465,058
Employees' savings deposits	9,048	102,051	74,777
Accrued expenses and other current liabilities	555,074	523,173	4,587,389
Total current liabilities	2,980,115	3,240,529	24,629,049
Long-term liabilities:			
Long-term debt (Note 8)	1,178,411	1,012,350	9,738,934
Accrued pension and severance costs (Note 9)	692,150	545,293	5,720,248
	1,870,561	1,557,643	15,459,182
Minority interest in consolidated subsidiaries	122,545	62,354	1,012,769
Shareholders' equity:			
Common stock, ¥50 par value –			
Authorized – 10,000,000,000 shares			
Issued and outstanding:			
1999 – 3,218,999,545 shares	274,916	–	2,272,033
1998 – 3,218,999,545 shares	–	274,916	–
Additional paid-in capital	285,727	285,727	2,361,380
Retained earnings (Notes 8 and 14)	673,622	713,269	5,567,124
Accumulated other comprehensive income (loss) (Note 14)	(183,929)	(72,297)	(1,520,074)
	1,050,336	1,201,615	8,680,463
Commitments and contingent liabilities (Note 17)			
	¥6,023,557	¥6,062,141	$49,781,463

CONSOLIDATED STATEMENTS OF INCOME

Toshiba Corporation and its subsidiaries
For the years ended March 31, 1999 and 1998

	Millions of yen		Thousands of U.S. dollars (Note 3)
	1999	1998	**1999**
Sales and other income:			
Net sales	¥5,300,902	¥5,458,498	$43,809,107
Other income	126,078	80,406	1,041,967
	5,426,980	5,538,904	44,851,074
Costs and expenses:			
Cost of sales (Note 10)	3,890,622	3,960,158	32,153,901
Selling, general and administrative (Notes 10 and 11)	1,379,797	1,416,046	11,403,281
Interest	52,148	54,022	430,975
Other (Note 12)	93,195	89,930	770,206
	5,415,762	5,520,156	44,758,363
Income before income taxes and minority interest	11,218	18,748	92,711
Income taxes (Note 13):			
Current	42,949	27,315	354,950
Deferred	(17,455)	(2,840)	(144,256)
	25,494	24,475	210,694
Loss before minority interest	(14,276)	(5,727)	(117,983)
Minority interest in income (loss) of consolidated subsidiaries	1,380	(1,387)	11,405
Loss from consolidated companies	(15,656)	(4,340)	(129,388)
Equity in income of affiliated companies	1,760	11,677	14,545
Net (loss) income	¥ (13,896)	¥ 7,337	$ (114,843)

	Exact yen		U.S. dollars (Note 3)
Per share of common stock (Note 15):			
Net (loss) income – basic and diluted	¥(4.32)	¥ 2.28	$(0.036)
Cash dividends	¥ 6.00	¥10.00	$ 0.050

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Toshiba Corporation and its subsidiaries
For the years ended March 31, 1999 and 1998

	Millions of yen				
	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance at March 31, 1997	¥274,916	¥285,727	¥738,120	¥ (33,988)	¥1,264,775
Comprehensive income (loss):					
Net income			7,337		7,337
Other comprehensive income (loss), net of tax (Note 14)–					
Foreign currency translation adjustments				(7,500)	(7,500)
Minimum pension liability adjustment (Note 9)				(30,809)	(30,809)
Comprehensive income (loss)					(30,972)
Cash dividends			(32,188)		(32,188)
Balance at March 31, 1998	274,916	285,727	713,269	(72,297)	1,201,615
Comprehensive income (loss):					
Net loss			(13,896)		(13,896)
Other comprehensive income (loss), net of tax (Note 14)–					
Foreign currency translation adjustments				(18,714)	(18,714)
Minimum pension liability adjustment (Note 9)				(92,918)	(92,918)
Comprehensive income (loss)					(125,528)
Cash dividends			(25,751)		(25,751)
Balance at March 31, 1999	¥274,916	¥285,727	¥673,622	¥(183,929)	¥1,050,336

	Thousands of U.S. dollars (Note 3)				
	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance at March 31, 1998	$2,272,033	$2,361,380	$5,894,785	$ (597,496)	$ 9,930,702
Comprehensive income (loss):					
Net loss			(114,843)		(114,843)
Other comprehensive income (loss), net of tax (Note 14)–					
Foreign currency translation adjustments				(154,661)	(154,661)
Minimum pension liability adjustment (Note 9)				(767,917)	(767,917)
Comprehensive income (loss)					(1,037,421)
Cash dividends			(212,818)		(212,818)
Balance at March 31, 1999	$2,272,033	$2,361,380	$5,567,124	$(1,520,074)	$ 8,680,463

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Toshiba Corporation and its subsidiaries
For the years ended March 31, 1999 and 1998

	Millions of yen		Thousands of U.S. dollars (Note 3)
	1999	1998	**1999**
Cash flows from operating activities:			
Net (loss) income	¥ (13,896)	¥ 7,337	$ (114,843)
Adjustments to reconcile net (loss) income to net cash provided by operating activities –			
Depreciation and amortization	312,955	293,812	2,586,405
(Reversal of) accrual for pension and severance costs, less payments	(17,907)	3,445	(147,992)
Deferred income taxes	(17,455)	(2,840)	(144,256)
Equity in income of affiliated companies	(1,760)	(11,677)	(14,545)
Gain on sale and disposal of property and securities, net	(31,155)	(18,100)	(257,479)
Minority interest in income (loss) of consolidated subsidiaries	1,380	(1,387)	11,405
Decrease in notes and accounts receivable, trade	89,891	59,367	742,901
(Increase) decrease in finance receivables, net	(9,180)	30,597	(75,868)
Decrease in inventories	21,341	64,736	176,372
Increase in other current assets	(60,990)	(6,112)	(504,050)
Decrease (increase) in long-term receivables	2,885	(13,817)	23,843
Increase in long-term finance receivables, net	(16,769)	(20,163)	(138,587)
Increase (decrease) in notes and accounts payable, trade	17,782	(67,499)	146,959
Increase (decrease) in accrued income and other taxes	8,033	(12,622)	66,389
Increase (decrease) in advance payments received	45,350	(53,179)	374,793
(Decrease) increase in other current liabilities	(65,558)	20,872	(541,802)
Net cash provided by operating activities	264,947	272,770	2,189,645
Cash flows from investing activities:			
Proceeds from sale of property and securities	132,957	79,424	1,098,818
Acquisition of property and equipment	(409,695)	(365,757)	(3,385,909)
Purchase of marketable securities	(11,130)	(15,378)	(91,984)
Effect of subsidiaries newly consolidated due to change in ownership rate	52,276	–	432,033
Decrease in investments in affiliated companies	3,622	4,309	29,934
(Increase) decrease in other investments	(28,648)	16,615	(236,760)
Increase in other assets and other	(19,451)	(19,419)	(160,752)
Net cash used in investing activities	(280,069)	(300,206)	(2,314,620)
Cash flows from financing activities:			
Proceeds from long-term debt	447,771	530,023	3,700,587
Repayment of long-term debt	(416,954)	(265,564)	(3,445,901)
Dividends paid	(25,656)	(32,188)	(212,033)
Decrease in short-term borrowings	(99,483)	(166,692)	(822,174)
Net cash (used in) provided by financing activities	(94,322)	65,579	(779,521)
Effect of exchange rate changes on cash and cash equivalents	(8,739)	(2,628)	(72,223)
Net (decrease) increase in cash and cash equivalents	(118,183)	35,515	(976,719)
Cash and cash equivalents at beginning of year	615,935	580,420	5,090,372
Cash and cash equivalents at end of year	¥ 497,752	¥ 615,935	$ 4,113,653
Supplemental disclosure of cash flow information:			
Cash paid during the year for –			
Interest	¥ 65,719	¥ 71,285	$ 543,132
Income taxes	¥ 45,810	¥ 65,230	$ 378,595

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Toshiba Corporation and its subsidiaries

1. COMPANY OPERATIONS:

Toshiba Corporation and its subsidiaries are engaged in the research and development, manufacturing and sales of high-technology electronic and energy products, which span (1) information & communication systems, (2) electronic devices & materials, (3) power & industrial systems, (4) consumer products, and (5) services & other. For the years ended March 31, 1999 and 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 relatively 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 included in the other comprehensive income (loss) and reported as a 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 based upon progress toward completion of the contracts as measured by achievement of contract milestones.

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.

ACCRUED PENSION AND SEVERANCE COSTS –
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 –
Basic earnings per share ("EPS") is computed based on the weighted-average number of shares of common stock outstanding during each period. Diluted EPS assumes the dilution that could occur if dilutive convertible debentures were converted into common stock.

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.

COMPREHENSIVE INCOME –
The company has adopted Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income," for the fiscal year beginning April 1, 1998. In this standard, comprehensive income is defined as total changes in shareholders' equity except capital transactions. As discussed in Note 4, the company has not adopted SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and consequently, the effects on shareholders' equity as required under the provisions of SFAS No. 115 are not included in comprehensive income. The company's comprehensive income (loss) is comprised of net income (loss) and other comprehensive income (loss) representing changes in foreign currency translation adjustments and minimum pension liability adjustment. Comprehensive income (loss) and its components are disclosed in the consolidated statements of shareholders' equity and in Note 14.

NEW ACCOUNTING STANDARDS –
In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. SFAS No. 133 requires that all derivatives be recognized as either assets or liabilities in the balance sheet and be measured at fair value. The fair value adjustments are recorded in current earnings or other comprehensive income, depending on whether a derivative instrument is designated as part of a hedge transaction and, if it is, the type of hedge transaction. In the case of the company, this statement is effective for the fiscal year beginning April 1, 2000. At this stage, the impact from adoption of this statement on the company's financial position or results of operations is not estimable.

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. Currently, the company is in the process of evaluating the impact from adoption of this SOP on its results of operations or financial conditions.

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 ¥121=US$1, the approximate current rate of exchange at March 31, 1999, 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 other comprehensive income (loss) 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, 1999 and 1998 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
March 31	**1999**	1998	**1999**
Shareholders' equity as reported	¥1,050,336	¥1,201,615	$8,680,463
Net increase in the carrying amount of:			
Marketable securities	104,156	129,250	860,793
Other investments	27,808	64,202	229,818
Net decrease in deferred tax assets:			
Prepaid expenses and other current assets	(44,345)	(61,710)	(366,488)
Other assets	(11,629)	(30,614)	(96,107)
Net decrease in minority interest	45	149	372
Net increase in investments in affiliated companies	2,382	3,054	19,686
Net unrealized gain on available-for-sale securities	78,417	104,331	648,074
Shareholders' equity in accordance with accounting principles generally accepted in the United States of America	¥1,128,753	¥1,305,946	$9,328,537

The net unrealized gain on available-for-sale securities decreased by ¥25,914 million ($214,165 thousand) and ¥19,721 million during the years ended March 31, 1999 and 1998, respectively. If the provisions of SFAS No. 115 had been adopted, comprehensive loss for the years ended March 31, 1999 and 1998 would have been ¥151,442 million ($1,251,587 thousand) and ¥50,693 million, 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, 1999 and 1998 are as follows:

(Millions of yen)

	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
March 31, 1999:				
Equity securities	¥133,212	¥142,352	¥10,642	¥264,922
Debt securities	17,433	269	15	17,687
	¥150,645	¥142,621	¥10,657	¥282,609
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

(Thousands of U.S. dollars)

	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
March 31, 1999:				
Equity securities	$1,100,926	$1,176,463	$87,950	$2,189,439
Debt securities	144,074	2,223	124	146,173
	$1,245,000	$1,178,686	$88,074	$2,335,612

At March 31, 1999, debt securities mainly consist of corporate debt securities.

Contractual maturities of debt securities classified as available-for-sale were as follows at March 31, 1999:

	Millions of yen		Thousands of U.S. dollars	
	Carrying amount	Fair value	Carrying amount	Fair value
Due within one year	¥ 8,418	¥ 8,637	$ 69,570	$ 71,380
Due after one year	9,015	9,050	74,504	74,793
	¥17,433	¥17,687	$144,074	$146,173

The proceeds from sales of available-for-sale securities for the years ended March 31, 1999 and 1998 were ¥122,368 million ($1,011,306 thousand) and ¥71,139 million, respectively. The gross realized gains on those sales for the years ended March 31, 1999 and 1998 were ¥64,843 million ($535,893 thousand) and ¥28,099 million, respectively. The gross realized losses on those sales for the years ended March 31, 1999 and 1998 were ¥6,041 million ($49,926 thousand) and ¥351 million, respectively.

5. FINANCE RECEIVABLES:

Finance receivables comprise the following:

March 31	Millions of yen 1999	Millions of yen 1998	Thousands of U.S. dollars 1999
Investment in financing leases:			
Total minimum lease payments receivable	¥ 377,182	¥ 356,070	$ 3,117,207
Estimated executory costs	(16,796)	(15,609)	(138,810)
Unearned income	(19,510)	(20,287)	(161,240)
Estimated residual values	7,113	7,064	58,785
	347,989	327,238	2,875,942
Less – Allowance for doubtful accounts	(1,887)	(1,758)	(15,595)
	346,102	325,480	2,860,347
Less – Current portion	(120,626)	(114,632)	(996,909)
	¥ 225,476	¥ 210,848	$ 1,863,438
Other finance receivables	¥ 262,727	¥ 263,760	$ 2,171,298
Less – Allowance for doubtful accounts	(14,027)	(20,337)	(115,926)
	248,700	243,423	2,055,372
Less – Current portion	(139,039)	(135,903)	(1,149,083)
	¥ 109,661	¥ 107,520	$ 906,289

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, 1999, 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
2000	¥124,901	$1,032,240	¥141,793	$1,171,843
2001	98,136	811,042	40,744	336,727
2002	73,842	610,264	25,764	212,926
2003	48,790	403,223	14,474	119,620
2004	24,395	201,612	16,330	134,959
Thereafter	7,118	58,826	23,622	195,223
	¥377,182	$3,117,207	¥262,727	$2,171,298

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 1999	Millions of yen 1998	Thousands of U.S. dollars 1999
Finished products	¥356,538	¥ 368,652	$2,946,595
Work in process:			
Long-term contracts	288,830	294,275	2,387,025
Other	231,283	215,185	1,911,430
Raw materials	121,235	123,689	1,001,942
	¥997,886	¥1,001,801	$8,246,992

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 ¥79,273 million ($655,149 thousand) and ¥131,302 million at March 31, 1999 (six companies) and 1998 (eight companies), respectively. The company's investments in these companies had a market value of ¥74,463 million ($615,397 thousand) and ¥156,879 million at March 31, 1999 and 1998, 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:

	Millions of yen		Thousands of U.S. dollars
March 31	**1999**	1998	**1999**
Current assets	¥482,736	¥ 680,088	$3,989,554
Other assets including property, plant and equipment	449,816	570,330	3,717,487
Total assets	¥932,552	¥1,250,418	$7,707,041
Current liabilities	¥320,119	¥ 492,169	$2,645,611
Long-term liabilities	247,384	273,881	2,044,496
Shareholders' equity	365,049	484,368	3,016,934
Total liabilities and shareholders' equity	¥932,552	¥1,250,418	$7,707,041

	Millions of yen		Thousands of U.S. dollars
Years ended March 31	**1999**	1998	**1999**
Sales	¥866,233	¥1,059,466	$7,158,950
Net income	¥ 2,957	¥ 23,831	$ 24,438

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

	Millions of yen		Thousands of U.S. dollars
Years ended March 31	**1999**	1998	**1999**
Sales	¥ 10,456	¥ 19,287	$ 86,413
Purchases	¥172,694	¥205,428	$1,427,223

	Millions of yen		Thousands of U.S. dollars
March 31	**1999**	1998	**1999**
Notes and accounts receivable, trade	¥ 1,765	¥ 4,455	$ 14,587
Other receivables	¥ 672	¥ 1,809	$ 5,554
Notes and accounts payable	¥26,922	¥58,606	$222,496

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

Short-term borrowings at March 31, 1999 and 1998 comprise the following:

	Millions of yen		Thousands of U.S. dollars
March 31	**1999**	1998	**1999**
Loans, principally from banks, including bank overdrafts, with weighted-average interest rate of 1.37 percent at March 31, 1999 and 1.72 percent at March 31, 1998:			
Secured	¥ 9,770	¥ 5,125	$ 80,744
Unsecured	637,541	656,215	5,268,934
Commercial paper with weighted-average interest rate of 1.99 percent at March 31, 1999 and 4.65 percent at March 31, 1998	120,106	219,515	992,611
	¥767,417	¥880,855	$6,342,289

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.

At March 31, 1999, the company and subsidiaries had unused committed lines of credit from short-term financing arrangements aggregating ¥211,792 million ($1,750,347 thousand), of which ¥63,892 million ($528,033 thousand) was in support of the company's commercial papers. These lines of credit have commitment fee requirements.

Long-term debt at March 31, 1999 and 1998 comprise the following:

	Millions of yen		Thousands of U.S. dollars
March 31	**1999**	1998	**1999**
Loans, principally from banks and insurance companies, due 1999 to 2032 with interest ranging from 0.42 percent to 7.86 percent at March 31, 1999 and due 1998 to 2028 with interest ranging from 0.57 percent to 15.37 percent at March 31, 1998:			
Secured	¥ 62,337	¥ 62,372	$ 515,182
Unsecured	620,747	643,640	5,130,140
Unsecured yen bonds, due 2000 to 2008 with interest ranging from 1.1 percent to 3.025 percent at March 31, 1999 and due 1999 to 2008 with interest ranging from 1.25 percent to 3.025 percent at March 31, 1998	510,000	390,000	4,214,876
Euro yen medium-term notes, due 2001 to 2009 with interest ranging from zero percent to 2.34 percent at March 31, 1999 and due 2001 to 2008 with interest ranging from zero percent to 2.00 percent at March 31, 1998 (swapped for floating rate (LIBOR, etc.) or fixed rate yen obligations)	63,500	30,500	524,793
6.75 percent Euro U.S. dollar medium-term notes due 2008 (swapped for fixed rate yen obligations)	630	630	5,207
Unsecured convertible debentures:			
1.4 percent yen debentures due 1999 convertible currently at ¥1,307 per share	–	149,004	–
1.8 percent yen debentures due 2002 convertible currently at ¥724 per share	17,747	17,747	146,669
Unsecured yen bonds of subsidiaries, due 2000 to 2004 with interest ranging from 2.37 percent to 3.1 percent at March 31, 1999 and due 2000 with interest ranging from 2.8 percent to 3.1 percent at March 31, 1998	20,000	10,000	165,289
Yen or U.S. dollar medium-term notes of subsidiaries, due 1999 to 2009 with interest ranging from zero percent to 5.72 percent at March 31, 1999 and due 1998 to 2007 with interest ranging from 0.20 percent to 15.00 percent at March 31, 1998 (swapped for floating rate (LIBOR, etc.) U.S. dollar obligations)	111,179	76,009	918,835
2.2 percent secured yen convertible debentures of a subsidiary due 2002 convertible currently at ¥1,095.8 per share	8,117	–	67,083
	1,414,257	1,379,902	11,688,074
Less – Portion due within one year	(235,846)	(367,552)	(1,949,140)
	¥1,178,411	¥1,012,350	$ 9,738,934

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, 1999 are property, plant and equipment with a book value of ¥45,527 million ($376,256 thousand) and accounts receivable, trade of ¥1,554 million ($12,843 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 and a subsidiary, in whole or in part, at defined prices.

At March 31, 1999, 24,512 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
2000	¥ 235,846	$ 1,949,140
2001	232,751	1,923,562
2002	235,027	1,942,372
2003	190,407	1,573,612
2004	193,874	1,602,264
Thereafter	326,352	2,697,124
	¥1,414,257	$11,688,074

9. ACCRUED PENSION AND SEVERANCE COSTS:

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 and severance cost for 1999 and 1998 included the following components:

	Millions of yen		Thousands of U.S. dollars
Years ended March 31	**1999**	1998	**1999**
Service cost – benefits earned during the year	¥ 46,966	¥ 40,781	$ 388,149
Interest cost on projected benefit obligation	57,306	56,552	473,603
Expected return on plan assets	(28,382)	(29,306)	(234,562)
Amortization of unrecognized net obligation at transition	12,025	12,025	99,380
Amortization of prior service cost	4,353	4,355	35,975
Recognized actuarial loss	8,721	163	72,075
Net periodic pension and severance cost	¥100,989	¥ 84,570	$ 834,620

A weighted-average discount rate of 3.5 percent and 4.0 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 2.5 percent and 3.0 percent were used in measuring the pension obligations at March 31, 1999 and 1998, respectively.

The changes in the benefit obligations and plan assets and reconciliations of net amount recognized to funded status and accrued pension and severance costs for 1999 and 1998 were as follows:

	Millions of yen		Thousands of U.S. dollars
March 31	**1999**	1998	**1999**
Change in benefit obligations:			
Benefit obligation at beginning of year	¥1,448,320	¥1,263,801	$11,969,587
Service cost	46,966	40,781	388,149
Interest cost	57,306	56,552	473,603
Plan participants' contributions	8,789	8,650	72,636
Actuarial loss	166,414	140,639	1,375,322
Effect of subsidiaries newly consolidated due to change in ownership rate and other	63,536	9,585	525,091
Benefits paid	(97,271)	(72,335)	(803,892)
Foreign currency exchange impact	(914)	647	(7,554)
Benefit obligation at end of year	1,693,146	1,448,320	13,992,942
Change in plan assets:			
Fair value of plan assets at beginning of year	677,571	637,607	5,599,761
Actual return on plan assets	34,978	18,183	289,075
Employer contribution	60,017	31,151	496,008
Plan participants' contributions	8,789	8,650	72,636
Effect of subsidiaries newly consolidated due to change in ownership rate and other	29,745	6,768	245,826
Benefits paid	(35,143)	(25,331)	(290,438)
Foreign currency exchange impact	(930)	543	(7,686)
	775,027	677,571	6,405,182
Funded status	918,119	770,749	7,587,760
Unrecognized actuarial loss	(445,358)	(284,364)	(3,680,645)
Unrecognized net obligation at transition	(85,239)	(97,264)	(704,454)
Unrecognized prior service cost	(43,231)	(49,346)	(357,281)
Net amount recognized	¥ 344,291	¥ 339,775	$ 2,845,380
Amounts recognized in the consolidated balance sheets consist of:			
Accrued pension and severance costs	¥ 692,150	¥ 545,293	$ 5,720,248
Intangible asset	(128,470)	(146,610)	(1,061,736)
Accumulated other comprehensive income (loss), gross of tax	(219,389)	(58,908)	(1,813,132)
Net amount recognized	¥ 344,291	¥ 339,775	$ 2,845,380
Accumulated benefit obligation at end of year	¥1,467,177	¥1,222,864	$12,125,430

10. RESEARCH AND DEVELOPMENT:

Research and development costs are charged to expense as incurred and amounted to ¥316,703 million ($2,617,380 thousand) and ¥322,928 million for the years ended March 31, 1999 and 1998, respectively.

11. ADVERTISING:

Advertising costs are expensed as incurred. Advertising expenses amounted to ¥73,909 million ($610,818 thousand) and ¥79,693 million for the years ended March 31, 1999 and 1998, respectively.

12. FOREIGN EXCHANGE GAINS AND LOSSES:

For the years ended March 31, 1999 and 1998, the net foreign exchange loss was ¥10,596 million ($87,570 thousand) and ¥33,229 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 47.7 percent and 51.4 percent for the years ended March 31, 1999 and 1998, respectively. Due to changes in Japanese income tax regulations, the normal statutory tax rate in Japan was reduced to approximately 47.7 percent effective April 1, 1998 and further, was reduced to approximately 42.1 percent effective April 1, 1999. Those revised tax rates enacted respectively during the fiscal years ended March 31, 1999 and 1998 were used in the measurement of deferred tax assets and liabilities at March 31, 1999 and 1998, respectively. 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	**1999**	1998	**1999**
Computed expected income tax expense	¥ 5,351	¥ 9,636	$ 44,223
Increase (reduction) in taxes resulting from:			
Non-deductible expenses for tax purposes	4,738	5,441	39,157
Net valuation allowance for losses of subsidiaries	8,928	3,550	73,785
Loss on parent company's investment in subsidiaries	(13,944)	–	(115,240)
Effect of changes in the statutory tax rates	16,848	8,668	139,240
Other	3,573	(2,820)	29,529
Income tax expense	¥ 25,494	¥24,475	$ 210,694

The significant components of deferred tax assets and deferred tax liabilities recorded on the consolidated balance sheets as of March 31, 1999 and 1998 are as follows:

	Millions of yen		Thousands of U.S. dollars
March 31	**1999**	1998	**1999**
Gross deferred tax assets:			
Inventories	¥ 23,048	¥ 33,433	$ 190,479
Accrued pension and severance costs	88,373	96,833	730,355
Tax loss carryforwards	47,839	36,104	395,364
Minimum pension liability adjustment	92,363	28,099	763,331
Other	107,236	86,413	886,248
	358,859	280,882	2,965,777
Valuation allowance for deferred tax assets	(42,184)	(38,271)	(348,628)
Deferred tax assets	316,675	242,611	2,617,149
Gross deferred tax liabilities:			
Retained earnings appropriated for tax allowable reserves	(19,778)	(23,425)	(163,454)
Other	(20,871)	(30,302)	(172,488)
Deferred tax liabilities	(40,649)	(53,727)	(335,942)
Net deferred tax assets	¥276,026	¥188,884	$2,281,207

Net current and non-current deferred tax assets at March 31, 1999 and 1998 are reflected in the consolidated balance sheets under the captions of prepaid expenses and other current assets, ¥53,173 million ($439,446 thousand) and ¥56,692 million, and other assets, ¥222,853 million ($1,841,760 thousand) and ¥132,192 million, respectively.

The net changes in the total valuation allowance for the years ended March 31, 1999 and 1998 were an increase of ¥3,913 million ($32,339 thousand) and a decrease of ¥376 million, respectively.

Available corporate tax loss carryforwards of certain subsidiaries at March 31, 1999 amounted to approximately ¥116,458 million ($962,463 thousand), the majority of which will expire during the period from 2000 through 2004. 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:

RETAINED EARNINGS–

Retained earnings at March 31, 1999 and 1998 include the legal reserve of ¥78,388 million ($647,835 thousand) and ¥76,419 million, respectively. The Japanese Commercial Code provides that an amount equal to at least 10 percent of cash dividends and other distributions from retained earnings paid by the parent company and its Japanese subsidiaries be appropriated as a legal reserve. No further appropriations are required when the legal reserve of each legal entity equals 25 percent of its stated capital. The legal reserve is not available for dividends but may be used to reduce a deficit or may be transferred to stated capital.

The amount of retained earnings available for dividends is based on the parent company's retained earnings determined in accordance with generally accepted accounting principles and the Commercial Code in Japan. Retained earnings at March 31, 1999 include year-end dividends of ¥9,656 million ($79,802 thousand) for the year ended March 31, 1999 which are expected to be formally approved at the general shareholders' meeting held in June 1999, and will be payable subsequently.

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)–

An analysis of the changes in accumulated other comprehensive income (loss) for the years ended March 31, 1999 and 1998 is shown below:

March 31	Millions of yen 1999	1998	Thousands of U.S. dollars 1999
Foreign currency translation adjustments:			
Balance at beginning of year	¥ (41,488)	¥(33,988)	$ (342,876)
Current-period change	(18,714)	(7,500)	(154,661)
Balance at end of year	¥ (60,202)	¥(41,488)	$ (497,537)
Minimum pension liability adjustment:			
Balance at beginning of year	¥ (30,809)	¥ –	$ (254,620)
Current-period change	(92,918)	(30,809)	(767,917)
Balance at end of year	¥(123,727)	¥(30,809)	$(1,022,537)
Total accumulated other comprehensive income (loss):			
Balance at beginning of year	¥ (72,297)	¥(33,988)	$ (597,496)
Current-period change	(111,632)	(38,309)	(922,578)
Balance at end of year	¥(183,929)	¥(72,297)	$(1,520,074)

Tax effects allocated to each component of other comprehensive income (loss) for the years ended March 31, 1999 and 1998 are shown below:

	Millions of yen		
	Before-tax amount	Tax benefit	Net-of-tax amount
For the year ended March 31, 1999:			
Foreign currency translation adjustments	¥ (19,274)	¥ 560	¥ (18,714)
Minimum pension liability adjustment	(160,481)	67,563	(92,918)
Other comprehensive income (loss)	¥(179,755)	¥68,123	¥(111,632)
For the year ended March 31, 1998:			
Foreign currency translation adjustments	¥ (7,500)	¥ –	¥ (7,500)
Minimum pension liability adjustment	(58,908)	28,099	(30,809)
Other comprehensive income (loss)	¥ (66,408)	¥28,099	¥ (38,309)

	Thousands of U.S. dollars		
	Before-tax amount	Tax benefit	Net-of-tax amount
For the year ended March 31, 1999:			
Foreign currency translation adjustments	$ (159,289)	$ 4,628	$(154,661)
Minimum pension liability adjustment	(1,326,289)	558,372	(767,917)
Other comprehensive income (loss)	$(1,485,578)	$563,000	$(922,578)

15. NET INCOME PER SHARE:

For the years ended March 31, 1999 and 1998, the convertible debentures were not included in the computation of diluted EPS because their inclusion would have resulted in an anti-dilutive effect and, consequently, basic EPS is equal to diluted EPS for those two years. Weighted-average number of shares outstanding for both basic and diluted EPS for the years ended March 31, 1999 and 1998 were 3,218,983 thousand and 3,218,992 thousand, respectively.

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 indebtedness denominated in foreign currencies mature within a few months, 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 1999 to 2009. 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, 1999 and 1998 are summarized below:

	Millions of yen		Thousands of U.S. dollars
March 31	**1999**	1998	**1999**
Forward exchange contracts:			
To sell foreign currencies	¥237,340	¥241,779	$1,961,488
To buy foreign currencies	46,051	12,296	380,587
Interest rate swap agreements	426,965	454,349	3,528,636
Currency swap agreements	103,867	137,866	858,405

The estimated fair values of the company's financial instruments at March 31, 1999 and 1998 are summarized as follows:

	Millions of yen				Thousands of U.S. dollars	
	1999		1998		**1999**	
March 31	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Nonderivatives:						
Assets–						
Marketable securities	¥ 124,017	¥ 228,173	¥ 120,748	¥ 249,998	$ 1,024,934	$ 1,885,727
Other investments	128,020	155,828	136,992	201,194	1,058,017	1,287,835
Long-term finance receivables, net	109,661	110,717	107,520	110,655	906,289	915,017
Liabilities–						
Long-term debt, including current portion	(1,414,257)	(1,449,072)	(1,379,902)	(1,402,365)	(11,688,074)	(11,975,802)
Derivative financial instruments:						
Forward exchange contracts	3,232	5,419	(1,037)	(1,999)	26,711	44,785
Interest rate swap agreements	–	(5,777)	–	(5,146)	–	(47,744)
Currency swap agreements	(3,122)	(1,859)	(2,508)	(2,218)	(25,802)	(15,364)

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 ¥73,549 million ($607,843 thousand) and ¥48,591 million at March 31, 1999 and 1998, 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, 1999 for the purchase of property, plant and equipment approximated ¥36,648 million ($302,876 thousand).

Rental expense for the years ended March 31, 1999 and 1998 aggregated ¥100,365 million ($829,463 thousand) and ¥99,979 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, 1999, contingent liabilities, principally for loans guaranteed, approximated ¥472,325 million ($3,903,512 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.

REPORT OF INDEPENDENT ACCOUNTANTS

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Price Waterhouse

May 25, 1999

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, 1999 and 1998, and the related consolidated statements of income, shareholders' equity and 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, 1999 and 1998. The presentation of information concerning the Company's operating segments, its products and services, and its geographic areas 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, 1999 and 1998, 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

GLOBAL NETWORK

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, Ltd. *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.*
Toshiba America Research, Inc. *Morristown, New Jersey, 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 Research Europe 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*
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*
Dalian Toshiba Television Co., Ltd. *Dalian, The People's Republic of China*
Shanghai Jinzhi Electronics Co., Ltd. *Shanghai, 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*
Jiangsu Honshiba Tontru Network System Equipment Co., Ltd. *Nanjing, The People's Republic of China*
Jiangxi Toshiba Electronic Materials Co., Ltd. *Ganzhou, The People's Republic of China*
Toshiba Hong Kong Ltd. *Kowloon, Hong Kong*
Toshiba Electronics Asia, Ltd. *Kowloon, Hong Kong*
Korea Electronic Material Co., Ltd. *Inchon, The Republic of Korea*
Hanji Electronic Engineering Co., Ltd. *Seoul, The Republic of Korea*
Toshiba Electronics Korea Corporation *Seoul, The Republic of Korea*
Taiwan Toshiba International Semiconductor Designing Corporation *Taipei, Taiwan*
Toshiba Electronics Taiwan Corporation *Taipei, Taiwan*
Toshiba Memory Semiconductor Taiwan Corp. *Taipei, Taiwan*
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. Toshiba Display 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, 1999)

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 Mechatronics Corporation
Shibaura NIDEC Corporation
Toshiba Air Conditioning Co., Ltd.
Toshiba Battery Co., Ltd.
Toshiba Building & Lease Co., Ltd.
Toshiba Capital Corporation
Toshiba Carrier Air Conditioning Systems Corporation
Toshiba Carrier Corporation
Toshiba Chemical Corporation
Toshiba Credit Corporation
Toshiba Device Corporation
Toshiba Electric Appliances Co., Ltd.
Toshiba Elevator Corporation
Toshiba Elevator Products Co., Ltd.
Toshiba Engineering Corporation
Toshiba Finance Corporation
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 Medical Finance Co., Ltd.
Toshiba Medical Systems Co., Ltd.
Toshiba Microelectronics Corporation
Toshiba Multi Media Device Co., Ltd.
Toshiba Plant Kensetsu Co., Ltd.
Toshiba Shutoken Lifestyle-Electronics Corporation
Toshiba TEC Corporation
Toshiba Video Products Japan Co., Ltd.
Yokkaichi Toshiba Electronics Corporation

Plus 180 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)
P.T. Toshiba Display Devices Indonesia
Pacific Fuel Cell Capital (U.S.A.), Inc.
Semiconductor America Inc.
Shenyang Toshiba Elevator Co., Ltd.
TEC (UK) Ltd.
TEC America, Inc.
TEC France International S.A.
TEC Singapore Electronics Pte. Ltd.
TIM Electronics Sdn. Bhd.
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 Dalian Co., Ltd.
Toshiba Display Devices (Thailand) Co., Ltd.
Toshiba Display Devices Inc.
Toshiba do Brasil, S.A.
Toshiba Electronics (UK) Ltd.
Toshiba Electronics Asia, 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 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 47 other overseas subsidiaries

(As of March 31, 1999)

INVESTOR REFERENCE

Founded
July 1875

Capital
¥274,916 million (US$2,272 million)

Employees
198,000

Common Stock
Authorized: 10,000,000,000 shares
Issued: 3,218,999,545 shares
No. of shareholders: 404,283
Average holding: 7,962 shares

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

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

Principal Shareholders:

The Dai-ichi Mutual Life Insurance Company	3.78%
The Sakura Bank, Ltd.	3.72%
Nippon Life Insurance Company	3.36%
The Sumitomo Trust and Banking Co., Ltd. (for trust)	2.88%
Mitsui Mutual Life Insurance Company	2.22%
Employees Stock Ownership Plan	2.11%
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%
State Street Bank and Trust Company	1.68%

(As of March 31, 1999)

For further information, please contact:

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TOSHIBA CORPORATION

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