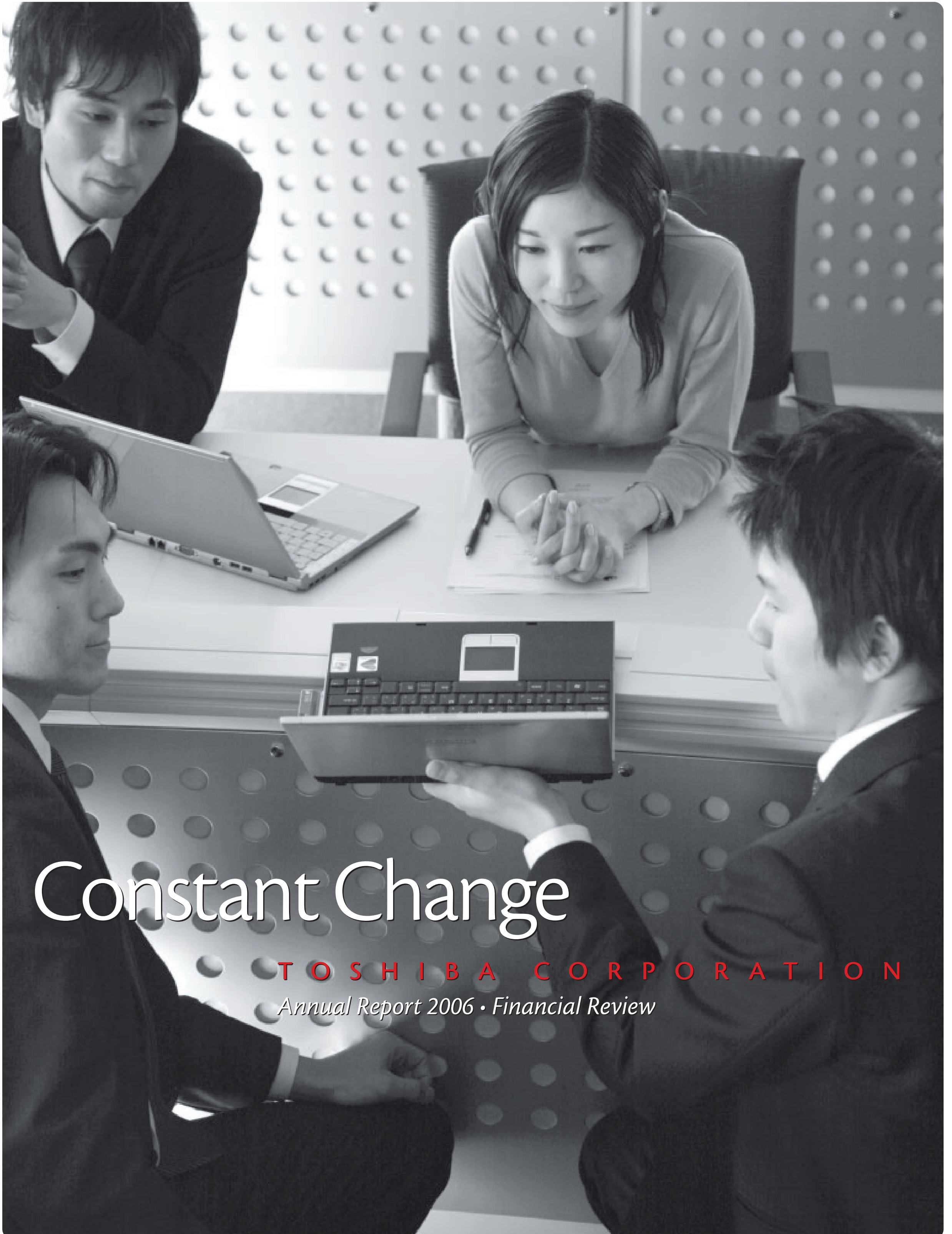
TOSHIBA



Constant Change

TOSHIBA CORPORATION

Annual Report 2006 • Financial Review

Eleven-year Summary

Toshiba Corporation and Subsidiaries
Years ended March 31

	2006	2005	2004	2003
Net sales	**¥6,343,506**	¥5,836,139	¥5,579,506	¥5,655,778
Cost of sales	**4,659,795**	4,296,572	4,075,336	4,146,460
Selling, general and administrative expenses (Note 1)	**1,443,101**	1,384,760	1,329,584	1,393,776
Operating income (loss) (Note 2)	**240,610**	154,807	174,586	115,542
Income (loss) before income taxes and minority interest	**178,177**	111,232	135,770	55,705
Income taxes	**90,142**	55,944	102,237	48,532
Net income (loss)	**78,186**	46,041	28,825	18,503
Per share of common stock:				
Net income (loss) (Note 3)				
—Basic	**¥24.32**	¥14.32	¥8.96	¥5.75
—Diluted	**22.44**	13.53	8.96	5.75
Cash dividends	**6.50**	5.00	3.00	3.00
Total assets	**¥4,727,113**	¥4,571,412	¥4,462,200	¥5,238,936
Shareholders' equity	**1,002,165**	815,507	754,990	571,064
Capital expenditures (Property, plant and equipment)	**338,800**	318,394	227,273	230,512
Depreciation (Property, plant and equipment)	**228,637**	215,844	223,946	237,888
R&D expenditures	**372,447**	348,010	336,714	331,494
Number of employees	**172,000**	165,000	161,000	166,000

Notes: 1) ¥4,085 million, ¥4,836 million and ¥48,945 million of "Subsidy received on return of substitutional portion of Employees' Pension Fund Plan, net of settlement loss of ¥5,045 million in 2006, ¥7,992 million in 2005 and ¥188,106 million in 2004" are classified as a reduction of selling, general and administrative expenses for the fiscal years ended March 31, 2006, 2005 and 2004, respectively.

2) Operating income (loss) has been determined under financial reporting practices generally accepted in Japan and is defined as net sales less cost of sales and selling, general and administrative expenses.

3) Basic net income 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 convertible bonds were converted or stock acquisition rights were exercised to issue common stock, unless their inclusion would have an antidilutive effect.

4) Beginning with the fiscal year ended March 31, 2001, Toshiba has adopted Statement of Financial Accounting Standards (SFAS) No. 115,"Accounting for Certain Investments in Debt and Equity Securities." Prior-period data for the fiscal years ended from March 31, 1996 through 2000 has been restated to conform with SFAS No. 115.

5) Beginning with the fiscal year ended March 31, 1998, revenues and expenses from financial services, real estate leasing and sales, and other operations are reported as operating activities whereas they were reported as non-operating activities in prior periods. Prior-period data for the fiscal years ended from March 31, 1996 and 1997 has been reclassified to conform with the current classification.

6) Beginning with the fiscal year ended March 31, 2006, equity in earnings (losses) of affiliates has been included in income (loss) before income taxes and minority interest. Prior-period data for the fiscal years ended from March 31, 1996 through 2005 has been reclassified to conform with the current classification.

Millions of yen, except per share amounts

2002	2001	2000	1999	1998	1997	1996
¥5,394,033	¥5,951,357	¥5,749,372	¥5,300,902	¥5,458,498	¥5,521,887	¥5,192,244
4,070,130	4,323,525	4,254,444	3,890,622	3,960,158	3,932,585	3,647,624
1,437,478	1,395,699	1,393,959	1,379,797	1,416,046	1,391,471	1,282,053
(113,575)	232,133	100,969	30,483	82,294	197,831	262,567
(374,247)	197,453	(39,161)	13,187	30,641	139,980	195,191
(113,915)	96,145	(4,530)	20,901	17,313	71,593	102,965
(254,017)	96,168	(32,903)	(9,095)	14,723	67,077	90,388
¥(78.91)	¥29.88	¥(10.22)	¥(2.83)	¥ 4.57	¥20.84	¥28.08
(78.91)	29.71	(10.22)	(2.83)	4.57	20.06	26.85
—	10.00	3.00	6.00	10.00	10.00	10.00
¥5,407,782	¥5,724,564	¥5,780,006	¥6,101,929	¥6,166,323	¥5,933,205	¥5,743,009
705,314	1,047,925	1,060,099	1,128,753	1,305,946	1,388,827	1,384,582
348,235	269,545	298,512	375,464	339,584	341,020	308,653
311,208	308,294	329,630	309,836	291,418	252,732	261,985
326,170	327,915	334,398	316,703	322,928	332,555	314,774
176,000	188,000	191,000	198,000	186,000	186,000	186,000

2. Management's Discussion and Analysis 14. Consolidated Balance Sheets 16. Consolidated Statements of Income
17. Consolidated Statements of Shareholders' Equity 18. Consolidated Statements of Cash Flows
19. Notes to Consolidated Financial Statements 39. Report of Independent Auditors

SCOPE OF CONSOLIDATION

As of the end of March 2006, Toshiba Group comprised Toshiba Corporation and 368 consolidated subsidiaries and its principal operations were in the Digital Products, Electronic Devices, Social Infrastructure and Home Appliances business domains.

94 consolidated subsidiaries were involved in Digital Products, 45 in Electronic Devices, 122 in Social Infrastructure, 56 in Home Appliances and 51 in Others. The consolidated subsidiaries listed on the first Section of Tokyo Stock Exchange are Toshiba TEC Corporation and Toshiba Plant Systems & Services Corporation.

111 were affiliates accounted for by the equity method.

The number of consolidated subsidiaries was 29 more than at the end of March 2005.

RESULTS OF OPERATIONS

NET SALES AND NET INCOME (LOSS)

The Japanese economy recovered in this period as capital expenditures increased on solid corporate profitability, though concerns remained about unemployment. Overseas, economic expansion continued in the US on improved employment rates and higher consumption, and Europe saw gradual recovery. In Asia, China and other countries continued their economic expansion.

Toshiba Group aims for high growth in its Digital Products and Electronic Devices business domains. In Social Infrastructure domain, the Group seeks to secure stable growth and profits, mainly through expansion of its international business.

Toshiba's consolidated sales in FY 2005 were ¥6,343.5 billion (US$54,218.0 million), ¥507.4 billion higher than in the previous fiscal year. Consolidated operating income increased by ¥85.8 billion from the same period a year earlier to ¥240.6 billion (US$2,056.5 million). All business segments posted healthy business results, recording year-on-year increases in sales and operating income, as a result of business development based on the overall Group strategy of achieving high growth with steady profitability.

Income before income taxes and minority interest was ¥178.2 billion (US$1,522.9 million), a ¥67.0 billion increase from the previous year. Net income increased by ¥32.2 billion from the previous year to ¥78.2 billion (US$668.3 million). Basic earnings per share also increased by ¥10.00 to ¥24.32 (US$0.21) from a year ago.

(Note) From FY2005, income (loss) before income taxes and minority interest includes equity in earnings of affiliates, which was not included until FY2004. The impact of this change is plus ¥0.6 billion for FY2004 and minus ¥4.5 billion for FY2005.

NET SALES BY REGION

	Millions of yen		
Year ended March 31	**2006**	2005	2004
Japan	**¥3,382,143**	¥3,259,853	¥3,399,903
Asia	**1,144,568**	949,208	829,914
North America	**945,137**	811,641	710,108
Europe	**699,584**	615,283	517,235
Others	**172,074**	200,154	122,346
Net Sales	**¥6,343,506**	¥5,836,139	¥5,579,506

(Note) These figures are based on geographic location of the market in which sales were recorded, and therefore differ from the segment sales reported on p.8, which are based on the location of the distribution source.

Japan

Sales increased by ¥122.3 billion compared to the previous year to ¥3,382.1 billion, reflecting the dissolution of a joint venture accounted for under the equity method in the power transmission and distribution business with Mitsubishi Electric Corporation, and the transfer of the business back to the parent.

Asia

Sales increased by ¥195.4 billion from the year earlier period to ¥1,144.6 billion, with the storage devices, semiconductor business, LCD business recording revenue increases.

North America and Europe

Sales were ¥945.1 billion in North America and ¥699.6 billion in Europe, primarily on higher revenues in the semiconductor business and the PC business.

Others

Sales declined by ¥28.1 billion compared to the previous year to ¥172.1 billion.

DIVIDEND

Toshiba will pay 3.5 yen per share as a year-end dividend. Combined with the 3 yen interim dividend, the total full-term dividend will be 6.5 yen per share, an increase of 1.5 yen per share from the previous year.

Payment of the year-end dividend will start on June 2, 2006.

RESULTS BY INDUSTRY SEGMENT

	Billions of yen			
	Net Sales		Operating Income (loss)	
Year ended March 31	—	Change (%)	—	Change
Digital Products	2,536.5	14%	20.9	+13.6
Electronic Devices	1,388.1	6%	123.3	+30.8
Social Infrastructure	1,882.3	7%	76.5	+27.9
Home Appliances	687.5	4%	2.7	+6.0
Others	379.8	2%	18.0	+8.2
Eliminations	−530.7	—	−0.8	−0.7
Total	6,343.5	9%	240.6	+85.8

DIGITAL PRODUCTS

Consolidated net sales of Digital Products increased by ¥312.3 billion or 14% to ¥2,536.5 billion (US$21,679.9 million). The Personal Computers business saw sales increase from a year ago on overseas sales growth, mainly in the US and Europe. The Digital Media Network business saw sales increase on higher sales of storage devices. The Mobile Phones business also increased sales, as new products, mainly high-end models, met a positive response in the Japanese market. The Retail Information and Office Document Processing Systems business also increased sales.

Consolidated operating income of Digital Products was ¥20.9 billion (US$178.3 million), an improvement of ¥13.6 billion from a year earlier, as a result of improved operating income in the Mobile Phones business and storage devices, despite adverse impacts from exchange rate fluctuations, and price erosion in such products as DVD recorders.

ELECTRONIC DEVICES

Electronic Devices increased consolidated net sales by ¥80.9 billion to ¥1,388.1 billion (US$11,864.0 million). The Semiconductor business saw increased sales against the previous year on strong sales of memories, mainly NAND flash memory. Sales in the LCD business were comparable with FY2004, as overseas sales increased despite significant price erosion. The Display Devices & Components business reported a significant sales decline, reflecting the cessation of production of some cathode-ray-tube related products.

Consolidated operating income in Electronic Devices was ¥123.3 billion (US$1,053.7 million), an increase of ¥30.8 billion. The Semiconductor business increased its operating income. The LCD business remained profitable through cost reduction programs, though on decreased operating income due to price erosion.

SOCIAL INFRASTRUCTURE

Social Infrastructure saw consolidated net sales of ¥1,882.3 billion (US$16,087.7 million), ¥117.0 billion higher than for the previous year. Sales in the Medical Systems business rose from a year earlier, on strong sales of multi-slice CT scan systems mainly in the US. The Industrial and Power Systems & Services business saw a sales increase from FY2004, reflecting the transition of the power transmission and distribution businesses to the parent from a dissolved joint venture. The Social Network & Infrastructure Systems business also increased its sales against the previous year, as a result of higher sales of broadcasting systems, while the IT Solutions business saw a slight decline in sales, due to decreased orders for the public sector. Sales in the Elevator business were flat compared to the previous year, as sluggish domestic sales undermined higher overseas sales.

Consolidated operating income in Social Infrastructure was ¥76.5 billion (US$654.3 million), a ¥27.9 billion increase from the year earlier period. The Medical Systems, IT Solutions, Industrial and Power Systems & Services, and Social Network & Infrastructure Systems businesses improved their performance from the previous year, while the Elevator business saw a decline in operating income.

HOME APPLIANCES

Consolidated net sales in Home Appliances increased by ¥26.5 billion from the previous year to ¥687.5 billion (US$5,876.1 million) on higher sales of washing machines and backlights for LCDs. The segment posted profit of ¥2.7 billion (US$23.2 million), an improvement of ¥6.0 billion from the year earlier period.

OTHERS

Consolidated net sales of Others increased by ¥8.2 billion to ¥379.8 billion (US$3,245.8 million). Operating income in Others was ¥18.0 billion (US$153.5 million), a ¥8.2 billion increase from the year earlier period.

Segment information is based on Japanese accounting standards.

INDUSTRY SEGMENTS

	Millions of yen			Thousands of U.S. dollars
Year ended March 31	**2006**	2005	2004	**2006**
Sales:				
Digital Products				
Unaffiliated customers	**¥ 2,459,270**	¥ 2,156,495	¥ 1,939,717	**$ 21,019,401**
Intersegment	**77,278**	67,690	69,678	**660,496**
Total	**2,536,548**	2,224,185	2,009,395	**21,679,897**
Electronic Devices				
Unaffiliated customers	**1,301,665**	1,215,802	1,174,934	**11,125,342**
Intersegment	**86,419**	91,361	108,654	**738,624**
Total	**1,388,084**	1,307,163	1,283,588	**11,863,966**
Social Infrastructure				
Unaffiliated customers	**1,815,115**	1,707,211	1,654,959	**15,513,803**
Intersegment	**67,146**	58,091	59,177	**573,898**
Total	**1,882,261**	1,765,302	1,714,136	**16,087,701**
Home Appliances				
Unaffiliated customers	**669,058**	642,285	616,807	**5,718,445**
Intersegment	**18,448**	18,760	20,475	**157,675**
Total	**687,506**	661,045	637,282	**5,876,120**
Others				
Unaffiliated customers	**98,398**	114,346	193,089	**841,008**
Intersegment	**281,357**	257,276	279,655	**2,404,761**
Total	**379,755**	371,622	472,744	**3,245,769**
Eliminations	**(530,648)**	(493,178)	(537,639)	**(4,535,453)**
Consolidated	**¥ 6,343,506**	¥ 5,836,139	¥ 5,579,506	**$ 54,218,000**

Year ended March 31	Millions of yen 2006	2005	2004	Thousands of U.S. dollars 2006
Operating income (loss):				
Digital Products	**¥ 20,864**	¥ 7,266	¥ (23,810)	**$ 178,325**
Electronic Devices	**123,287**	92,512	117,002	**1,053,735**
Social Infrastructure	**76,553**	48,581	58,637	**654,299**
Home Appliances	**2,710**	(3,332)	3,474	**23,162**
Others	**17,964**	9,863	18,845	**153,539**
Eliminations	**(768)**	(83)	438	**(6,564)**
Consolidated	**¥ 240,610**	¥ 154,807	¥ 174,586	**$ 2,056,496**
Identifiable assets:				
Digital Products	**¥ 1,092,075**	¥ 966,105	¥ 872,559	**$ 9,333,974**
Electronic Devices	**1,323,693**	1,270,970	1,241,464	**11,313,615**
Social Infrastructure	**1,577,973**	1,493,170	1,529,197	**13,486,949**
Home Appliances	**400,825**	390,171	371,850	**3,425,855**
Others	**442,389**	515,371	479,399	**3,781,103**
Corporate and Eliminations	**(109,842)**	(64,375)	(32,269)	**(938,821)**
Consolidated	**¥ 4,727,113**	¥ 4,571,412	¥ 4,462,200	**$ 40,402,675**
Depreciation and amortization:				
Digital Products	**¥ 32,071**	¥ 32,559	¥ 35,499	**$ 274,111**
Electronic Devices	**148,016**	132,662	112,466	**1,265,094**
Social Infrastructure	**34,982**	34,588	37,657	**298,992**
Home Appliances	**16,654**	18,056	18,786	**142,342**
Others	**22,494**	23,497	44,423	**192,256**
Corporate	**—**	—	—	**—**
Consolidated	**¥ 254,217**	¥ 241,362	¥ 248,831	**$ 2,172,795**
Impairment of long–lived assets:				
Digital Products	**¥ 7,126**	¥ —	¥ —	**$ 60,906**
Electronic Devices	**2,861**	1,088	10,018	**24,453**
Social Infrastructure	**444**	—	—	**3,795**
Home Appliances	**116**	—	—	**991**
Others	**1,427**	—	—	**12,197**
Corporate	**—**	—	—	**—**
Consolidated	**¥ 11,974**	¥ 1,088	¥ 10,018	**$ 102,342**
Capital expenditures:				
Digital Products	**¥ 44,209**	¥ 36,478	¥ 48,556	**$ 377,855**
Electronic Devices	**239,480**	239,361	136,162	**2,046,838**
Social Infrastructure	**44,034**	36,571	27,629	**376,359**
Home Appliances	**27,428**	22,024	19,330	**234,427**
Others	**7,733**	8,073	23,009	**66,094**
Corporate	**—**	—	—	**—**
Consolidated	**¥ 362,884**	¥ 342,507	¥ 254,686	**$ 3,101,573**

GEOGRAPHIC SEGMENTS

Year ended March 31	Millions of yen 2006	2005	2004	Thousands of U.S. dollars 2006
Sales:				
Japan				
Unaffiliated customers	**¥ 3,787,378**	¥ 3,651,995	¥ 3,747,371	**$ 32,370,752**
Intersegment	**1,677,041**	1,363,317	1,188,508	**14,333,684**
Total	**5,464,419**	5,015,312	4,935,879	**46,704,436**
Asia				
Unaffiliated customers	**980,360**	806,794	617,973	**8,379,145**
Intersegment	**541,060**	548,344	568,220	**4,624,445**
Total	**1,521,420**	1,355,138	1,186,193	**13,003,590**
North America				
Unaffiliated customers	**863,732**	744,223	667,663	**7,382,324**
Intersegment	**24,769**	21,067	19,220	**211,701**
Total	**888,501**	765,290	686,883	**7,594,025**
Europe				
Unaffiliated customers	**634,245**	568,211	488,785	**5,420,897**
Intersegment	**24,489**	28,706	15,619	**209,308**
Total	**658,734**	596,917	504,404	**5,630,205**
Others				
Unaffiliated customers	**77,791**	64,916	57,714	**664,880**
Intersegment	**1,454**	1,292	2,035	**12,428**
Total	**79,245**	66,208	59,749	**677,308**
Eliminations	**(2,268,813)**	(1,962,726)	(1,793,602)	**(19,391,564)**
Consolidated	**¥ 6,343,506**	¥ 5,836,139	¥ 5,579,506	**$ 54,218,000**
Operating income (loss):				
Japan	**¥ 191,949**	¥ 112,765	¥ 148,729	**$ 1,640,590**
Asia	**22,063**	20,485	13,368	**188,572**
North America	**18,107**	15,639	6,599	**154,761**
Europe	**6,145**	5,105	3,875	**52,521**
Others	**2,075**	900	756	**17,735**
Eliminations	**271**	(87)	1,259	**2,317**
Consolidated	**¥ 240,610**	¥ 154,807	¥ 174,586	**$ 2,056,496**
Identifiable assets:				
Japan	**¥ 3,790,544**	¥ 3,577,949	¥ 3,589,596	**$ 32,397,812**
Asia	**750,481**	641,258	513,932	**6,414,367**
North America	**254,649**	223,435	180,086	**2,176,487**
Europe	**241,598**	204,146	210,935	**2,064,940**
Others	**30,379**	29,386	28,111	**259,650**
Corporate and Eliminations	**(340,538)**	(104,762)	(60,460)	**(2,910,581)**
Consolidated	**¥ 4,727,113**	¥ 4,571,412	¥ 4,462,200	**$ 40,402,675**

RESEARCH AND DEVELOPMENT

The Group, inspired by the three concepts of "surprise and sensation", "safety and security" and "comfort", is dedicated to the creation of cutting-edge, high value-added technologies able to overcome commoditization. Wide-ranging research projects promote the development of differentiated technologies and proprietary knowledge in new materials, products and systems, and further the development of manufacturing technology. In the core business segments of Digital Products, Electronic Devices and Social Infrastructure, research and development draws on the Group's technological strengths to develop engines for future growth to a strategic product map. Efforts are also made to achieve cross functional business synergies, such as those between the Digital Products segment and Electronic Devices segment to promote the concept of "Toshiba as a Visual Brand". The Group's overall R&D expenditure reached ¥372.4 billion in the fiscal year ended March 31, 2006. Expenditures for each business segment were as follows:

	Billions of yen
Digital Products	108.3
Electronic Devices	174.5
Social Infrastructure	70.9
Home Appliances	17.7
Others	1.0

CAPITAL EXPENDITURES

CAPITAL EXPENDITURE OVERVIEW

The Group's basis strategy stresses "concentration of management resources in growing fields." In the term under review, overall plant and equipment investments (including intangible assets) reached ¥362.9 billion, with the majority from the Electronic Devices and Digital Products segments. Additional investments totaling ¥186.1 billion were made by Flash Vision, Ltd., Flash Partners, Ltd. and SED Inc., all affiliates accounted for by the equity method.

In the Electronic Devices segment, capital investments of ¥239.5 billion were directed at increasing capacity and promoting development of Semiconductor products and in raising output of LCDs. Major projects completed by the Group in this fiscal year included the construction of an advanced System LSI facility at Oita and the construction and physical infrastructure for a NAND flash memory facility at Yokkaichi. Projects currently underway in the segment include a further facility for NAND flash memory at Yokkaichi Works, a new production line for System LSI and other devices at Iwate Toshiba Electronics Co., Ltd., and a new plant and manufacturing equipment for low temperature polysilicon LCD at Toshiba Matsushita Display Technology Co., Ltd.

In the Digital Products segment, capital investments totaling ¥44.2 billion were channeled into development and manufacturing of new products, including PCs, imaging products and HDDs.

In the Social Infrastructure segment, capital investments of ¥44.1 billion were made in areas that included system development and updating infrastructure equipment. In the Home Appliances segment, ¥27.4 billion was increased for to development of new models and manufacturing. The major investment was in new plant and equipment for manufacturing cold cathode fluorescent lamps at Harison Engineering (Korea) Co., Ltd. Capital expenditures in the Others segment totaled ¥7.7 billion.

PLANS FOR CONSTRUCTING NEW FACILITIES AND RETIRING EXISTING FACILITIES

Group capital expenditures are planned from a three-year perspective, with consideration for manufacturing plans, demand forecasts, and return on investment. Each segment develops its own plan, while Toshiba corporate provides oversight and adjustment to prevent unnecessary duplication of investment.

In the year under review, investment in new facilities and equipment upgrades, including intangible assets, totaled ¥644.0 billion. This figure includes ¥300.5 billion invested by Toshiba through three affiliates accounted for by the equity method, Flash Vision, Ltd., Flash Partners, Ltd. and SED Inc.

FINANCIAL POSITION AND CASH FLOWS

Total assets increased by ¥155.7 billion from the end of March 2005 to ¥4,727.1 billion (US$40,402.7 million), mainly as a result of increased notes and accounts receivable, reflecting higher sales.

Shareholders' equity increased by ¥186.7 billion from the end of March 2005 to ¥1,002.2 billion (US$8,565.5 million), on significant improvement in net income and improved accumulated other comprehensive loss.

Total debt decreased by ¥193.9 billion from the end of March 2005 to ¥917.5 billion (US$7,842.0 million), falling well below ¥1,000 billion.

Free cash flow was plus ¥198.0 billion, an improvement of ¥135.6 billion from the year-earlier period.

As a result of the foregoing, the debt-to-equity ratio as of the end of March 2006 was 92%, below 100% and a 44-point improvement from the end of March 2005. The shareholder's equity ratio improved by 3.4 points from the end of March 2005 to 21.2%, and ROE improved by 2.7 points to 8.6%.

CASH FLOWS

In the fiscal year under review, net cash provided by operating activities amounted to ¥501.4 billion, an increase of ¥195.9 billion from the previous fiscal year.

Net cash used in investing activities totaled ¥303.4 billion, up ¥60.3 billion from the previous fiscal year. This was due to costs incurred from the transfer of the power transmission and distribution business, and to increased capital investments in the semiconductor business.

Net cash used in financing activities increased ¥143.0 billion to ¥235.3 billion during the fiscal year under review, due to the repayment of debts towards reducing interest bearing debt.

The effect of exchange rate movements was to increase cash by ¥13.2 billion. After accounting for the aforementioned and other factors, cash and cash equivalents at the fiscal year-end decreased by ¥24.1 billion to ¥270.9 billion.

PRINCIPAL SUBSIDIARIES AND AFFILIATED COMPANIES

As of March 31, 2006 — Percentage held by the Group

Subsidiaries:		Affiliated Companies:	
Japan		**Japan**	
Toshiba Building Co., Ltd.	100	MT Picture Display Co., Ltd.	36
Toshiba Elevator and Building Systems Corporation	80	Toshiba Ceramics Co., Ltd.	41
Toshiba Medical Systems Corporation	100	Toshiba Machine Co., Ltd.	34
Toshiba Plant Systems & Services Corporation	69		
Toshiba TEC Corporation	52		
U.S.A.			
Toshiba America Information Systems, Inc.	100		
Toshiba America, Inc.	100		

RISK FACTORS RELATING TO THE TOSHIBA GROUP AND ITS BUSINESS

The Group's business areas of energy and electronics require highly advanced technology. At the same time, the Group faces fierce global competition. Therefore, appropriate risk management is indispensable. Major risk factors related to the Group are described below. The actual occurrence of any of those risk factors may adversely affect the Group's results and financial condition. In order to promote full disclosure to investors, this also may cover risk in the wider aspect. The Group recognizes these risks and makes every effort to manage them and to minimize any impact.

These risks include potential risks for future, that the Group judged as risk as of the end of March 2006.

(1) Acquisitions and others

The Group entered into an agreement in February 2006 to acquire Westinghouse at a cost of US$5.4 billion. As a result, a substantial amount of goodwill may be recorded in the Company's consolidated balance sheets, pursuant to with US generally accepted accounting principles (US GAAP).

The Company believes this goodwill is appropriate, reflecting Westinghouse's future capabilities for profit generation and the synergy to be obtained from combining Westinghouse and Toshiba Group. However, it is a significant task for the Group to maintain and raise the value of the goodwill continuously.

(2) Reliance on Electronic Devices business

The Group is highly reliant on its Electronic Devices business segment in operating income. If the results of the segment are weak, the Group may be unable to offset them with any profits it may make from other business segments.

(3) Business environment of Digital Products business

The market for the Digital Product segment is intensely competitive, with many competitors manufacturing and selling products similar to those offered by the Group. In addition, demand for products in this segment can be volatile. In times of decreased consumer spending, demand for the Group's products can be low, while times of rapid increases in demand may result in shortages of parts and components, hampering the Group's ability to supply products to the market in a timely manner. The segment makes every effort to monitor the demand situation, however if demand fluctuates rapidly, price erosion and increases may occur in the prices of components.

Furthermore, some products in this segment are dependent on particular customers.

(4) Business environment of Electronic Devices business

The market for the Electronic Devices segment is highly cyclical in demand, a situation usually referred to as the "silicon cycle". In addition, competition to develop and market new products is severe. The segment makes every effort to monitor shifts in the market, but if the market faces a downturn, if the Group fails to market new products in a timely manner, or if there is a rapid introduction of new technology, the Group's current products may become obsolete.

In addition, this business segment requires significant levels of capital expenditure. While efforts are made to invest in stages by watching the demand situation carefully, unpredicted market change may make production capacity for particular products available at a time when demand for those products is on the wane, creating saturation.

(5) Business environment of Social Infrastructure business

A significant portion of net sales in the Social Infrastructure segment is attributable to government and local municipality expenditure on public works and private capital expenditure. The segment monitors the trend in these capital expenditures, and makes best efforts to cultivate new business and customers, in order to avoid undue impact from any fluctuation in the trend, however, reductions and delays in public works spending, as well as low levels of private capital expenditure, can adversely affect the segment business.

Furthermore, the business of this segment involves supply of products and services in relation to large-scale projects. Delays, changes in plans, stoppages, natural and other disasters, and other factors beyond the control of the segment and that affect the progress of such projects may adversely affect the segment's business operations.

(6) Lawsuits

The Group undertakes global business operation, and is investigated by authorities and involved in disputes, including lawsuits, in several regions. Due to differences in judicial systems it is difficult to rule out the possibility that the Group may be subject to a judicial order requiring payment of an amount far exceeding normal expectations, a factor that results in significant difficulty in estimating potential exposure. Judgments or decisions unfavorable to the Group may impact on Group operations.

Lexar Media, Inc. filed suit against the Company and its US subsidiary, Toshiba America Electronic Components, Inc. alleging misappropriation of NAND flash-related trade secrets and related misconduct. In December 2005, the Superior Court of the State of California (the court of first instance) granted a new trial on damages, vacating a March 2005 jury award from the

original trial that totaled approximately US$465 million. Both the Company and its US subsidiary and Lexar Media filed notices of appeal to the higher court on portions of the Superior Court's decision, and the case is now pending before the Court of Appeal of the State of California. The Group will pursue all available legal avenues to arrive at a just outcome in this matter.

(7) Development of new products

It is critically important for the Group to offer the market viable and innovative new products and services. The Group identifies strategic products that will drive future profits, and defines strategic products to support the timely introduction of successive products. However due to the rapid pace of technological innovation, the introduction of new technologies and products that replace current products, and changes in technology standards, the introduction to market of optimum new products, including SED, may be delayed, and new products that are brought to market, such as HD DVD players, may be accepted by the market for a shorter period than anticipated. In addition, if the Group fails to assure sufficient funding and resources for continuous product development, it may affect the Group's ability to develop new products and services and to introduce them to the market.

(8) Investments in new business

The Group invests in companies involved in new business, including Mobile Broadcasting, as well as developing its own new business opportunities. Many technological issues need to be resolved and new demand effectively discovered and captured before a new line of business can become successful, and as such its progress and success are uncertain. If any new business in which the Group invests or which the Group attempts to develop does not progress as planned, the Group may not recover the funds and resources it has spent, and this may adversely affect the Group.

(9) Success of joint ventures and other business alliances

A key strategy of the Group in many of its businesses is the formation of joint ventures and business alliances optimized for each business, in every area of the business, including research and development, production and marketing. If the Group experiences differences with a partner in a joint venture or business alliance, in respect of financing, technological management, product development or management strategies, such joint ventures or business alliances may be terminated.

(10) Global environment

The Group undertakes global business operations. Any changes in political, economic and social conditions, legal or regulatory changes and exchange rate fluctuations in any region, may impact on market demand and the Group's business operations.

As the Group expands overseas production, particularly in Asia, any occurrence of terrorism or an epidemic illness, such as avian flu, could have a significant adverse effect on Group results.

(11) Natural disasters

Most of the Group's Japanese production facilities are located in the Keihin region, part of the capital region, while key semiconductor production facilities are located in Kyushu, Tokai, Hanshin and Tohoku. While the Group promotes measures such as earthquake-resistant buildings at production facilities, large-scale disasters, such as earthquakes or typhoons in regions with production sites could damage or destroy production capabilities, cause operational and transportation interruptions, and affect production capabilities significantly.

(12) Measures against counterfeit products

While the Group protects and seeks to enhance the value of the "Toshiba" brand, there are lesser-quality counterfeit products worldwide created by third parties, which may dilute the value of the "Toshiba" brand. Distribution of those 'copycat' products may decrease the Group's net sales.

(13) Product quality claims

While the Group has instituted measures to manufacture its products in accordance with appropriate quality-control standards, there can be no assurance that each of its products is free of defects or that they will not result in a large-scale recall, lawsuits or other claims relating to product quality.

(14) Information securities

The Group keeps and manages various personal information obtained in the process of business operations. The Group also keeps various trade secrets regarding the Group's technology, marketing and other business operations. While the Group makes every effort to manage this information properly, an unanticipated leak of such information, obtained and used illegally by a third party, could occur, and recovery may be costly.

Additionally, the role of information systems in the Group is critical to carry out business activities. While the Group makes every effort to assure stable operation of its information systems, it is possible that their functionality could be impaired or destroyed by computer viruses, disaster, terrorism, software or hardware failures, and other factors.

(15) Procurement of components and materials

It is important for the Group's business activities to obtain materials, components, and other procured goods in a timely and proper manner. Procured goods include products whose suppliers are limited due to the product's particularity, and that are difficult to replace. In cases of delay or other problems in receiving supply of such components and materials, shortages may occur or procurement costs may rise. Also, it is necessary to procure components and materials at competitive costs and to optimize the entire supply chain, including suppliers, in order for the Group to bring competitive products to market. Any failure by the Group to achieve proper cooperation with key suppliers may impact on the Group's competitiveness.

Any case of defective components and materials may also have an adverse effect on the reliability and reputation of the Group and Toshiba brand products.

(16) Securing human resources

Success of the Group's businesses depends in large part on securing excellent human resources in every business area and process, including product development, production, marketing and business management. Competition to secure human resources is intensifying, as the number of qualified personnel in each area and process is limited, and demand for human resources is increasing as the economy recovers. Due to this, the Group may fail to retain existing employees or to obtain new human resources.

(17) Compliance and internal control

The Group is active in various businesses in various regions worldwide, and its business activities are subject to laws and regulations in each country or region. The Group puts in place appropriate internal control systems from perspectives that include assuring management effectiveness and efficiency, assuring the reliability of business and financial reports, compliance with laws and regulations, and risk management, and operates within those systems. However, by their nature, such internal control systems may themselves have limitations, and it is not possible to guarantee that they will fully achieve their objectives. Due to these inherent limitations, we cannot guarantee that there will never be any violation of laws and regulations. Changes in laws and regulations or changes in interpretations of laws and regulations by the authorities may also cause difficulty in achieving compliance with laws and regulations, or may result in increased compliance costs.

(18) Strategic concentrated investment

The Group makes strategic investments that concentrate on specific business areas, including NAND flash memory, nuclear power and SED. While it is essential to allocate limited management resources to strategic, high growth areas and businesses in which the Group enjoys competitiveness, in order to secure and maintain the Group's advantages, the strategic businesses in which such investments are made may not generate profit commensurate with the investments.

(19) Protection of intellectual property rights

The Group makes every effort to secure intellectual property rights. However, in some regions, it may not be possible to secure sufficient protection.

Also, the Group may use intellectual property from third parties, for which the Group has acquired permission for use. It could be possible that the Group fails to receive such third-party permission for an essential intellectual property, or receives permission only on unfavorable terms.

It is also possible that the Group will have to file suit in order to protect its intellectual property rights, or that a suit for breach of intellectual property rights may be brought against the Group. Such lawsuits may require time, costs and other management resources, and, depending on the decision in such a lawsuit, it may become impossible for the Group to use an important technology, or the Group may become liable for significant damages.

(20) Environment

In the Group's global business activities, various environmental laws, including laws on air pollution, water pollution, toxic substances, waste disposal, and product recycling, are in force around the world. While the Group pays careful attention to those laws and regulations, it may be possible that the Group discovers a legal or social liability for the environment, regardless of whether it is at fault or not, in past, present or future business activities. It may also be possible that, in future, the Group will be required to remove environmental hazards including toxic substances, as a result of the introduction of more demanding environmental regulations.

(21) Employee retirement benefit costs and obligations

The amount of the Group's employee retirement benefit costs and obligations are calculated on assumptions used in the relevant actuarial calculations. Those assumptions may change due to adverse economic or other factors, or returns on plan assets may be lower than anticipated.

(22) Financing environment

The Group has substantial amounts of interest-bearing debt for financing, highly susceptible to the market environment, including interest rate and supply and demand of funds. Changes in these factors may have an adverse effect on the Group's funding activities.

Toshiba Corporation and Subsidiaries
As of March 31, 2006 and 2005

Assets	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars (Note 3) 2006
Current assets:			
Cash and cash equivalents	**¥ 270,921**	¥ 295,003	**$ 2,315,564**
Notes and accounts receivable, trade:			
Notes (Note 5)	**101,208**	95,207	**865,026**
Accounts (Note 5)	**1,181,943**	1,052,288	**10,102,077**
Allowance for doubtful notes and accounts	**(28,671)**	(26,599)	**(245,051)**
Inventories (Note 6)	**664,922**	649,998	**5,683,094**
Deferred tax assets (Note 16)	**146,655**	131,144	**1,253,461**
Prepaid expenses and other current assets	**309,638**	277,278	**2,646,479**
Total current assets	**2,646,616**	2,474,319	**22,620,650**
Long-term receivables and investments:			
Long-term receivables (Note 5)	**18,883**	19,090	**161,393**
Investments in and advances to affiliates (Note 7)	**228,402**	193,266	**1,952,154**
Marketable securities and other investments (Note 4)	**240,456**	194,191	**2,055,179**
	487,741	406,547	**4,168,726**
Property, plant and equipment (Notes 9, 15, 20 and 21)**:**			
Land	**161,503**	169,464	**1,380,368**
Buildings	**1,084,433**	1,064,760	**9,268,658**
Machinery and equipment	**2,402,752**	2,349,258	**20,536,342**
Construction in progress	**64,345**	60,547	**549,957**
	3,713,033	3,644,029	**31,735,325**
Less—Accumulated depreciation	**(2,536,483)**	(2,479,846)	**(21,679,342)**
	1,176,550	1,164,183	**10,055,983**
Deferred tax assets (Note 16)	**237,334**	348,713	**2,028,496**
Other assets (Notes 8 and 11)	**178,872**	177,650	**1,528,820**
	¥ 4,727,113	¥ 4,571,412	**$ 40,402,675**

The accompanying notes are an integral part of these statements.

Liabilities and shareholders' equity	Millions of yen 2006	2005	Thousands of U.S. dollars (Note 3) 2006
Current liabilities:			
Short-term borrowings (Note 9)	**¥ 142,530**	¥ 197,765	**$ 1,218,205**
Current portion of long-term debt (Notes 9 and 19)	**163,558**	230,285	**1,397,932**
Notes payable, trade	**63,574**	67,291	**543,367**
Accounts payable, trade	**1,037,048**	906,248	**8,863,658**
Accounts payable, other and accrued expenses (Note 25)	**411,220**	349,009	**3,514,701**
Accrued income and other taxes	**48,725**	46,561	**416,453**
Advance payments received	**144,362**	134,326	**1,233,863**
Other current liabilities (Notes 21 and 23)	**397,953**	335,358	**3,401,308**
Total current liabilities	**2,408,970**	2,266,843	**20,589,487**
Long-term liabilities:			
Long-term debt (Notes 9, 10 and 19)	**611,430**	683,396	**5,225,898**
Accrued pension and severance costs (Note 11)	**474,198**	581,598	**4,052,974**
Other liabilities (Note 21)	**72,025**	79,361	**615,598**
	1,157,653	1,344,355	**9,894,470**
Minority interest in consolidated subsidiaries	**158,325**	144,707	**1,353,205**
Shareholders' equity (Note 17)**:**			
Common stock:			
Authorized—10,000,000,000 shares			
Issued:			
2006 and 2005—3,219,027,165 shares	**274,926**	274,926	**2,349,795**
Additional paid-in capital	**285,743**	285,736	**2,442,248**
Retained earnings	**570,080**	511,185	**4,872,479**
Accumulated other comprehensive loss	**(126,509)**	(254,753)	**(1,081,274)**
Treasury stock, at cost:			
2006—4,429,347 shares	**(2,075)**	—	**(17,735)**
2005—3,558,726 shares	**—**	(1,587)	**—**
	1,002,165	815,507	**8,565,513**
Commitments and contingent liabilities (Notes 22, 23 and 24)			
	¥ 4,727,113	¥ 4,571,412	**$ 40,402,675**

Consolidated Statements of Income

Toshiba Corporation and Subsidiaries
For the years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	**2006**
Sales and other income:			
Net sales	**¥ 6,343,506**	¥ 5,836,139	**$ 54,218,000**
Subsidy received on return of substitutional portion of Employees' Pension Fund Plan, net of settlement loss of ¥5,045 million ($43,120 thousand) in 2006 and ¥7,992 million in 2005 (Note 11)	**4,085**	4,836	**34,915**
Interest and dividends	**13,485**	10,564	**115,256**
Equity in earnings of affiliates (Note 7)	**—**	665	**—**
Other income (Notes 4, 5 and 14)	**49,605**	58,156	**423,974**
	6,410,681	5,910,360	**54,792,145**
Costs and expenses:			
Cost of sales (Notes 8, 12, 15, 20 and 25)	**4,659,795**	4,296,572	**39,827,308**
Selling, general and administrative (Notes 8, 12, 13 and 20)	**1,447,186**	1,389,596	**12,369,111**
Interest	**24,601**	21,749	**210,265**
Equity in losses of affiliates (Note 7)	**4,452**	—	**38,051**
Other expense (Notes 4, 5, 14 and 15)	**96,470**	91,211	**824,530**
	6,232,504	5,799,128	**53,269,265**
Income before income taxes and minority interest	**178,177**	111,232	**1,522,880**
Income taxes (Note 16)**:**			
Current	**57,051**	50,419	**487,615**
Deferred	**33,091**	5,525	**282,829**
	90,142	55,944	**770,444**
Income before minority interest	**88,035**	55,288	**752,436**
Minority interest in income of consolidated subsidiaries	**9,849**	9,247	**84,180**
Net income	**¥ 78,186**	¥ 46,041	**$ 668,256**

	Yen		U.S. dollars (Note 3)
Basic net income per share (Note 18)	**¥ 24.32**	¥ 14.32	**$ 0.21**
Diluted net income per share (Note 18)	**¥ 22.44**	¥ 13.53	**$ 0.19**
Cash dividends per share (Note 17)	**¥ 6.50**	¥ 5.00	**$ 0.06**

The accompanying notes are an integral part of these statements.

Toshiba Corporation and Subsidiaries
For the years ended March 31, 2006 and 2005

	Millions of yen					
	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock	Total
Balance at March 31, 2004	¥ 274,926	¥ 285,736	¥ 481,227	¥ (285,894)	¥ (1,005)	¥ 754,990
Comprehensive income (loss):						
Net income			46,041			46,041
Other comprehensive income (loss), net of tax (Note 17):						
Unrealized gains on securities (Note 4)				6,654		6,654
Foreign currency translation adjustments				10,441		10,441
Minimum pension liability adjustment (Note 11)				14,968		14,968
Unrealized losses on derivative instruments				(922)		(922)
Comprehensive income						77,182
Dividends			(16,083)			(16,083)
Purchase of treasury stock, net, at cost					(582)	(582)
Balance at March 31, 2005	274,926	285,736	511,185	(254,753)	(1,587)	815,507
Comprehensive income (loss):						
Net income			**78,186**			**78,186**
Other comprehensive income (loss), net of tax (Note 17):						
Unrealized gains on securities (Note 4)				**23,767**		**23,767**
Foreign currency translation adjustments				**36,830**		**36,830**
Minimum pension liability adjustment (Note 11)				**67,964**		**67,964**
Unrealized losses on derivative instruments				**(317)**		**(317)**
Comprehensive income						**206,430**
Dividends			**(19,291)**			**(19,291)**
Purchase of treasury stock, net, at cost		**7**			**(488)**	**(481)**
Balance at March 31, 2006	**¥ 274,926**	**¥ 285,743**	**¥ 570,080**	**¥ (126,509)**	**¥ (2,075)**	**¥1,002,165**

	Thousands of U.S. dollars (Note 3)					
	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock	Total
Balance at March 31, 2005	$2,349,795	$2,442,188	$4,369,102	$ (2,177,376)	$(13,564)	$6,970,145
Comprehensive income (loss):						
Net income			**668,256**			**668,256**
Other comprehensive income (loss), net of tax (Note 17):						
Unrealized gains on securities (Note 4)				**203,137**		**203,137**
Foreign currency translation adjustments				**314,786**		**314,786**
Minimum pension liability adjustment (Note 11)				**580,889**		**580,889**
Unrealized losses on derivative instruments				**(2,710)**		**(2,710)**
Comprehensive income						**1,764,358**
Dividends			**(164,879)**			**(164,879)**
Purchase of treasury stock, net, at cost		**60**			**(4,171)**	**(4,111)**
Balance at March 31, 2006	**$2,349,795**	**$2,442,248**	**$4,872,479**	**$ (1,081,274)**	**$(17,735)**	**$8,565,513**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Toshiba Corporation and Subsidiaries
For the years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	**2006**
Cash flows from operating activities			
Net income	**¥ 78,186**	¥ 46,041	**$ 668,256**
Adjustments to reconcile net income to net cash provided by operating activities—			
Depreciation and amortization	**254,217**	241,362	**2,172,795**
Provisions for pension and severance costs, less payments	**4,809**	2,641	**41,102**
Deferred income tax provision	**33,091**	5,525	**282,829**
Equity in (earnings) losses of affiliates, net of dividends	**20,023**	5,816	**171,137**
Loss from sales, disposal and impairment of property, plant and equipment, net	**19,807**	7,592	**169,291**
Gain from sales and impairment of securities and other investments, net	**(1,737)**	(4,241)	**(14,846)**
Minority interest in income of consolidated subsidiaries	**9,849**	9,247	**84,180**
Increase in notes and accounts receivable, trade	**(84,846)**	(67,678)	**(725,179)**
Increase in finance receivables, net	**—**	(2,245)	**—**
(Increase) decrease in inventories	**31,927**	(10,107)	**272,880**
Increase in other current assets	**(15,540)**	(17,695)	**(132,821)**
(Increase) decrease in long-term receivables	**(1,574)**	3,928	**(13,453)**
Increase in long-term finance receivables, net	**—**	(1,682)	**—**
Increase in notes and accounts payable, trade	**90,482**	82,427	**773,350**
Increase in accrued income and other taxes	**816**	9,722	**6,974**
Decrease in advance payments received	**(7,121)**	(51,263)	**(60,863)**
Increase in accounts payable and other liabilities	**69,037**	46,143	**590,060**
Net cash provided by operating activities	**501,426**	305,533	**4,285,692**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	**81,503**	42,094	**696,607**
Proceeds from sale of securities	**12,379**	34,138	**105,803**
Acquisition of property, plant and equipment	**(316,702)**	(271,635)	**(2,706,855)**
Purchase of securities	**(14,940)**	(12,397)	**(127,692)**
Increase in investments in affiliates	**(20,872)**	(7,051)	**(178,393)**
Purchase of business from an affiliate	**(25,700)**	—	**(219,658)**
Increase in other assets and other	**(19,053)**	(28,255)	**(162,846)**
Net cash used in investing activities	**(303,385)**	(243,106)	**(2,593,034)**
Cash flows from financing activities			
Proceeds from long-term debt	**108,393**	251,563	**926,436**
Repayment of long-term debt	**(250,884)**	(211,280)	**(2,144,308)**
Decrease in short-term borrowings, net	**(60,638)**	(105,416)	**(518,273)**
Dividends paid	**(22,808)**	(17,104)	**(194,940)**
Repurchase of subsidiary common stock	**(86)**	(634)	**(735)**
Purchase of treasury stock, net	**(481)**	(586)	**(4,111)**
Other	**(8,794)**	(8,867)	**(75,163)**
Net cash used in financing activities	**(235,298)**	(92,324)	**(2,011,094)**
Effect of exchange rate changes on cash and cash equivalents	**13,175**	5,623	**112,607**
Net decrease in cash and cash equivalents	**(24,082)**	(24,274)	**(205,829)**
Cash and cash equivalents at beginning of year	**295,003**	319,277	**2,521,393**
Cash and cash equivalents at end of year	**¥ 270,921**	¥ 295,003	**$ 2,315,564**
Supplemental disclosure of cash flow information			
Cash paid during the year for—			
Interest	**¥ 24,538**	¥ 21,761	**$ 209,726**
Income taxes	**62,925**	38,539	**537,821**
Purchase of business from an affiliate—			
Assets acquired	**70,383**	—	**601,564**
Liabilities assumed	**34,556**	—	**295,350**

The accompanying notes are an integral part of these statements.

Toshiba Corporation and Subsidiaries
March 31, 2006

1. DESCRIPTION OF BUSINESS

Toshiba Corporation and its subsidiaries (collectively, the "Company") are engaged in research and development, manufacturing and sales of high-technology electronic and energy products, which span (1)Digital Products, (2)Electronic Devices, (3)Social Infrastructure, (4)Home Appliances, and (5)Others. For the year ended March 31, 2006, sales of Digital Products represented the most significant portion of the Company's total sales or approximately 37 percent. Social Infrastructure represented approximately 27 percent, Electronic Devices approximately 20 percent, and Home Appliances approximately 10 percent of the Company's total sales. The Company's products were manufactured and marketed throughout the world with approximately 53 percent of its sales in Japan and the remainder in Asia, North America, Europe and other parts of the world.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PREPARATION OF FINANCIAL STATEMENTS

Toshiba Corporation 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 have been incorporated in the accompanying consolidated financial statements to conform with accounting principles generally accepted in the United States. These adjustments were not recorded in the statutory books of account.

BASIS OF CONSOLIDATION AND INVESTMENTS IN AFFILIATES

The consolidated financial statements of the Company include the accounts of Toshiba Corporation, its majority-owned subsidiaries and all variable interest entities ("VIEs") for which the Company is the primary beneficiary under Financial Accounting Standards Board ("FASB") Interpretation No.46 as revised in December 2003, *Consolidation of Variable Interest Entities, an Interpretation of ARB No.51* ("FIN 46R"). All significant intercompany transactions and accounts are eliminated in consolidation.

Investments in affiliates in which the ability to exercise significant influence exists are accounted for under the equity method of accounting. The Company eliminates unrealized intercompany profits in determining its equity in the current net earnings (losses) of such companies.

USE OF ESTIMATES

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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 periods. The Company has identified significant areas where it believes assumptions and estimates are particularly critical to the consolidated financial statements. These are determination of impairment on long-lived tangible and intangible assets and goodwill, realization of deferred tax assets, pension accounting assumptions and other valuation allowances and reserves. Actual results could differ from those estimates.

CASH EQUIVALENTS

All highly liquid investments with original maturities of 3 months or less at the date of purchase are considered to be cash equivalents.

FOREIGN CURRENCY TRANSLATION

The assets and liabilities of foreign consolidated subsidiaries and affiliates 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 accumulated 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 other income or other expense in the consolidated statements of income.

ALLOWANCE FOR UNCOLLECTIBLE RECEIVABLES

An allowance for uncollectible trade receivables is recorded based on a combination of the write-off history, aging analysis, and an evaluation of any specific known troubled accounts. When all collection options are exhausted including legal recourse, the accounts or portions thereof are deemed to be uncollectible and charged against the allowance. An allowance for uncollectible finance receivables has been provided based on past loss experience and the estimation of value of the underlying collateral.

MARKETABLE SECURITIES AND OTHER INVESTMENTS

The Company classifies all of its marketable securities as available-for-sale which are reported at fair value, with unrealized gains and losses included in accumulated other comprehensive income (loss), net of taxes. Other investments without quoted market prices are stated at cost. Realized gains or losses on the sale of securities are based on the average cost of a particular security held at the time of sale.

Marketable securities and other investment securities are regularly reviewed for other-than-temporary declines in carrying amount based on criteria that include the length of time and the extent to which the market value has been less than cost, the financial condition and near-term prospects of the issuer and the Company's intent and ability to retain marketable securities and investment securities for a period of time sufficient to allow for any anticipated recovery in market value. When such a

decline exists, the Company recognizes an impairment loss to the extent of such decline.

INVENTORIES

Raw materials, finished products and work in process for products are stated at the lower of cost or market, cost being determined principally by the average method. Finished products and work in process for contract items are stated at the lower of cost or estimated realizable value, cost being determined by accumulated production costs.

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

Property, plant and equipment, including significant renewals and additions, are carried at cost. Maintenance and repairs, including minor renewals and betterments, are expensed as incurred.

Depreciation for property, plant and equipment is computed generally by the declining-balance method at rates based on the following estimated useful lives of the assets: buildings, 3 to 50 years; machinery and equipment, 2 to 20 years.

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets, other than goodwill and intangible assets with indefinite useful lives, are evaluated for impairment using an estimate of undiscounted cash flows whenever events or changes in circumstances indicate that the carrying amount of such asset may not be recoverable. If the estimate of undiscounted cash flow is less than the carrying amount of the asset, an impairment loss is recorded based on the fair value of the asset. Fair value is determined primarily by using the anticipated cash flows discounted at a rate commensurate with the risk involved. For assets held for sale, an impairment loss is further increased by costs to sell. Long-lived assets to be disposed of other than by sale are considered held and used until disposed of.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and intangible assets with indefinite useful lives are not amortized, but instead are tested for impairment at least annually. Intangible assets with finite useful lives, consisting primarily of software and license fees, are amortized using the straight-line method over their respective contractual periods or estimated useful lives.

ENVIRONMENTAL LIABILITIES

Liabilities for environmental remediation and other environmental costs are accrued when environmental assessments or remedial efforts are probable and the costs can be reasonably estimated, based on current law and existing technologies. Such liabilities are adjusted as further information develops or circumstances change. Costs of future obligations are not discounted to their present values.

INCOME TAXES

The provision for income taxes is computed based on the pre-tax income included in the consolidated statements of income. 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. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that the change is enacted. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

ACCRUED PENSION AND SEVERANCE COSTS

The Company has various retirement benefit plans covering substantially all employees. Current service costs of the retirement benefit plans are accrued in the period. The unrecognized net obligation existing at initial application of Statement of Financial Accounting Standards ("SFAS") No. 87, *Employers' Accounting for Pensions*, and prior service costs resulting from amendments to the plans are amortized over the average remaining service period of employees expected to receive benefits. Unrecognized actuarial losses that exceed 10 percent of the greater of the projected benefit obligation or the fair value of plan assets are also amortized over the average remaining service period of employees expected to receive benefits.

ADDITIONAL PAID-IN CAPITAL

Under the Japanese Commercial Code, the entire amount of the issue price of shares is required to be accounted for in the common stock account although a company in Japan may, by a resolution of its board of directors, account for an amount not exceeding one-half of the issue price of the shares as additional paid-in capital.

ISSUANCE OF STOCK BY A SUBSIDIARY

When a subsidiary issues stock to an unrelated third party, the Company's ownership interest in the subsidiary decreases; however, if the price per share is more or less than the Company's average carrying amount per share, the Company is required to adjust the carrying amount of its investment in the subsidiary. The Company accounts for such adjustments as gains or losses in income for the year in which the change in ownership interest occurs rather than as a capital transaction with a charge or credit to additional paid-in capital.

NET INCOME PER SHARE

Basic net income 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 stock acquisition rights were exercised to issue common stock, unless their inclusion would have an antidilutive effect.

REVENUE RECOGNITION

Revenue of mass-produced standard products, such as digital products and electronic devices, is recognized when there is persuasive evidence of an arrangement, the product has been delivered, the sales price is fixed or determinable, and collectibility is reasonably assured. Mass-produced standard products are considered delivered to customers once they have been shipped, and the title and risk of loss have transferred.

Revenue from services, such as maintenance service for plant and other systems, that are priced and sold separately from the equipment is recognized ratable over the contract term or as the services are provided.

Revenue from the development of custom software products is recognized when the software product has been delivered and accepted by the customer.

Revenue related to equipment that requires installation is recognized upon the completion of the installation of the equipment.

Revenue under long-term contracts is recorded under the percentage of completion method. To measure the extent of progress toward completion, the Company generally compares the costs incurred to date to estimated total costs to complete based upon the most recent available information. A provision for contract losses is recorded in its entirety when the loss first becomes evident.

Revenue from the sales of equipment under sales-type leases is recognized at the inception of the lease. Interest on sales-type leases and direct financing leases is recognized to produce a constant periodic rate of return on the net investment in the lease. Leases not qualifying as sales-type lease or direct financing lease are accounted for as operating leases and related revenues are recognized over the lease term.

Revenue from arrangements with multiple elements, which may include any combination of products, equipment, installment and maintenance, is allocated to each element based on its relative fair value if such element meets the criteria for treatment as a separate unit of accounting as prescribed in the Emerging Issues Task Force Issue 00-21, *Revenue Arrangements with Multiple Deliverables*. Otherwise, revenue is deferred until the undelivered elements are fulfilled as a single unit of accounting.

SHIPPING AND HANDLING COSTS

The Company includes shipping and handling costs which totaled ¥85,951 million ($734,624 thousand) and ¥84,136 million for the years ended March 31, 2006 and 2005, respectively in selling, general and administrative expenses.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses a variety of derivative financial instruments, which include forward exchange contracts, interest rate swap agreements, currency swap agreements, and currency options for the purpose of currency exchange rate and interest rate risk management. Refer to Note 19 for descriptions of these financial instruments.

The Company recognizes all derivative financial instruments, such as forward exchange contracts, interest rate swap agreements, currency swap agreements, and currency options in the consolidated financial statements at fair value regardless of the purpose or intent for holding the derivative financial instruments. Changes in the fair value of derivative financial instruments are either recognized periodically in income or in shareholders' equity as a component of accumulated other comprehensive income (loss) depending on whether the derivative financial instruments qualify for hedge accounting, and if so, whether they qualify as a fair value hedge or a cash flow hedge. Changes in fair value of derivative financial instruments accounted for as fair value hedges are recorded in income along with the portion of the change in the fair value of the hedged item that relates to the hedged risk. Changes in fair value of derivative financial instruments accounted for as cash flow hedges, to the extent they are effective as a hedge, are recorded in accumulated other comprehensive income (loss), net of tax. Changes in the fair value of derivative financial instruments not qualifying as a hedge are reported in income.

SALES OF RECEIVABLES

The Company enters into transactions to sell certain trade notes receivable and trade accounts receivable. The Company may retain certain interests in these transactions. Gain or loss on the sale of receivables is computed based on the allocated carrying amount of the receivables sold. Retained interests are recorded at the allocated carrying amount of the assets based on their relative fair values at the date of sale. The Company estimates fair value based on the present value of future expected cash flows less credit losses.

GUARANTEES

The Company recognizes, at the inception of a guarantee, a liability for the fair value of the obligation it has undertaken in issuing guarantees for guarantees issued or modified after December 31, 2002 in accordance with the FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees.*

RECENT PRONOUNCEMENTS

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs, an amendment of ARB No. 43, Chapter 4* ("SFAS 151"). SFAS 151 amends the guidance in ARB No. 43, Chapter 4, Inventory Pricing, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Among other provisions, the new rule requires that items such as idle facility expense, excessive spoilage, double freight, and rehandling costs be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal" as stated in ARB No. 43. Additionally, SFAS 151 requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS 151 is effective for fiscal years beginning after June 15, 2005 and is required to be adopted by the Company in the fiscal year beginning April 1, 2006. The adoption of SFAS 151 did not have a material impact on its results of operations and financial condition of the Company.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29*

("SFAS 153"). SFAS 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, and replaces it with an exception for exchanges that do not have commercial substance. SFAS 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for the fiscal periods beginning after June 15, 2005 and is required to be adopted by the Company in the fiscal year beginning April 1, 2006. The adoption of SFAS 153 did not have a material impact on its results of operations and financial condition of the Company.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3* ("SFAS 154"). SFAS 154 replaces APB Opinion No. 20, *Accounting Changes*, and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements*, and provides guidance on the accounting for and reporting of accounting changes and error corrections. SFAS 154 establishes retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS 154 did not have a material impact on its results of operations and financial condition of the Company.

RECLASSIFICATIONS

Certain reclassifications to the prior year's consolidated financial statements and related footnote amounts have been made to conform to the presentation for the current year.

3. U.S. DOLLAR AMOUNTS

U.S. dollar amounts are included solely for convenience of readers. These translations should not be construed as a representation that the yen could be converted into U.S. dollars at this rate or any other rates. The amounts shown in U.S. dollars are not intended to be computed in accordance with generally accepted accounting principles in the United States for the translation of foreign currency amounts. The rate of ¥117=U.S.$1, the approximate current rate of exchange at March 31, 2006, 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 aggregate cost, 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, 2006 and 2005 are as follows:

	Millions of yen			
	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
March 31, 2006:				
Equity securities	**¥ 54,160**	**¥ 99,096**	**¥ 726**	**¥ 152,530**
Debt securities	**1,191**	**0**	**0**	**1,191**
	¥ 55,351	**¥ 99,096**	**¥ 726**	**¥ 153,721**
March 31, 2005:				
Equity securities	¥ 53,802	¥ 57,117	¥ 920	¥ 109,999
Debt securities	284	0	0	284
	¥ 54,086	¥ 57,117	¥ 920	¥ 110,283

	Thousands of U.S. dollars			
	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
March 31, 2006:				
Equity securities	**$ 462,906**	**$ 846,974**	**$ 6,205**	**$ 1,303,675**
Debt securities	**10,179**	**0**	**0**	**10,179**
	$ 473,085	**$ 846,974**	**$ 6,205**	**$ 1,313,854**

At March 31, 2006, debt securities mainly consisted of corporate debt securities.

Contractual maturities of debt securities classified as available-for-sale at March 31, 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars	
March 31, 2006:	Cost	Fair value	Cost	Fair value
Due within one year	**¥ 3**	**¥ 3**	**$ 25**	**$ 25**
Due after one year	**1,188**	**1,188**	**10,154**	**10,154**
	¥ 1,191	**¥ 1,191**	**$ 10,179**	**$ 10,179**

The proceeds from sales of available-for-sale securities for the years ended March 31, 2006 and 2005 were ¥7,513 million ($64,214 thousand) and ¥11,367 million, respectively. The gross realized gains on those sales for the years ended March 31, 2006 and 2005 were ¥5,676 million ($48,513 thousand) and ¥4,980 million, respectively. The gross realized losses on those sales for the years ended March 31, 2006 and 2005 were ¥7 million ($60 thousand) and ¥107 million, respectively.

Included in other expense are charges of ¥4,984 million ($42,598 thousand) and ¥4,892 million related to other-than-temporary declines in the marketable and non-marketable equity securities for the years ended March 31, 2006 and 2005, respectively.

At March 31, 2006, the cost and fair value of available-for-sale securities in an unrealized loss position over 12 consecutive months were not significant.

Aggregate cost of non-marketable equity securities accounted for under the cost method totaled ¥83,708 million ($715,453 thousand) and ¥80,894 million at March 31, 2006 and 2005, respectively. At March 31, 2006, investments with an aggregate cost of ¥79,492 million ($679,419 thousand) were not evaluated for impairment because (a)the Company did not estimate the fair values of those investments as it was not practicable to estimate the fair value of the investment and (b)the Company did not identify any events or changes in circumstances that might have had significant adverse effects on the fair values of those investments.

5. SECURITIZATIONS

The Company has transferred certain trade notes receivable and trade accounts receivable under several securitization programs. These securitization transactions are accounted for as a sale in accordance with SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of FASB Statement 125*, because the Company has relinquished control of the receivables. Accordingly, the receivables sold under these facilities are excluded from the accompanying consolidated balance sheets.

Upon the sale of receivables, the Company holds subordinated retained interests for certain trade notes receivable and trade accounts receivable. A portion of these receivables, where the Company holds subordinated retained interests, is not taken off the balance sheet and is recorded at their fair value. Such carrying amount is adjusted to reflect the portion that is not expected to be collectible. As of March 31, 2006 and 2005, the fair values of retained interests were ¥53,756 million ($459,453 thousand) and ¥41,303 million, respectively. The Company recognized losses of ¥2,242 million ($19,162 thousand) and ¥1,861 million on the securitizations of receivables for the years ended March 31, 2006 and 2005, respectively.

Subsequent to sale, the Company retains collection and administrative responsibilities for the receivables. Servicing fees received by the Company approximate the prevailing market rate. Related servicing assets or liabilities are immaterial to the Company's financial position.

The table below summarizes certain cash flows received from and paid to special purpose entities ("SPEs") on the above securitization transactions.

	Millions of yen		Thousands of U.S. dollars
Year ended March 31	**2006**	2005	**2006**
Proceeds from new securitizations	**¥ 1,019,315**	¥ 979,748	**$ 8,712,094**
Servicing fees received	**564**	514	**4,821**
Cash flows received on retained interests	**135,667**	75,788	**1,159,547**
Purchases of delinquent and foreclosed receivables	**—**	0	**—**

At March 31, 2006, the assumed weighted-average life and residual cash flow discount rate used to compute the fair value of retained interests were 0.20 years and 2.17 percent, respectively.

Quantitative information about delinquencies, net credit losses, and components of securitized receivables as of and for the years ended March 31, 2006 and 2005 are as follows:

	Millions of yen					
	Total principal amount of receivables		Amount 90 days or more past due		Net credit losses	
	March 31,				Year ended March 31,	
	2006	2005	**2006**	2005	**2006**	2005
Accounts receivable	**¥1,383,192**	¥ 1,236,396	**¥ 48,672**	¥ 26,151	**¥ 4,734**	¥ 3,798
Notes receivable	**190,455**	185,558	**26**	95	**358**	269
Total managed portfolio	**1,573,647**	1,421,954	**¥ 48,698**	¥ 26,246	**¥ 5,092**	¥ 4,067
Securitized receivables	**(271,613)**	(255,369)				
Total receivables	**¥1,302,034**	¥ 1,166,585				

	Thousands of U.S. dollars		
	Total principal amount of receivables	Amount 90 days or more past due	Net credit losses
	March 31, 2006		Year ended March 31, 2006
Accounts receivable	**$ 11,822,154**	**$ 416,000**	**$ 40,461**
Notes receivable	**1,627,821**	**222**	**3,060**
Total managed portfolio	**13,449,975**	**$ 416,222**	**$ 43,521**
Securitized receivables	**(2,321,479)**		
Total receivables	**$ 11,128,496**		

6. INVENTORIES

Inventories consist of the following:

March 31	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Finished products	**¥ 275,231**	¥ 262,893	**$ 2,352,402**
Work in process:			
Long-term contracts	**100,081**	81,321	**855,393**
Other	**181,297**	197,949	**1,549,547**
Raw materials	**108,313**	107,835	**925,752**
	¥ 664,922	¥ 649,998	**$ 5,683,094**

7. INVESTMENTS IN AND ADVANCES TO AFFILIATES

The Company's significant investments in affiliated companies accounted for by the equity method together with the percentage of the Company's ownership of voting shares at March 31, 2006 were: MT Picture Display Co., Ltd. (35.5%); Topcon Corporation (35.5%); Toshiba Ceramics Co., Ltd. (41.4%); Toshiba Machine Co., Ltd. (33.9%); Toshiba Finance Corporation ("TFC") (35.0%); Toshiba Mitsubishi-Electric Industrial Systems Corporation (50.0%); and Semp Toshiba Amazonas S.A. (40.0%).

Of the affiliates which were accounted for by the equity method, the investments in common stock of the listed companies (5 companies) were carried at ¥68,377 million ($584,419 thousand) and ¥58,322 million at March 31, 2006 and 2005, respectively. The Company's investments in these companies had market values of ¥207,340 million ($1,772,137 thousand) and ¥106,000 million at March 31, 2006 and 2005, respectively, based on quoted market prices at those dates.

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

March 31	Millions of yen 2006	2005	Thousands of U.S. dollars 2006
Current assets	**¥ 1,143,036**	¥ 1,110,233	**$ 9,769,538**
Other assets including property, plant and equipment	**1,074,125**	866,937	**9,180,556**
Total assets	**¥ 2,217,161**	¥ 1,977,170	**$ 18,950,094**
Current liabilities	**¥ 1,079,690**	¥ 954,607	**$ 9,228,120**
Long-term liabilities	**475,319**	404,432	**4,062,555**
Shareholders' equity	**662,152**	618,131	**5,659,419**
Total liabilities and shareholders' equity	**¥ 2,217,161**	¥ 1,977,170	**$ 18,950,094**

Year ended March 31	Millions of yen 2006	2005	Thousands of U.S. dollars 2006
Sales	**¥ 1,596,139**	¥ 1,619,823	**$ 13,642,214**
Net income (loss)	**(25,737)**	5,344	**(219,974)**

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

Year ended March 31	Millions of yen 2006	2005	Thousands of U.S. dollars 2006
Sales	**¥ 110,336**	¥ 99,408	**$ 943,043**
Purchases	**96,835**	115,074	**827,650**
Dividends	**13,526**	8,819	**115,607**

March 31	Millions of yen 2006	2005	Thousands of U.S. dollars 2006
Notes and accounts receivable, trade	**¥ 26,804**	¥ 30,805	**$ 229,094**
Other receivables	**11,238**	8,751	**96,051**
Long-term loans receivable	**7,300**	5,950	**62,393**
Notes and accounts payable, trade	**136,236**	113,606	**1,164,410**
Other payables	**62,717**	30,035	**536,043**
Capital lease obligations	**33,886**	46,102	**289,624**

8. GOODWILL AND OTHER INTANGIBLE ASSETS

The Company tested goodwill for impairment under SFAS No.142, *Goodwill and Other Intangible Assets*, applying a fair value-based test and has concluded that there was no impairment as of March 31, 2006 and 2005.

The components of acquired intangible assets excluding goodwill at March 31, 2006 and 2005 are as follows:

	Millions of yen		
March 31, 2006	Gross carrying amount	Accumulated amortization	Net carrying amount
Other intangible assets subject to amortization:			
Software	**¥ 146,913**	**¥ 84,847**	**¥ 62,066**
Technical license fees	**43,531**	**22,764**	**20,767**
Other	**17,774**	**13,571**	**4,203**
Total	**¥ 208,218**	**¥ 121,182**	**87,036**
Other intangible assets not subject to amortization			**4,444**
			¥ 91,480

	Millions of yen		
March 31, 2005	Gross carrying amount	Accumulated amortization	Net carrying amount
Other intangible assets subject to amortization:			
Software	¥ 123,215	¥ 65,328	¥ 57,887
Technical license fees	47,371	22,632	24,739
Other	13,966	8,596	5,370
Total	¥ 184,552	¥ 96,556	87,996
Other intangible assets not subject to amortization			4,260
			¥ 92,256

	Thousands of U.S. dollars		
March 31, 2006	Gross carrying amount	Accumulated amortization	Net carrying amount
Other intangible assets subject to amortization:			
Software	**$ 1,255,667**	**$ 725,188**	**$ 530,479**
Technical license fees	**372,060**	**194,564**	**177,496**
Other	**151,914**	**115,992**	**35,922**
Total	**$ 1,779,641**	**$ 1,035,744**	**743,897**
Other intangible assets not subject to amortization			**37,983**
			$ 781,880

Intangible assets acquired during the year ended March 31, 2006 primarily consisted of software of ¥24,039 million ($205,462 thousand).The weighted-average amortization period of software for the year ended March 31, 2006 was approximately 5.0 years.

The weighted-average amortization periods for other intangible assets were approximately 5.3 years and 5.7 years for the years ended March 31, 2006 and 2005, respectively. Amortization expenses of other intangible assets subject to amortization for the years ended March 31, 2006 and 2005 were ¥32,303 million ($276,094 thousand) and ¥25,898 million, respectively. The future amortization expense for each of the next 5 years relating to intangible assets currently recorded in the consolidated balance sheets at March 31, 2006 is estimated as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥ 29,533	$ 252,419
2008	21,735	185,769
2009	14,832	126,769
2010	8,532	72,923
2011	4,377	37,410

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired. The changes in the carrying amount of goodwill for the years ended March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
Year ended March 31	**2006**	2005	**2006**
Balance at beginning of year	**¥ 20,249**	¥ 17,702	**$ 173,068**
Goodwill acquired during the year	**2,575**	2,033	**22,009**
Foreign currency translation adjustments	**1,367**	514	**11,684**
Balance at end of year	**¥ 24,191**	¥ 20,249	**$ 206,761**

As of March 31, 2006, all carrying amount of goodwill was allocated to the Digital Products Segment.

9. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2006 and 2005 consist of the following:

	Millions of yen		Thousands of U.S. dollars
March 31	**2006**	2005	**2006**
Loans, principally from banks, including bank overdrafts, with weighted-average interest rate of 4.79% at March 31, 2006 and 2.10% at March 31, 2005:			
Secured	**¥ —**	¥ 354	**$ —**
Unsecured	**108,440**	162,876	**926,837**
Euro yen medium-term notes of a subsidiary, with weighted-average interest rate of 0.13% at March 31, 2006 and 0.10% at March 31, 2005 (swapped for floating rate (LIBOR, etc.) Euro obligations)	**29,968**	32,442	**256,137**
Euro medium-term note of a subsidiary, with interest rate of 2.69% at March 31, 2006 and 2.22% at March 31, 2005	**4,122**	2,093	**35,231**
	¥ 142,530	¥ 197,765	**$ 1,218,205**

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, 2006, the Company had unused committed lines of credit from short-term financing arrangements aggregating ¥259,795 million ($2,220,470 thousand), of which ¥18,795 million ($160,641 thousand) was in support of the Company's commercial paper. The lines of credit expire on various dates from April 2006 through March 2007. Under the agreements, the Company is required to pay commitment fees ranging from 0.065 percent to 0.120 percent on the unused portion of the lines of credit.

Long-term debt at March 31, 2006 and 2005 consist of the following:

	Millions of yen		Thousands of U.S. dollars
March 31	**2006**	2005	**2006**
Loans, principally from banks and insurance companies, due 2006 to 2029 with weighted-average interest rate of 0.91% at March 31, 2006 and due 2005 to 2032 with weighted-average interest rate of 0.69% at March 31, 2005:			
Secured	**¥ 5,383**	¥ 7,127	**$ 46,009**
Unsecured	**285,019**	287,698	**2,436,060**
Unsecured yen bonds, due 2006 to 2008 with interest ranging from 0.40% to 3.025% at March 31, 2006 and due 2005 to 2008 with interest ranging from 0.40% to 3.025% at March 31, 2005	**245,522**	359,230	**2,098,479**
Zero Coupon Convertible Bonds with stock acquisition rights:			
Due 2009 convertible currently at ¥587 per share	**50,000**	50,000	**427,350**
Due 2011 convertible currently at ¥542 per share	**100,000**	100,000	**854,701**
Euro yen medium-term notes, due 2007 to 2008 with interest ranging from 0.56% to 2.34% at March 31, 2006 and due 2005 to 2008 with interest ranging from 0.47% to 2.34% at March 31, 2005 (swapped for floating rate (LIBOR, etc.) Yen obligations)	**3,000**	8,000	**25,641**
Euro yen medium-term notes of subsidiaries, due 2006 to 2015 with interest ranging from 0.07% to 2.71% at March 31, 2006 and due 2005 to 2014 with interest ranging from 0.09% to 3.55% at March 31, 2005 (swapped for floating rate (LIBOR, etc.) U.S. dollar, Yen or Euro obligations)	**52,178**	55,524	**445,966**
Capital lease obligations	**33,886**	46,102	**289,624**
	774,988	913,681	**6,623,830**
Less—Portion due within one year	**(163,558)**	(230,285)	**(1,397,932)**
	¥ 611,430	¥ 683,396	**$ 5,225,898**

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 long-term debt at March 31, 2006 were property, plant and equipment with a book value of ¥14,353 million ($122,675 thousand).

The aggregate annual maturities of long-term debt, excluding those of capital lease obligations are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥ 150,197	$ 1,283,735
2008	89,818	767,675
2009	115,588	987,932
2010	174,536	1,491,761
2011	72,558	620,154
Thereafter	138,405	1,182,949
	¥ 741,102	$ 6,334,206

10. ISSUANCE OF CONTINGENTLY CONVERTIBLE BOND

In July, 2004, Toshiba Corporation issued ¥50,000 million Zero Coupon Convertible Bonds due 2009 (the "2009 Bonds") and ¥100,000 million Zero Coupon Convertible Bonds due 2011 (the "2011 Bonds").

The bonds include stock acquisition rights which entitle bondholders to acquire common stock under certain circumstances, and are exercisable on and after August 4, 2004 up to, and including, July 7, 2009 (in the case of the 2009 Bonds) and up to, and including, July 7, 2011 (in the case of the 2011 Bonds).

The initial conversion prices are ¥587 per share (in the case of the 2009 Bonds) and ¥542 (in the case of the 2011 Bonds), subject to adjustment for certain events such as a stock split, consolidation of stock or issuance of stock at a consideration per share which is less than the current market price.

(Conditions allowing exercise of stock acquisition rights)

The period prior to (but not including) July 21, 2008 (in the case of the 2009 Bonds) or July 21, 2010 (in the case of the 2011 Bonds)	In the case that as of the last trading day of any calendar quarter, the closing price of the shares for any 20 trading days in a period of 30 consecutive trading days ending on the last trading day of such quarter is more than 120% of the conversion price in effect on each such trading day.
The period on or after July 21, 2008 (in the case of the 2009 Bonds) or July 21, 2010 (in the case of the 2011 Bonds)	At any time after the closing price of the shares on at least one trading day is more than 120% of the conversion price in effect on each such trading day.

The additional 85,178,875 shares and 184,501,845 shares relating to the potential conversion of the 2009 Bonds and the 2011 Bonds were included in the diluted net income per share calculations for the year ended March 31, 2006 and 2005.

11. ACCRUED PENSION AND SEVERANCE COSTS

All employees who retire or are terminated are usually entitled to lump-sum severance indemnities or pension benefits determined by reference to their current basic rate of pay, length of service and conditions under which their employment terminates. The obligation for the severance indemnity benefit is provided for through accruals, funding of tax-qualified non-contributory pension plans and the corporate pension plan.

The Company had Employees' Pension Fund ("EPF") Plans, which were contributory defined benefit pension plans under the Japanese Welfare Pension Insurance Law ("JWPIL"). These plans were composed of a substitutional portion which was the obligation related to the government-defined benefit prescribed by JWPIL, and a corporate portion based on a contributory defined benefit arrangement established at the discretion of Toshiba Corporation and these subsidiaries. Among the EPF Plans that the Company participated in, certain subsidiaries' EPF Plans were reorganized and became corporate pension plans under the Japanese Defined Benefit Corporate Pension Law during the year ended March 31, 2006 and 2005. The Toshiba EPF plan was reorganized and became corporate pension plans during the year ended March 31, 2004.

Certain subsidiaries in Japan have tax-qualified non-contributory 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 uses a March 31 measurement date for the majority of its plans.

The changes in the benefit obligation and plan assets and reconciliations of net amount recognized to funded status and accrued pension and severance costs for the years ended March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
March 31	**2006**	2005	**2006**
Change in benefit obligation:			
Benefit obligation at beginning of year	**¥ 1,296,805**	¥ 1,290,504	**$ 11,083,804**
Service cost	**46,403**	44,106	**396,607**
Interest cost	**32,244**	33,134	**275,590**
Plan participants' contributions	**2,329**	2,932	**19,906**
Plan amendments	**(5,278)**	2,110	**(45,111)**
Actuarial loss	**57,557**	22,024	**491,940**
Benefits paid	**(61,357)**	(69,032)	**(524,419)**
Return of substitutional portion to the government	**(20,637)**	(29,767)	**(176,385)**
Foreign currency exchange impact	**1,702**	794	**14,547**
Benefit obligation at end of year	**¥ 1,349,768**	¥ 1,296,805	**$ 11,536,479**
Change in plan assets:			
Fair value of plan assets at beginning of year	**¥ 647,836**	¥ 617,832	**$ 5,537,060**
Actual return on plan assets	**152,106**	26,028	**1,300,051**
Employer contributions	**55,007**	54,223	**470,146**
Plan participants' contributions	**2,329**	2,932	**19,906**
Benefits paid	**(37,052)**	(38,794)	**(316,684)**
Return of substitutional portion to the government	**(10,541)**	(15,019)	**(90,094)**
Foreign currency exchange impact	**1,616**	634	**13,812**
Fair value of plan assets at end of year	**¥ 811,301**	¥ 647,836	**$ 6,934,197**
Funded status	**¥ 538,467**	¥ 648,969	**$ 4,602,282**
Unrecognized actuarial loss	**(397,246)**	(499,433)	**(3,395,265)**
Unrecognized net obligation at transition	**—**	(12,495)	**—**
Unrecognized prior service cost	**59,590**	57,737	**509,316**
Net amount recognized	**¥ 200,811**	¥ 194,778	**$ 1,716,333**
Amounts recognized in the consolidated balance sheets consist of:			
Prepaid pension cost	**¥ (3,849)**	¥ (2,672)	**$ (32,897)**
Accrued pension and severance costs	**474,198**	581,598	**4,052,974**
Accumulated other comprehensive loss, pre-tax	**(269,538)**	(384,148)	**(2,303,744)**
Net amount recognized	**¥ 200,811**	¥ 194,778	**$ 1,716,333**
Accumulated benefit obligation at end of year	**¥ 1,285,079**	¥ 1,229,014	**$ 10,983,581**

The components of the net periodic pension and severance cost for the years ended March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
Year ended March 31	**2006**	2005	**2006**
Service cost—benefits earned during the year	**¥ 46,403**	¥ 44,106	**$ 396,607**
Interest cost on projected benefit obligation	**32,244**	33,134	**275,590**
Expected return on plan assets	**(21,504)**	(18,637)	**(183,795)**
Amortization of unrecognized net obligation at transition	**12,495**	12,025	**106,795**
Amortization of prior service cost	**(3,455)**	(3,584)	**(29,530)**
Recognized actuarial loss	**23,575**	24,894	**201,495**
Settlement loss	**5,045**	7,992	**43,120**
Net periodic pension and severance cost	**¥ 94,803**	¥ 99,930	**$ 810,282**

The Company expects to contribute ¥57,947 million ($495,274 thousand) to its defined benefit plans in the year ending March 31, 2007.

The following benefit payments are expected to be paid:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥ 64,272	$ 549,333
2008	67,579	577,598
2009	69,782	596,427
2010	74,278	634,855
2011	78,565	671,496
2012—2016	402,754	3,442,342

In January 2003, the Emerging Issue Task Force reached a consensus on Issue No. 03-2 ("EITF 03-2"), *Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities*, which addresses accounting for a transfer to the Japanese government of a substitutional portion of EPF Plans. EITF 03-2 requires employers to account for the entire process at completion of the transfer to the Japanese government of the substitutional portion of the benefit obligation and the related plan assets, as a single settlement transaction.

Upon the approval from the Japanese government, with the transfer to the Japanese government from the assets of the pension plans in the years ended March 31, 2006 and 2005, certain subsidiaries were relieved of all obligations under substitutional portion of the plan.

As a result, the Company recorded a gain of ¥4,085 million ($34,915 thousand) and ¥4,836 million for the years ended March 31, 2006 and 2005, respectively. The subsidies of ¥9,130 million ($78,035 thousand) for the year ended March 31, 2006 and ¥12,828 million for the year ended March 31, 2005 from the government were calculated as the difference between the obligation settled and the assets transferred determined pursuant to the government formula, less derecognized amounts of previously accrued salary progression at the time of settlement of ¥966 million ($8,256 thousand) and ¥1,920 million for the years ended March 31, 2006 and 2005, respectively.

Weighted-average assumptions used to determine benefit obligations as of March 31, 2006 and 2005 and net periodic pension and severance cost for the years then ended are as follows:

March 31	**2006**	2005
Discount rate	**2.5%**	2.6%
Rate of compensation increase	**3.0%**	3.0%

Year ended March 31	**2006**	2005
Discount rate	**2.6%**	2.7%
Expected long-term rate of return on plan assets	**4.0%**	4.0%
Rate of compensation increase	**3.0%**	3.0%

The Company determines the expected long-term rate of return in consideration of the target allocation of the plan assets, the current expectation of long-term returns on the assets and actual returns on plan assets.

The Company's pension and severance plan asset allocations at March 31, 2006 and 2005, by asset category are as follows:

March 31	**2006**	2005
Asset category		
Equity securities	**58%**	52%
Debt securities	**24%**	26%
Life insurance company general accounts	**3%**	6%
Other	**15%**	16%
Total	**100%**	100%

The other category includes hedge funds.

The Company's investment policies and strategies are to assure adequate plan assets to provide for future payments of pension and severance benefits to participants, with reasonable risks. The Company designs the basic target allocation of the plan assets to mirror the best portfolio based on estimation of mid-term and long-term return on the investments. The Company periodically reviews the actual return on the investments and adjusts the portfolio to achieve the assumed long-term rate of return on the investments. The Company targets its investments in equity securities at 40 percent or more of total investments, and investments in equity and debt securities at 75 percent or more of total investments.

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs are expensed as incurred and amounted to ¥372,447 million ($3,183,308 thousand) and ¥348,010 million for the years ended March 31, 2006 and 2005, respectively.

13. ADVERTISING COSTS

Advertising costs are expensed as incurred. Advertising costs amounted to ¥49,839 million ($425,974 thousand) and ¥41,494 million for the years ended March 31, 2006 and 2005, respectively.

14. FOREIGN EXCHANGE GAINS AND LOSSES

For the years ended March 31, 2006 and 2005, the net foreign exchange impacts were ¥3,434 million ($29,350 thousand) loss and ¥1,772 million gain respectively.

15. IMPAIRMENT OF LONG-LIVED ASSETS

Due to general price erosion, severe market competition and others, the Company recorded impairment charges of ¥11,974 million ($102,342 thousand) related primarily to the manufacturing facilities of the Digital Products division and the Electronic Devices division for the year ended March 31, 2006, and ¥1,088 million related to the manufacturing facilities of the Electronic Devices division for the year ended March 31, 2005. These impairment charges are included under the caption cost of sales and other expense in the accompanying consolidated statements of income.

16. INCOME TAXES

The Company is subject to a number of different income taxes which, in the aggregate, result in an effective statutory tax rate in Japan of approximately 40.7 percent for the years ended March 31, 2006 and 2005.

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 statutory tax rate is as follows:

	Millions of yen		Thousands of U.S. dollars
Year ended March 31	**2006**	2005	**2006**
Expected income tax expense	**¥ 72,518**	¥ 45,271	**$ 619,812**
Increase (decrease) in taxes resulting from:			
Dividends	**7,771**	9,849	**66,419**
Non-deductible expenses for tax purposes	**4,437**	4,363	**37,923**
Net changes in valuation allowance	**3,416**	8,117	**29,196**
Tax rate difference relating to foreign subsidiaries	**(6,384)**	(7,057)	**(54,564)**
Deferred tax liabilities on undistributed earnings of foreign subsidiaries	**6,587**	(207)	**56,299**
Other	**1,797**	(4,392)	**15,359**
Income tax expense	**¥ 90,142**	¥ 55,944	**$ 770,444**

The significant components of deferred tax assets and deferred tax liabilities as of March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
March 31	**2006**	2005	**2006**
Gross deferred tax assets:			
Inventories	**¥ 23,878**	¥ 21,565	**$ 204,085**
Accrued pension and severance costs	**116,586**	112,275	**996,462**
Tax loss carryforwards	**62,849**	123,788	**537,171**
Minimum pension liability adjustment	**109,702**	156,348	**937,624**
Accrued bonus	**44,899**	42,300	**383,752**
Depreciation and amortization	**31,208**	30,781	**266,735**
Other	**158,082**	130,596	**1,351,128**
	547,204	617,653	**4,676,957**
Valuation allowance for deferred tax assets	**(80,947)**	(88,818)	**(691,854)**
Deferred tax assets	**¥ 466,257**	¥ 528,835	**$ 3,985,103**

	Millions of yen		Thousands of U.S. dollars
March 31	**2006**	2005	**2006**
Gross deferred tax liabilities:			
Retained earnings appropriated for tax allowable reserves	**¥ (21,114)**	¥ (18,887)	**$ (180,462)**
Unrealized gains on securities	**(41,258)**	(23,410)	**(352,632)**
Gain on securities contributed to employee retirement benefit trusts	**(17,381)**	(17,381)	**(148,556)**
Other	**(18,302)**	(13,402)	**(156,427)**
Deferred tax liabilities	**(98,055)**	(73,080)	**(838,077)**
Net deferred tax assets	**¥ 368,202**	¥ 455,755	**$ 3,147,026**

The net changes in the total valuation allowance for the years ended March 31, 2006 and 2005 were a decrease of ¥7,871 million ($67,274 thousand) and an increase of ¥7,521 million, respectively.

The Company's tax loss carryforwards for each of the corporate and local taxes at March 31, 2006 amounted to ¥90,074 million ($769,863 thousand) and ¥321,961 million ($2,751,803 thousand), respectively, the majority of which will expire during the period from 2007 through 2013. The Company utilized tax loss carryforwards of ¥168,371 million ($1,439,068 thousand) and ¥93,811 million ($801,803 thousand) to reduce current corporate and local taxes, respectively, during the year ended March 31, 2006.

Realization of tax loss carryforwards and other deferred tax assets is dependent on the Company generating sufficient taxable income prior to their expiration or the Company exercising certain available tax strategies. Although realization is not assured, management believes it is more likely than not that all of the deferred tax assets, less the 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 deemed indefinitely reinvested in foreign operations. As of March 31, 2006 and 2005, the undistributed earnings of the foreign subsidiaries not subject to deferred tax liabilities were ¥105,029 million ($897,684 thousand), and ¥124,375 million, respectively. It is not practicable to estimate the amount of the deferred income tax liabilities on such earnings.

17. SHAREHOLDERS' EQUITY

RETAINED EARNINGS

Retained earnings at March 31, 2006 and 2005 included a legal reserve of ¥14,950 million ($127,778 thousand) and ¥13,980 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 Toshiba Corporation and its Japanese subsidiaries be appropriated as a legal reserve. No further appropriations are required when the total amount of the additional paid-in capital and the legal reserve equals 25 percent of their respective stated capital. The Japanese Commercial Code also provides that to the extent that the sum of the additional paid-in capital and the legal reserve exceeds 25 percent of the stated capital, the amount of the excess, if any, is available for appropriations.

The amount of retained earnings available for dividends is based on Toshiba Corporation's retained earnings determined in accordance with generally accepted accounting principles in Japan and the Japanese Commercial Code. Retained earnings at March 31, 2006 do not reflect current year-end dividends of ¥11,251 million ($96,162 thousand) which will be paid from June 2, 2006.

Retained earnings at March 31, 2006 included the Company's equity in undistributed earnings of affiliated companies accounted for by the equity method in the amount of ¥5,291 million ($45,222 thousand).

ACCUMULATED OTHER COMPREHENSIVE LOSS

An analysis of the changes in accumulated other comprehensive loss, net of tax, for the years ended March 31, 2006 and 2005 is shown below:

	Millions of yen		Thousands of U.S. dollars
March 31	**2006**	2005	**2006**
Unrealized gains on securities:			
Balance at beginning of year	**¥ 33,479**	¥ 26,825	**$ 286,145**
Current year change	**23,767**	6,654	**203,137**
Balance at end of year	**¥ 57,246**	¥ 33,479	**$ 489,282**
Foreign currency translation adjustments:			
Balance at beginning of year	**¥ (68,849)**	¥ (79,290)	**$ (588,453)**
Current year change	**36,830**	10,441	**314,786**
Balance at end of year	**¥ (32,019)**	¥ (68,849)	**$ (273,667)**
Minimum pension liability adjustment:			
Balance at beginning of year	**¥ (219,315)**	¥ (234,283)	**$ (1,874,487)**
Current year change	**67,964**	14,968	**580,889**
Balance at end of year	**¥ (151,351)**	¥ (219,315)	**$ (1,293,598)**
Unrealized gains (losses) on derivative instruments:			
Balance at beginning of year	**¥ (68)**	¥ 854	**$ (581)**
Current year change	**(317)**	(922)	**(2,710)**
Balance at end of year	**¥ (385)**	¥ (68)	**$ (3,291)**
Total accumulated other comprehensive loss:			
Balance at beginning of year	**¥ (254,753)**	¥ (285,894)	**$ (2,177,376)**
Current year change	**128,244**	31,141	**1,096,102**
Balance at end of year	**¥ (126,509)**	¥ (254,753)	**$ (1,081,274)**

Tax effects allocated to each component of other comprehensive income (loss) for the years ended March 31, 2006 and 2005 are shown below:

	Millions of yen		
	Pre-tax amount	Tax benefit (expense)	Net-of-tax amount
For the year ended March 31, 2006:			
Unrealized gains on securities:			
Unrealized holding gains arising during year	**¥ 44,230**	**¥ (17,973)**	**¥ 26,257**
Less: reclassification adjustment for gains included in net income	**(4,198)**	**1,708**	**(2,490)**
Foreign currency translation adjustments:			
Currency translation adjustments arising during year	**31,811**	**5,034**	**36,845**
Less: reclassification adjustment for gains included in net income	**(15)**	**—**	**(15)**
Minimum pension liability adjustment	**114,610**	**(46,646)**	**67,964**
Unrealized losses on derivative instruments:			
Unrealized losses arising during year	**(4,437)**	**1,800**	**(2,637)**
Less: reclassification adjustment for losses included in net income	**3,914**	**(1,594)**	**2,320**
Other comprehensive income (loss)	**¥ 185,915**	**¥ (57,671)**	**¥ 128,244**
For the year ended March 31, 2005:			
Unrealized gains on securities:			
Unrealized holding gains arising during year	¥ 15,989	¥ (6,499)	¥ 9,490
Less: reclassification adjustment for gains included in net income	(4,783)	1,947	(2,836)
Foreign currency translation adjustments:			
Currency translation adjustments arising during year	12,470	(2,191)	10,279
Less: reclassification adjustment for losses included in net income	162	—	162
Minimum pension liability adjustment	25,242	(10,274)	14,968
Unrealized losses on derivative instruments:			
Unrealized losses arising during year	(5,927)	2,411	(3,516)
Less: reclassification adjustment for losses included in net income	4,374	(1,780)	2,594
Other comprehensive income (loss)	¥ 47,527	¥ (16,386)	¥ 31,141

	Thousands of U.S. dollars		
	Pre-tax amount	Tax benefit (expense)	Net-of-tax amount
For the year ended March 31, 2006:			
Unrealized gains on securities:			
Unrealized holding gains arising during year	**$ 378,034**	**$ (153,615)**	**$ 224,419**
Less: reclassification adjustment for gains included in net income	**(35,880)**	**14,598**	**(21,282)**
Foreign currency translation adjustments:			
Currency translation adjustments arising during year	**271,889**	**43,025**	**314,914**
Less: reclassification adjustment for gains included in net income	**(128)**	**—**	**(128)**
Minimum pension liability adjustment	**979,572**	**(398,683)**	**580,889**
Unrealized losses on derivative instruments:			
Unrealized losses arising during year	**(37,923)**	**15,384**	**(22,539)**
Less: reclassification adjustment for losses included in net income	**33,453**	**(13,624)**	**19,829**
Other comprehensive income (loss)	**$ 1,589,017**	**$ (492,915)**	**$ 1,096,102**

18. NET INCOME PER SHARE

A reconciliation of the numerators and denominators between basic and diluted net income per share for the years ended March 31, 2006 and 2005 is as follows:

	Millions of yen		Thousands of U.S. dollars
Year ended March 31	**2006**	2005	**2006**
Net income available to common shareholders	**¥ 78,186**	¥ 46,041	**$ 668,256**
Net income effect of dilutive convertible debentures	**—**	—	**—**
Net income available to common shareholders and assumed conversions	**¥ 78,186**	¥ 46,041	**$ 668,256**

	Thousands of shares	
Year ended March 31	**2006**	2005
Weighted-average number of shares of common stock outstanding for the year	**3,215,045**	3,216,215
Incremental shares from assumed conversions of dilutive convertible debentures	**269,681**	186,702
Weighted-average number of shares of diluted common stock outstanding for the year	**3,484,726**	3,402,917

	Yen		U.S. dollars
Year ended March 31	**2006**	2005	**2006**
Net income per share of common stock:			
—Basic	**¥ 24.32**	¥ 14.32	**$ 0.21**
—Diluted	**22.44**	13.53	**0.19**

19. FINANCIAL INSTRUMENTS

(1)DERIVATIVE 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 consisted principally of forward exchange contracts, interest rate swap agreements, currency swap agreements, and currency options to reduce its exposures. The Company has policies and procedures for risk management and the approval, reporting and monitoring of derivative financial instruments. The Company's policies prohibit holding or issuing derivative financial instruments for trading purposes.

The counterparties to the Company's derivative transactions are financial institutions of high credit standing. The Company does not anticipate any credit loss from nonperformance by the counterparties to forward exchange contracts, interest rate swap agreements, currency swap agreements and currency options.

The Company has entered into forward exchange contracts with financial institutions as hedges against fluctuations in

foreign currency exchange rates on monetary 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 of the balance sheet date.

Interest rate swap agreements, currency swap agreements and currency options are used to limit the Company's exposure to losses in relation to underlying debt instruments and accounts receivable and payable denominated in foreign currencies resulting from adverse fluctuations in foreign currency exchange and interest rates. These agreements mature during the period 2006 to 2015.

Forward exchange contracts, interest rate swap agreements, currency swap agreements and currency options are designated as either fair value hedges or cash flow hedges depending on accounts receivable and payable denominated in foreign currencies or commitments on future trade transactions and the interest rate characteristics of the underlying debt as discussed below.

Fair Value Hedge Strategy

The forward exchange contracts and currency swap agreements utilized by the Company effectively reduce fluctuation in fair value of accounts receivable and payable denominated in foreign currencies.

The interest rate swap agreements utilized by the Company effectively convert a portion of its fixed-rate debt to a floating-rate basis.

Cash Flow Hedge Strategy

The forward exchange contracts and currency options utilized by the Company effectively reduce fluctuation in cash flow from commitments on future trade transactions denominated in foreign currencies for the next 18 months.

The interest rate swap agreements utilized by the Company effectively convert a portion of its floating-rate debt to a fixed-rate basis for the next 10 years.

The Company expects to reclassify ¥708 million ($6,051 thousand) of net losses on derivative financial instruments from accumulated other comprehensive income (loss) to earnings during the next 12 months due to the collection of accounts receivable denominated in foreign currencies and the payments of accounts payable denominated in foreign currencies and variable interest associated with the floating-rate debts.

At March 31, 2006, there were no significant gains or losses on derivative financial instruments or portions thereof that were either ineffective as hedges, excluded from assessment of hedge effectiveness, or where the underlying risk did not occur.

The Company's forward exchange contract amounts, the aggregate notional principal amounts of interest rate swap agreements, currency swap agreements, and currency options outstanding at March 31, 2006 and 2005 are summarized below:

	Millions of yen		Thousands of U.S. dollars
March 31	**2006**	2005	**2006**
Forward exchange contracts:			
To sell foreign currencies	**¥ 125,684**	¥ 132,673	**$ 1,074,222**
To buy foreign currencies	**41,332**	36,702	**353,265**
Interest rate swap agreements	**164,050**	119,250	**1,402,137**
Currency swap agreements	**146,652**	139,208	**1,253,436**
Currency options	**218,679**	34,816	**1,869,051**

(2)FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of the Company's financial instruments at March 31, 2006 and 2005 are summarized as follows:

	Millions of yen			
	2006		2005	
March 31	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Nonderivatives:				
Liabilities:				
Long-term debt, including current portion	**¥ (741,102)**	**¥ (793,470)**	¥ (867,579)	¥ (875,132)
Derivative financial instruments:				
Forward exchange contracts	**(989)**	**(989)**	944	944
Interest rate swap agreements	**(1,161)**	**(1,161)**	(285)	(285)
Currency swap agreements	**153**	**153**	1,182	1,182
Currency options	**(810)**	**(810)**	164	164

	Thousands of U.S. dollars	
	2006	
March 31	Carrying amount	Estimated fair value
Nonderivatives:		
Liabilities:		
Long-term debt, including current portion	**$ (6,334,206)**	**$ (6,781,795)**
Derivative financial instruments:		
Forward exchange contracts	**(8,453)**	**(8,453)**
Interest rate swap agreements	**(9,923)**	**(9,923)**
Currency swap agreements	**1,308**	**1,308**
Currency options	**(6,923)**	**(6,923)**

The above table excludes the financial instruments for which fair values approximate their carrying amounts and those related to leasing activities. The table also excludes marketable securities and other investments which are disclosed in Note 4.

In assessing the fair value of these financial instruments, the Company uses a variety of methods and assumptions, which are 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, short-term borrowings, notes payable-trade, accounts payable-trade and accounts payable-other and accrued expenses, it is assumed that the carrying amount approximated fair value for the majority of these instruments because of their short maturities. Quoted market prices are used for a part of marketable securities and other investments. For long-term debt, fair value is estimated using market quotes, or where market quotes are not available, using estimated discounted future cash flows. Other techniques, such as estimated discounted value of future cash flows, and replacement cost, are 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.

20. LEASES

LESSEE

The Company leases manufacturing equipment, office and warehouse space, and certain other assets under operating leases. Rent expenses under such leases for the years ended March 31, 2006 and 2005 were ¥84,047 million ($718,350 thousand) and ¥82,174 million, respectively.

The Company also leases certain machinery and equipment which are accounted for as capital leases from TFC and Toshiba Medical Finance Co., Ltd., affiliates of the Company. The costs under capital leases as of March 31, 2006 and 2005 were approximately ¥70,700 million ($604,274 thousand) and ¥91,000 million, respectively. Accumulated amortization of the machinery and equipment under capital leases as of March 31, 2006 and 2005 were approximately ¥36,800 million ($314,530 thousand) and ¥45,000 million, respectively.

Minimum lease payments for the Company's capital and non-cancelable operating leases as of March 31, 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars	
Year ending March 31	Capital leases	Operating leases	Capital leases	Operating leases
2007	¥ 14,992	¥ 24,536	$ 128,137	$ 209,709
2008	9,947	17,742	85,017	151,641
2009	6,674	14,979	57,043	128,026
2010	3,822	10,340	32,667	88,376
2011	1,507	2,148	12,880	18,359
Thereafter	366	4,603	3,128	39,342
Total minimum lease payments	37,308	¥ 74,348	318,872	$ 635,453
Executory costs	(1,698)		(14,513)	
Amounts representing interest	(1,724)		(14,735)	
Present value of net minimum lease payments	33,886		289,624	
Less—current portion	(13,361)		(114,197)	
	¥ 20,525		$ 175,427	

LESSOR

The Company is also a lessor to office buildings and other assets under operating leases. Future minimum lease payments to be received under the Company's non-cancelable operating leases as of March 31, 2006 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥ 846	$ 7,231
2008	847	7,239
2009	729	6,231
2010	723	6,179
2011	727	6,214
Thereafter	6,203	53,017
	¥ 10,075	$ 86,111

21. CONSOLIDATION OF VIEs

The Company leases certain manufacturing equipment from a VIE. The Company consolidates the VIE in accordance with FIN 46R. As a result, at March 31, 2006, the Company recorded machinery and equipment of ¥20,119 million ($171,957 thousand), and other current liabilities and other liabilities of ¥23,784 million ($203,282 thousand). At March 31, 2005, the Company recorded machinery and equipment of ¥27,288 million, and other current liabilities and other liabilities of ¥29,021 million, respectively. The creditors of the VIE do not have recourse to the general credit of the Company.

22. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments outstanding at March 31, 2006 for the purchase of property, plant and equipment approximated ¥23,067 million ($197,154 thousand).

At March 31, 2006, contingent liabilities, other than guarantees disclosed in Note 23, approximated ¥6,704 million ($57,299 thousand) principally for recourse obligations related to notes receivable transferred.

Toshiba Corporation has entered into a definitive Purchase and Sale Agreement with British Nuclear Fuels plc and its subsidiary, under which Toshiba Corporation will acquire BNFL USA Group Inc. and Westinghouse Electric UK Limited (collectively "Westinghouse" hereafter) at a cost of US$5.4 billion. Although Toshiba Corporation expects to have several minority investors who wish to participate in this opportunity, it will retain ownership of more than 51% of Westinghouse voting shares. The closing of the acquisition is subject to certain procedures, including, without limitation, obtaining regulatory approvals from relevant governmental authorities. Toshiba Corporation has sufficient capital resources and borrowing capacity to fund this acquisition.

The Company will account for this acquisition under the purchase method of accounting in accordance with SFAS No.141, *Business Combinations*. The Company expects to record on its consolidated balance sheet a substantial amount of goodwill as a result of this acquisition. The Company believes this goodwill is appropriate, reflecting Westinghouse's future capabilities for profit generation and the synergy to be obtained from combining Westinghouse and the Company.

23. GUARANTEES

GUARANTEES OF UNCONSOLIDATED AFFILIATES AND THIRD PARTY DEBT

The Company guarantees debt as well as certain financial obligations of unconsolidated affiliates and third parties to support the sale of the Company's products and services. Expiration dates vary from 2006 to 2017 or terminate on payment and/or cancellation of the obligation. A payment by the Company would be triggered by the failure of the guaranteed party to fulfill its obligation under the guarantee. The maximum potential payments under these guarantees were ¥96,569 million ($825,376 thousand) as of March 31, 2006.

GUARANTEES OF EMPLOYEES' HOUSING LOANS

The Company guarantees housing loans of its employees. The term of the guarantees is equal to the term of the related loans which range from 5 to 25 years. A payment would be triggered by failure of the guaranteed party to fulfill its obligation covered by the guarantee. The maximum potential payments under these guarantees were ¥20,609 million ($176,145 thousand) as of March 31, 2006. However, the Company expects that the majority of such payments would be reimbursed through the Company's insurance policy.

GUARANTEES OF TRANSFERRED CORPORATE BONDS

The Company entered into a sale and assumption agreement with an SPE during 2001. As a result, the Company was released from being a primary obligor for ¥20,178 million of the Company's corporate bonds, which mature on various dates through 2008, and became secondarily liable for these obligations. The maximum potential payment by the Company as a

secondary obligor was ¥8,078 million ($69,043 thousand) at March 31, 2006.

RESIDUAL VALUE GUARANTEES UNDER SALE AND LEASEBACK TRANSACTIONS
The Company has entered into several sale and leaseback transactions in which certain manufacturing equipment was sold and leased back. The Company may be required to make payments for residual value guarantees in connection with these transactions. The operating leases will expire on various dates through December 2010. The maximum potential payments by the Company for such residual value guarantees were ¥15,717 million ($134,333 thousand) at March 31, 2006.

GUARANTEES OF DEFAULTED NOTES AND ACCOUNTS RECEIVABLE
The Company has transferred trade notes receivable and trade accounts receivable under several securitization programs. Upon certain sales of trade notes and accounts receivable, the Company holds a repurchase obligation, which the Company is required to perform upon default of the trade notes and accounts receivable. The trade notes and accounts receivable generally mature within 3 months. The maximum potential payment for such repurchase obligation was ¥12,144 million ($103,795 thousand) as of March 31, 2006.

The carrying amounts of the liabilities for the Company's obligations under the guarantees described above at March 31, 2006 were not significant.

WARRANTY
Estimated warranty costs are accrued for at the time the product is sold to a customer. Estimates for warranty costs are made based primarily on historical warranty claim experience. The following is a reconciliation of the product warranty accrual:

	Millions of yen		Thousands of U.S. dollars
March 31	**2006**	2005	**2006**
Balance at beginning of year	**¥ 25,075**	¥ 19,938	**$ 214,316**
Warranties issued	**36,659**	31,568	**313,325**
Settlements made	**(30,512)**	(27,211)	**(260,786)**
Foreign currency translation adjustments	**1,680**	780	**14,359**
Balance at end of year	**¥ 32,902**	¥ 25,075	**$ 281,214**

24. LEGAL PROCEEDINGS

In November 2002, a lawsuit was filed by Lexar Media, Inc. against Toshiba Corporation and one of its subsidiaries, Toshiba America Electronic Components, Inc. at the California Superior Court (County of Santa Clara) alleging claims for trade secret misappropriation related to NAND flash memory. In December 2005, the Court ruled on the Company's post-trial motions and granted a new trial on damages issues, vacating the judgement based on a March 2005 jury award that totaled approximately US$465 million. Both the Company and Lexar Media filed notices of appeal and the case is now pending before the California Court of Appeal.

In addition, the Company is a defendant in other pending lawsuits alleging patent infringement, breaches of contract and warranties and other matters.

The Company's management believes that there are meritorious defenses to all of these actions. Based on the information currently available to both the Company and its legal counsel, management believes that damages from such lawsuits, if any, would not have a material adverse effect on the financial position or the results of operations of the Company.

25. ENVIRONMENTAL LIABILITIES

The Japanese environmental regulation, "Law Concerning Special Measure against poly chlorinated biphenyl (PCB) waste" requires PCB waste holders dispose of all PCB waste by July 2016. The Company accrued ¥10,615 million ($90,726 thousand) and ¥10,156 million at March 31, 2006 and 2005, respectively, for environmental remediation and restoration costs for products or equipment with PCB which some Toshiba operations in Japan have retained. The costs recorded during the year are included as cost of sales in the accompanying consolidated statements of income.

The accrual will be adjusted as assessment and remediation efforts progress or as additional technical or legal information available. Management is of opinion that the ultimate costs in excess of the amount accrued, if any, would not have a material adverse effect on the financial position or the results of operations of the Company.

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Report of Independent Auditors

The Board of Directors and Shareholders of
Toshiba Corporation

We have audited the accompanying consolidated balance sheets of Toshiba Corporation and subsidiaries (the "Company") as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese 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 auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Company's consolidated financial statements do not disclose segment information required by Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information." In our opinion, disclosure of segment information is required by accounting principles generally accepted in the United States.

In our opinion, except for the omission of segment information discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

We have also reviewed the translation of the financial statements mentioned above into United States dollars on the basis described in Note 3. In our opinion, such statements have been translated on such basis.

April 26, 2006

Ernst & Young ShinNihon

TOSHIBA CORPORATION

This report was printed on recycled paper with soy-based ink.

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