

## **1. Operating Results**

### **(1) Analysis of Operating Results**

#### **(Operating Results in the Consolidated Fiscal Year 2006)**

The Japanese economy in the consolidated fiscal year 2006 continued gradual growth, due to increasing capital investments.

As for business conditions outside Japan, in spite of anxieties, the US economy stopped declining, the economy in Europe maintained its stability, and the Asian economy continued growing with the focus centering on China.

Under these economic circumstances, the Toshiba TEC Group was committed to achieving its business policies of “continuous growth while yielding profit” and “establishment of a well-balanced global corporation.” Specifically, merchantability was improved by releasing new POS terminals and extending the MFP lineup, procurement costs were reduced to improve cost competitiveness, and direct sales channels were expanded to strengthen marketability.

Sales amounted to 510,845 million yen, a 15% increase over the previous consolidated fiscal year, mainly due to the expansion of the POS system and MFP businesses. Increases in revenue and reductions in costs resulted in an increase in operating income of 32% over the previous consolidated fiscal year to 2,267 million yen, an increase in ordinary income of 32% over the previous consolidated fiscal year to 19,566 million yen, and an increase in net income of 78% to 10,763 million yen.

The business highlights for each business segment in the consolidated fiscal year 2006 are described below.

#### Retail Information Systems

The Retail Information Systems business segment, dealing with POS systems, electronic cash registers/scales, automatic identification systems, OA equipment and other retail information equipment and supplies, was committed to expanding sales of core products along with bolstering cost competitiveness coupled with sales capabilities. These were performed under difficult circumstances although the retail industry, the main market for these products, showed slightly promising signs.

Sales of our core POS systems increased as the convenience store, general merchandising store and specialty store businesses experienced growth in the domestic market. Also, we introduced the "Self Checkout System," which makes retail operations more efficient by allowing consumers to scan bar code prices and pay for products by themselves.

Other products witnessed increased sales as automatic identification systems, supplies and other products experienced growth.

As a result, sales in Retail Information Systems increased 13% over the previous consolidated fiscal year to 196,370 million yen. Operating income in this business segment increased 15% to 9,045 million yen over the previous consolidated fiscal year.

Note: Automatic Identification Systems refer to systems which contain hardware and software to automatically retrieve and identify data from barcodes and IC tags.

#### Document Processing and Telecommunication Systems

The Document Processing & Telecommunication Systems business segment, dealing with image processing equipment such as MFPs, copiers and facsimiles, specialized terminals and printers, focused efforts on developing and introducing new products, extending direct sales channels, and improving cost competitiveness in an increasingly severe business climate marked by tough price competition among competitors.

Sales of MFPs, the core product, grew on solid sales in areas including North America and Europe. We also worked to expand the "e-STUDIO Series" lineup by bringing the new full-color MFPs to the market.

Other products saw increased sales, since printed circuit boards, inkjet print heads, specialized terminals and printers experienced growth.

As a result, sales in Document Processing & Telecommunications Systems increased 18% over the previous consolidated fiscal year to 311,093 million yen. Operating income in this business segment increased 39% to 13,239 million yen.

#### Home Electric Appliances

The Home Electric Appliances business segment, dealing with vacuum cleaners, cooking appliances, small motors, and other home appliances, was dedicated to introducing the industry leading high-end Cyclone Vacuum Cleaner to the market and improving cost competitiveness in a mature market in which business is known for continued harsh competition.

Sales of the core vacuum cleaners increased on growth among products including the "Typhoon Robo" high-end cyclone vacuum cleaner.

Other products saw lower sales due to the transfer of the health equipment business, even though small motors experienced growth.

As a result, sales in the Home Electric Appliances business segment decreased 6% over the previous consolidated fiscal year to 14,222 million yen. Operating income in this business segment increased 642 million yen to 385 million yen over the previous consolidated fiscal year due to continued reforms in cost structures.

## Consolidated Statement of Operations

(Millions of yen)

Item	Term	Fiscal Year ending March 2007		Fiscal Year ending March 2006		Gain/loss	Percent
		From April 1, 2006 To March 31, 2007	%	From April 1, 2005 To March 31, 2006	%		
Net sales		510,845	100.0	443,401	100.0	67,444	115
Cost of sales		292,201	57.2	248,391	56.0	43,810	118
<b>Gross profit</b>		<b>218,644</b>	<b>42.8</b>	<b>195,010</b>	<b>44.0</b>	<b>23,634</b>	<b>112</b>
Selling, general and administrative expenses		195,973	38.4	177,853	40.1	18,120	110
<b>Operating income</b>		<b>22,670</b>	<b>4.4</b>	<b>17,157</b>	<b>3.9</b>	<b>5,513</b>	<b>132</b>
Non-operating income		3,327	0.7	2,631	0.6	696	126
Non-operating expenses		6,431	1.3	4,984	1.2	1,447	129
<b>Ordinary income</b>		<b>19,566</b>	<b>3.8</b>	<b>14,804</b>	<b>3.3</b>	<b>4,762</b>	<b>132</b>
Extraordinary income		3,008	0.6	338	0.1	2,670	890
Profit on sale of training institute		3,008		-		3,008	
Consolidated adjustment of accounting depreciation*		-		338		△338	
Extraordinary losses		3,495	0.7	1,350	0.3	2,145	259
Extraordinary pension expenses		2,932		1,290		1,642	
Loss on sale of welfare facilities		562		-		562	
Loss on impairment of assets		-		59		△59	
<b>Income before taxes and other adjustments</b>		<b>19,079</b>	<b>3.7</b>	<b>13,793</b>	<b>3.1</b>	<b>5,286</b>	<b>138</b>
Provision for income taxes		8,553		5,130		3,423	
Income and other tax adjustments		△1,808		488		△2,296	
Minority interest in income of consolidated subsidiaries		1,570		2,141		△571	
<b>Net income for the fiscal year</b>		<b>10,763</b>	<b>2.1</b>	<b>6,033</b>	<b>1.4</b>	<b>4,730</b>	<b>178</b>

\* Consolidated adjustment of accounting depreciation is income generated when a U.S. subsidiary makes a business acquisition and is recognized as extraordinary income in accordance with "Statement of Financial Accounting Standards No. 141, Business Combinations."

## Consolidated Balance Sheet

(Millions of yen)

Item	Term	Fiscal 2006 ending March 31, 2007	Fiscal 2005 ending March 31, 2006	Gain/loss	Item	Term	Fiscal 2006 ending March 31, 2007	Fiscal 2005 ending March 31, 2006	Gain/loss	
<b>[Assets]</b>					<b>[Liabilities]</b>					
<b>(Current assets)</b>				<b>34,810</b>	<b>(Current liabilities)</b>				<b>23,862</b>	
Cash and cash equivalents		27,659	20,749	6,910	Trade notes and accounts payable		72,330	53,430	18,900	
Group deposits		52,076	47,025	5,051	Short-term loans payable		19,086	33,763	△14,677	
Trade notes and accounts receivable		87,847	69,371	18,476	Income taxes payable		7,031	2,815	4,216	
Inventories		50,745	47,729	3,016	Others		68,558	53,135	15,423	
Deferred income taxes		10,867	9,374	1,493	<b>(Long-term liabilities)</b>					
Others		10,961	10,396	565	Long-term loans payable		673	906	△233	
Allowance for doubtful accounts		△3,512	△2,809	△703	Accrued retirement benefits		27,371	27,308	63	
					Accrued executive retirement bonuses		297	336	△39	
					Others		4,090	3,356	734	
					<b>Total liabilities</b>			<b>199,439</b>	<b>175,052</b>	<b>24,387</b>
					<b>[Minority interest in consolidated subsidiaries]</b>					
<b>(Fixed assets)</b>		<b>121,605</b>	<b>121,639</b>	<b>△34</b>	Minority interest in consolidated subsidiaries		-	20,357	-	
<Tangible assets>		<b>34,611</b>	<b>39,871</b>	<b>△5,260</b>	<b>[Shareholders' equity]</b>					
Buildings and construction		11,069	11,589	△520	Capital stock		-	39,970	-	
Machinery and vehicles		9,614	9,755	△141	Capital surplus		-	52,986	-	
Tools and implements		10,004	11,049	△1,045	Retained earnings		-	34,539	-	
Land		2,776	5,623	△2,847	Unrealized holding gains on securities		-	1,217	-	
Construction in progress		1,147	1,853	△706	Foreign currency translation adjustments		-	2,669	-	
<Intangible assets>		<b>46,678</b>	<b>43,635</b>	<b>3,043</b>	Treasury stock		-	△3,318	-	
Business right		-	8,185	△8,185	<b>Total shareholder's equity</b>			<b>-</b>	<b>128,065</b>	<b>-</b>
Goodwill		39,099	-	39,099	<b>Total liabilities, minority interest and shareholders' equity</b>			<b>-</b>	<b>323,475</b>	<b>-</b>
Consolidated adjustment account		-	27,765	△27,765	<b>[Net assets]</b>					
Others		7,578	7,684	△106	<b>(Equity capital)</b>					
<Investments and other assets>		<b>40,315</b>	<b>38,132</b>	<b>2,183</b>	Capital stock		39,970	-	-	
Investment securities		12,563	11,243	1,320	Capital surplus		52,986	-	-	
Deferred income taxes		20,406	19,484	922	Retained earnings		42,451	-	-	
Others		7,468	7,536	△68	Treasury stock		△4,061	-	-	
Allowance for doubtful accounts		△122	△131	9	<b>(Evaluated &amp; converted differences)</b>			<b>6,017</b>	<b>-</b>	<b>-</b>
					Unrealized holding gains on securities		1,057	-	-	
					Deferred hedge income		2	-	-	
					Foreign currency translation adjustments		4,957	-	-	
					<b>(Minority interest in consolidated subsidiaries)</b>			<b>21,447</b>	<b>-</b>	<b>-</b>
					<b>Total net assets</b>			<b>158,812</b>	<b>-</b>	<b>-</b>
<b>Total assets</b>		<b>358,252</b>	<b>323,475</b>	<b>34,777</b>	<b>Total liabilities &amp; net assets</b>			<b>358,252</b>	<b>-</b>	<b>-</b>

(Notes)

1. Cumulative cost of depreciation of tangible fixed assets
2. Guarantee obligation
3. Export bill of exchange (no letter of credit) discount

Fiscal 2006  
ending March

Fiscal 2005  
ending March

	96,307	94,290
	1,846	1,436
	1,657	7,252

### Non-Consolidated Statement of Operations

(Millions of yen)

Item	Term		Fiscal Year ending March 2007		Fiscal Year ending March 2006		Gain/loss	Percent
			From April 1, 2006	To March 31, 2007	From April 1, 2005	To March 31, 2006		
		%				%		%
Net sales	297,995	100.0	253,930	100.0	44,065	117		
Cost of sales	226,781	76.1	185,034	72.9	41,747	123		
<b>Gross profit</b>	<b>71,214</b>	<b>23.9</b>	<b>68,896</b>	<b>27.1</b>	<b>2,318</b>	<b>103</b>		
Selling, general and administrative expenses	66,915	22.5	65,176	25.6	1,739	103		
<b>Operating income</b>	<b>4,298</b>	<b>1.4</b>	<b>3,719</b>	<b>1.5</b>	<b>579</b>	<b>116</b>		
Non-operating income	9,400	3.2	7,775	3.0	1,625	121		
Non-operating expenses	3,588	1.2	2,384	0.9	1,204	151		
<b>Ordinary income</b>	<b>10,110</b>	<b>3.4</b>	<b>9,111</b>	<b>3.6</b>	<b>999</b>	<b>111</b>		
Extraordinary income	3,008	1.0	-	-	3,008	-		
Profit on sale of training institute	3,008		-		3,008			
Extraordinary losses	5,477	1.8	648	0.3	4,829	845		
Extraordinary pension expenses	1,903		588		1,315			
Loss on revaluation of investment in subsidiaries	3,010		-		3,010			
Loss on sale of welfare facilities	562		-		562			
Loss on impairment of assets	-		59		△59			
<b>Income before taxes and other adjustments</b>	<b>7,641</b>	<b>2.6</b>	<b>8,462</b>	<b>3.3</b>	<b>△821</b>	<b>90</b>		
Provision for income taxes	3,525		△207		3,732			
Income and other tax adjustments	△2,149		1,703		△3,852			
<b>Net income for the fiscal year</b>	<b>6,265</b>	<b>2.1</b>	<b>6,966</b>	<b>2.7</b>	<b>△701</b>	<b>90</b>		

## Non-Consolidated Balance Sheet

(Millions of yen)

Item	Term	Fiscal 2006 ending March 31, 2007	Fiscal 2005 ending March 31, 2006	Gain/loss	Item	Term	Fiscal 2006 ending March 31, 2007	Fiscal 2005 ending March 31, 2006	Gain/loss
<b>[Assets]</b>					<b>[Liabilities]</b>				
<b>(Current assets)</b>					<b>(Current liabilities)</b>				
		<b>139,845</b>	<b>94,182</b>	<b>45,663</b>			<b>105,437</b>	<b>67,814</b>	<b>37,623</b>
Cash and cash equivalents		9,370	4,515	4,855	Trade notes payable		794	1,153	△359
Group deposits		38,485	34,421	4,064	Accounts payable		59,306	38,578	20,728
Trade notes receivable		1,241	1,318	△77	Short-term loans payable		1	1	0
Accounts receivable		53,225	23,616	29,609	Accounts payable - other		11,944	8,341	3,603
Products		15,729	10,266	5,463	Accrued expenses		11,208	6,369	4,839
Semi-finished goods/work-in-process		2,716	2,792	△76	Income taxes payable		4,577	464	4,113
Raw materials and supplies		2,017	2,106	△89	Allowance for executive bonuses		46	-	46
Deferred income taxes		5,782	4,210	1,572	Deposits received		16,372	11,800	4,572
Accounts receivable - other		10,390	10,066	324	Others		1,187	1,103	84
Others		1,654	1,289	365					
Allowance for doubtful accounts		△768	△419	△349					
					<b>(Long-term liabilities)</b>		<b>19,519</b>	<b>19,506</b>	<b>13</b>
					Long-term loans payable		7	15	△8
					Accrued retirement benefits		19,417	19,412	5
					Accrued executive retirement bonuses		94	79	15
					<b>Total liabilities</b>		<b>124,956</b>	<b>87,320</b>	<b>37,636</b>
					<b>[Shareholders' equity]</b>				
<b>(Fixed assets)</b>		<b>98,150</b>	<b>103,632</b>	<b>△5,482</b>	<b>Capital stock</b>		-	<b>39,970</b>	-
<b>&lt;Tangible assets&gt;</b>		<b>18,112</b>	<b>23,373</b>	<b>△5,261</b>	<b>Capital surplus</b>		-	<b>52,986</b>	-
Buildings		6,249	6,827	△578	Capital reserve		-	49,183	-
Construction		411	479	△68	Other capital surplus		-	3,802	-
Machinery and equipment		3,312	3,364	△52	<b>Retained earnings</b>		-	<b>19,971</b>	-
Vehicles		15	19	△4	Voluntary reserve		-	12,716	-
Tools and implements		5,739	6,578	△839	Unappropriated retained earnings		-	7,254	-
Land		1,837	4,717	△2,880	<b>Unrealized holding gains on securities</b>		-	<b>884</b>	-
Construction in progress		546	1,387	△841	<b>Treasury stock</b>		-	<b>△3,318</b>	-
<b>&lt;Intangible assets&gt;</b>		<b>3,467</b>	<b>3,543</b>	<b>△76</b>	<b>Total shareholder's equity</b>		-	<b>110,494</b>	-
Software		2,668	2,586	82	<b>Total liabilities and shareholders' equity</b>		-	<b>197,814</b>	-
Others		798	956	△158	<b>[Net assets]</b>				
<b>&lt;Investments and other assets&gt;</b>		<b>76,570</b>	<b>76,716</b>	<b>△146</b>	<b>Capital stock</b>		<b>39,970</b>	-	-
Investment securities		4,504	4,536	△32	<b>Capital surplus</b>		<b>52,986</b>	-	-
Stock of and investments in affiliated companies		53,930	54,621	△691	Capital reserve		49,183	-	-
Deferred income taxes		15,066	14,379	687	Capital surplus - other		3,803	-	-
Guarantee money paid		1,945	1,982	△37	<b>Retained earnings</b>		<b>23,419</b>	-	-
Others		1,226	1,308	△82	Retained earnings - other		23,419	-	-
Allowance for doubtful accounts		△103	△112	△9	Voluntary reserve		14,944	-	-
					Earned surplus carried forward		8,475	-	-
					<b>Treasury stock</b>		<b>△4,061</b>	-	-
					<b>Total capital stock</b>		<b>112,315</b>	-	-
					Unrealized holding gains on securities		720	-	-
					Deferred hedge income		2	-	-
					<b>Total evaluated &amp; converted differences</b>		<b>723</b>	-	-
					<b>Total net assets</b>		<b>113,038</b>	-	-
<b>Total assets</b>		<b>237,995</b>	<b>197,814</b>	<b>40,181</b>	<b>Total liabilities &amp; net assets</b>		<b>237,995</b>	-	-

(Notes)

1. Cumulative cost of depreciation of tangible fixed assets
2. Guarantee obligation
3. Export bill of exchange (no letter of credit) discount

Fiscal 2006  
ending March

Fiscal 2005  
ending March

59,525

59,958

11,138

9,782

1,657

21,005