

Operating Results

Analysis of Operating Results

(Operating Results in the Consolidated Fiscal Year 2008)

As for the global economy in the consolidated fiscal year 2008, the global financial crisis resulting from subprime loan concerns in the United States severely affected the real economy and therefore the economic downturn deepened in the US and Europe while the economy slowed rapidly throughout Asia. The Japanese economy also slowed at high speeds, since the global economic downturn caused a drastic decrease in export, production and capital investments coupled with slumping consumer spending.

Under these economic circumstances, the Toshiba TEC Group was committed to developing and introducing competitive products, strengthening regional sales strategies, improving business efficiency, reforming the business structure, streamlining resources and driving innovation activities.

We devoted ourselves to further developing the company business under the operation system centering on the retail solution business, the document systems business and the auto-ID & printer business, from April 1, 2008, aiming to achieve an agile and flexible business system in order to respond to changes in the business environment.

However, sales amounted to 422,600 million yen, a 14% decrease over the previous consolidated fiscal year, due to global market slowdown resulting from downturn in economy, strong yen and the influence of the transfer of the home electric appliances business and concentration of major transactions in the first half of the previous fiscal year. We recorded a declining profit in spite of our efforts to increase our earning capacity through the cost structure reform. The influence of strong yen and the consolidated subsidiary goodwill amortization in accordance with changes in the accounting system resulted in a decrease in operating income of 61% over the previous consolidated fiscal year to 10,123 million yen, a decrease in ordinary income of 70% over the previous consolidated fiscal year to 6,807 million yen and a decrease in net income of 80% to 2,634 million yen.

Non-consolidated operating results are described next. Sales amounted to 237,363 million yen, an 11% decrease over the previous fiscal year, due to global market slowdown resulting from downturn in economy, strong yen and the influence of the transfer of the home electric appliances business and concentration of major transactions in the first half of the previous fiscal year. We recorded a declining profit in spite of our efforts to increase our earning capacity through the cost structure reform. The influence of sharp appreciation of the yen resulted in a decrease in operating income of 6,485 million yen over the previous fiscal year to a deficit of 1,477 million yen, a decrease in ordinary income of 67% to 2,927 million yen over the previous fiscal year and a decrease in net income of 39% to 4,722 million yen.

Given the above severe financial condition, we declare an interim dividend of 5 yen per share regarding surplus in this fiscal year. We regret to inform, we will pass a dividend at the end of this term. Your understanding will be highly appreciated.

The business highlights for each business segment in the consolidated fiscal year 2008 are described below.

Retail Solution Business

The retail solution business segment, dealing with POS systems, electronic cash registers/scales, OA equipment and supplies, was committed to developing new products appropriate to market needs, expanding sales of core products, streamlining and expanding the overseas sales network along with bolstering cost competitiveness. These measures were implemented in an increasingly severe environment in which the profitability of the retail industry, the main market for the products, decreased due to sluggish personal consumption.

Sales of our core POS systems decreased both at home and abroad, due to economic downturn and concentration of major transactions in the first half of the previous consolidated fiscal year.

Other products witnessed a decrease in sales.

As a result, sales of the retail solution business segment decreased 7% over the previous consolidated fiscal year to 170,508 million yen. Operating income in this business segment decreased 33% to 6,642 million yen over the previous consolidated fiscal year.

Document Systems Business

The document systems business segment, dealing with MFPs, facsimiles, various unit parts and inkjet print heads, faced an extremely difficult business climate marked by a severe downturn in the global economy, growing financial uneasiness, strong yen, and relentless tough price competition among competitors. Even in these circumstances, this segment focused efforts on introducing new strategic products including full-color MFPs to the market, further expanding sales in main areas such as the US and Europe and in fast-growing markets such as China and India, being thorough about decreasing the fixed costs, while improving cost competitiveness.

The core products, MFPs, were affected by a fast shrinking market and the appreciation of the yen, while showing a decrease in sales mainly in North America and Europe.

Other products witnessed a decrease in sales, since sales of unit parts decreased, despite growing sales in inkjet print heads.

As a result, sales of the document systems business segment decreased 17% over the previous consolidated fiscal year to 225,707 million yen. Operating income in this business segment decreased 80% to 2,064 million yen over the previous consolidated fiscal year.

Auto-ID & Printer Business

The auto-ID & printer business segment, working with automatic identification systems such as barcode systems and RFID systems, printers and specialized terminals, devoted itself to developing and introducing new products, strengthening the domestic sales system, attracting new overseas customers and improving marketing ability, in a severe business environment resulting from intensified price competition among competitors and the slowdown in the global economy.

Sales of auto-ID systems increased in Japan due to the influence of new consolidation. However, sales outside Japan decreased through cutting investments because of a downturn in the global economy and appreciation of the yen.

The printers and specialized terminals showed a decrease in sales due to a slowdown in the US economy, strong yen and the concentration of major transactions in the first half of the previous consolidated fiscal year.

As a result, sales of the auto-ID & printer business segment decreased 10% over the previous consolidated fiscal year to 44,184 million yen. Operating income in this business segment decreased 75% to 1,417 million yen over the previous consolidated fiscal year.

Note: RFID refers to a system, which identifies and manages articles by attaching an IC tag to articles and moving the tag to the reader device.

Consolidated Financial Statement

(1) Consolidated Balance Sheet

(Millions of yen)

	Previous consolidated fiscal year (March 31, 2008)	Current consolidated fiscal year (March 31, 2009)
Assets		
Current assets		
Cash and cash equivalents	20,677	24,782
Group deposits	43,280	43,750
Trade notes and accounts receivable	76,995	58,352
Commodities and products	31,651	26,113
Goods in process	3,792	4,099
Raw materials and supplies	4,883	4,724
Deferred income taxes	10,537	7,231
Others	10,510	9,833
Allowance for doubtful accounts	(3,239)	(1,595)
Total current assets	199,089	177,292
Fixed assets		
Tangible assets		
Buildings and construction	28,985	31,261
Cumulative cost of depreciation	(18,581)	(20,366)
Net buildings and construction	10,403	10,895
Machinery and vehicles	31,912	29,984
Cumulative cost of depreciation	(23,270)	(22,258)
Net machinery and vehicles	8,641	7,725
Tools and implements	55,804	56,711
Cumulative cost of depreciation	(47,878)	(49,244)
Net tools and implements	7,926	7,467
Land	2,874	2,809
Lease assets	-	6,883
Cumulative cost of depreciation	-	(3,264)
Net lease assets	-	3,619
Construction in progress	3,855	3,540
Total tangible assets	33,701	36,058
Intangible assets		
Goodwill	41,223	27,970
Others	6,880	6,172
Total intangible assets	48,104	34,143
Investments and other assets		
Investment securities	4,187	3,209
Deferred income taxes	21,485	22,719
Others	7,470	8,468
Allowance for doubtful accounts	(139)	(161)
Total investments and other assets	33,003	34,237
Total fixed assets	114,809	104,439
Total assets	313,899	281,731

(Millions of yen)

	Previous consolidated fiscal year (March 31, 2008)	Current consolidated fiscal year (March 31, 2009)
Liabilities		
Current liabilities		
Trade notes and accounts payable	46,363	40,502
Short-term loans payable	14,474	11,802
Lease obligation	-	1,178
Income taxes payable	1,913	725
Allowance for executive bonuses	91	-
Others	60,255	49,594
Total current liabilities	123,098	103,803
Long-term liabilities		
Long-term loans payable	27	3
Lease obligation	-	3,851
Accrued retirement benefits	27,515	30,418
Accrued executive retirement bonuses	349	230
Others	1,739	1,389
Total long-term liabilities	29,631	35,894
Total liabilities	152,730	139,697
Net assets		
Equity capital		
Capital stock	39,970	39,970
Capital surplus	52,988	52,985
Retained earnings	51,113	47,229
Treasury stock	(4,141)	(5,363)
Total capital stock	139,931	134,822
Evaluated & converted differences		
Unrealized holding gains on securities	613	163
Deferred hedge income	-	(279)
Foreign currency translation adjustments	(658)	(6,556)
Total evaluated & converted differences	(45)	(6,671)
Share warrant	-	46
Minority interest in consolidated subsidiaries	21,282	13,836
Total net assets	161,169	142,033
Total liabilities and net assets	313,899	281,731

(2) Consolidated Profit and Loss Statement

(Millions of yen)

	Previous consolidated fiscal year (From April 1, 2007 To March 31, 2008)	Current consolidated fiscal year (From April 1, 2008 To March 31, 2009)
Net sales	492,970	422,600
Cost of sales	262,632	228,433
Gross profit	230,337	194,167
Selling, general and administrative expenses	204,262	184,044
Operating income	26,075	10,123
Non-operating income		
Interest received	1,481	888
Dividends received	32	36
Gain on sale of investments in securities	4	6
Others	1,540	1,219
Total non-operating income	3,058	2,151
Non-operating expenses		
Interest expense	823	609
Loss on sale of notes receivable	177	41
Loss on disposal of inventories	720	491
Loss on sale/disposal of fixed assets	326	400
Exchange loss	1,219	1,666
Others	2,903	2,257
Total non-operating expenses	6,171	5,466
Ordinary income	22,962	6,807
Extraordinary income		
Gain from home electric appliances business transfer	225	-
Total extraordinary income	225	-
Extraordinary losses		
Business structural reform cost	947	1,364
Total extraordinary losses	947	1,364
Net income before taxes and other adjustments	22,240	5,442
Provision for income taxes	7,339	1,377
Income and other tax adjustments	(226)	2,119
Total income taxes	7,112	3,496
Minority interest in net income	1,745	(688)
Net income for the fiscal year	13,382	2,634

(3) Consolidated Cash Flow Statement

(Millions of yen)

	Previous consolidated fiscal year (From April 1, 2007 To May 31, 2008)	Current consolidated fiscal year (From April 1, 2008 To March 31, 2009)
Cash flow from operating activities		
Net income before taxes and other adjustments	22,240	5,442
Depreciation and amortization	13,820	16,973
Increase/decrease in allowance for bad debt	(251)	(1,341)
Increase/decrease in accrued retirement benefits	(184)	2,824
Interest received and dividends received	(1,513)	(925)
Interest expense	823	609
Gain from home electric appliances business transfer	(225)	-
Loss on sales/disposal of tangible fixed assets	326	264
Gain/loss on sale of investment in securities	6	(6)
Gain/loss on valuation of investment in securities	140	22
Business structural reform cost	947	1,364
Increase/decrease in accounts receivable	12,191	10,495
Increase/decrease in inventories	8,799	1,861
Increase/decrease in accounts payable	(25,802)	723
Others	(9,208)	(9,926)
Subtotal	22,110	28,381
Interests and dividends received	1,523	908
Interest paid	(832)	(613)
Special retirement benefits paid	(1,486)	(36)
Income taxes refunded	-	2,503
Income and other tax payments	(12,301)	(4,378)
Cash flow from operating activities	9,014	26,764
Cash flow from investing activities		
Payment for purchase of tangible fixed assets	(10,799)	(11,141)
Proceeds from sale of tangible fixed assets	413	297
Payment for purchase of intangible fixed assets	(4,501)	(2,121)
Payment for purchase of investment securities	(204)	(5)
Payment for purchase of subsidiaries' stock accompanied by changes in scope of consolidation	(532)	-
Proceeds from sale of investment securities	19	21
Payments for long-term loans	(38)	(18)
Collection of long-term loans receivable	62	39
Proceeds from home appliance business transfer	1,886	-
Proceeds from liquidation of non-consolidated subsidiaries	-	181
Expenses for acquisition of business	-	(1,132)
Others	176	464
Cash flow from investing activities	(13,518)	(13,415)

TOSHIBA TEC CORPORATION (6588)
Overview of Account Settlement in the Fiscal Year ending March 2009

(Millions of yen)

	Previous consolidated fiscal year (From April 1, 2007 To May 31, 2008)	Current consolidated fiscal year (From April 1, 2008 To March 31, 2009)
Cash flow from financing activities		
Net increase/decrease in short-term loans payable	(4,262)	(860)
Expenses for repayment of long-term loans payable	(685)	(585)
Purchase of common stock	(81)	(1,237)
Dividends paid	(3,192)	(3,179)
Dividends paid to minority shareholders	(595)	(576)
Others	4	(910)
Cash flow from financing activities	(8,813)	(7,349)
Effect of exchange rate change on cash and cash equivalents	(3,409)	(1,424)
Increase/decrease in cash and cash equivalents	(16,727)	4,574
Cash and cash equivalents at beginning of year	79,736	63,958
Increase in cash and cash equivalents associated with new consolidations	948	-
Cash and cash equivalents at end of year	63,958	68,532