

FINANCIAL SECTION

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FIVE-YEAR SUMMARY

Mitsubishi Electric Corporation and Subsidiaries

Years ended March 31	Yen (millions)					U.S. dollars (thousands)
	2008	2007	2006	2005	2004	2008
Summary of Operations						
Net sales	¥4,049,818	¥3,855,745	¥3,604,185	¥3,410,685	¥3,309,651	\$40,498,180
Cost of sales	2,957,185	2,831,309	2,694,985	2,559,499	2,508,519	29,571,850
Selling, general, administrative and Other expenses	825,428	791,434	751,482	730,544	708,415	8,254,280
Operating costs	3,782,613	3,622,743	3,446,467	3,290,043	3,216,934	37,826,130
Operating income	267,205	233,002	157,718	120,642	92,717	2,672,050
Income before income taxes	226,612	184,776	152,326	102,316	84,784	2,266,120
Net income	¥ 157,977	¥ 123,080	¥ 95,692	¥ 71,175	¥ 44,839	\$ 1,579,770
Financial Ratios						
Return on sales (%)	3.90	3.19	2.66	2.09	1.35	—
Return on equity (%)	15.11	12.30	11.51	10.77	9.00	—
Return on assets (%)	4.55	3.64	2.96	2.23	1.30	—
Equity ratio (%)	29.60	30.68	28.43	22.79	18.65	—
Per-Share Amounts						
Net income (yen/U.S. dollars)						
Basic	¥73.60	¥57.34	¥44.64	¥33.16	¥20.89	\$0.736
Diluted	73.59	57.34	44.63	33.16	20.74	0.736
Cash dividends declared (yen/U.S. dollars)	¥ 13	¥ 10	¥ 8	¥ 6	¥ 4	\$0.13
Statistical Information						
Current assets	¥2,060,628	¥2,050,500	¥1,886,779	¥1,740,333	¥1,743,381	\$20,606,280
Current liabilities	1,505,901	1,529,838	1,440,133	1,277,662	1,315,739	15,059,010
Working capital	554,727	520,662	446,646	462,671	427,642	5,547,270
Shareholders' equity	1,031,438	1,059,209	942,202	720,637	601,532	10,314,380
Cash dividends paid	25,758	19,317	15,000	12,877	6,440	257,580
Total assets	3,485,080	3,452,231	3,313,742	3,162,472	3,225,223	34,850,800
Capital expenditure	144,623	140,557	134,413	125,657	96,253	1,446,230
R&D expenditure	148,790	132,722	130,639	130,541	136,518	1,487,900
Depreciation	¥ 136,283	¥ 130,130	¥ 126,169	¥ 105,356	¥ 109,975	\$ 1,362,830
Employees (at the end of the year)	105,651	102,835	99,444	97,661	98,988	—

- Notes: 1. In order to be consistent with financial reporting practices generally accepted in Japan, operating income is presented as net sales less cost of sales and selling, general, administrative and other expenses. Under accounting principles generally accepted in the United States of America, restructuring costs are included as part of operating income.
2. R&D expenditure includes elements spent on quality improvements, which constitute manufacturing costs.
3. U.S. dollar amounts are translated from yen at the rate of ¥100=U.S.\$1, the approximate rate on the Tokyo Foreign Exchange Market on March 31, 2008.
4. The Company has 147 consolidated subsidiaries and 43 equity-method companies as of March 31, 2008.

FINANCIAL REVIEW

OVERVIEW

Operating conditions throughout the fiscal year ended March 31, 2008 were mixed. In the United States, concerns about a slowdown in the economy became increasingly evident. The resulting difficult business environment was exacerbated by growing instability throughout global financial markets triggered by sub-prime loan issues in the United States. Nevertheless, the global economy remained firm overall, buoyed by robust activity centered mainly in China and Europe. On the domestic front, Japan's economy exhibited a general underlying strength supported primarily by external demand. This was despite a decline in construction investment that reflected revisions to the Building Standards Law.

Under these circumstances, the Mitsubishi Electric Group continued to implement structural reform measures with the overriding aim of "making strong businesses stronger." In order to increase and strengthen profitability, the Group terminated activities in the mobile handset business, strategically shifting management resources to other mainstay businesses. At the same time, efforts were again made to strengthen production and sales systems both in Japan and overseas by establishing and reinforcing operating bases.

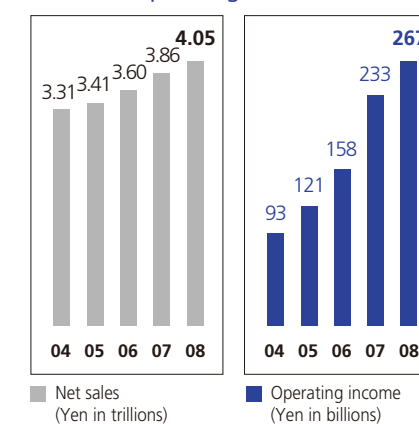
Furthermore, we carried out extensive companywide improvement initiatives, including efforts to streamline inventories and increase productivity through our "Just In Time" activities while continuing our C-Sigma 21 Program aimed at reducing costs. We also bolstered our competitive edge through the appropriate allocation of human resources (HR) and by optimizing our HR structure.

Buoyed by these endeavors, the Mitsubishi Electric Group recorded net sales of ¥4,049.8 billion, operating income of ¥267.2 billion, income before income taxes of ¥226.6 billion and net income of ¥157.977 billion for the fiscal year ended March 31, 2008.

Net Sales

The Mitsubishi Electric Group enjoyed sales growth across each of its business segments: Energy and Electric Systems, Industrial Automation Systems, Electronic Devices, Home Appliances and Others. In the fiscal year under review, consolidated net sales rose by ¥194.1 billion year on year to ¥4,049.8 billion.

Net sales/Operating income



Cost of Sales, Expenses and Operating Income

The cost of sales increased by ¥125.9 billion compared with the previous fiscal year to ¥2,957.2 billion, representing 73.0% of total net sales, a 0.5 point improvement. Selling, general and administrative (SG&A) expenses together with research and development (R&D) expenses totaled ¥825.4 billion, up ¥34.0 billion year on year. As a result, the ratio of SG&A and R&D expenses to net sales improved by 0.1 points to 20.4%.

Reflecting these factors, operating income rose by ¥34.2 billion compared with the previous fiscal year to ¥267.2 billion.

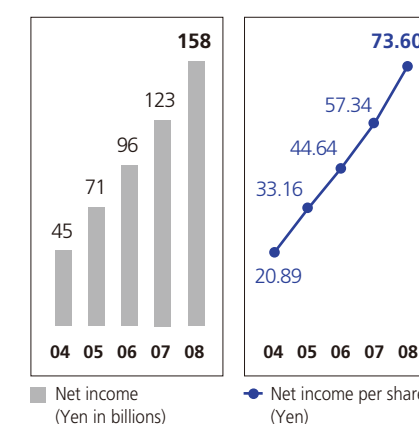
Non-Operating Income and Expenses

Financial income, the sum of interest and dividend income less interest expenses, increased by ¥2.0 billion year on year to ¥4.9 billion. This was primarily attributable to successful efforts to expand Group financing and promote greater efficiency in fund operations.

Non-operating income, excluding interest and dividend income, declined by ¥12.9 billion to ¥15.6 billion owing mainly to a drop in gains from the sale of marketable securities.

Non-operating expenses, excluding interest expenses, also declined by ¥18.5 billion year on year to ¥61.1 billion. Although the Company incurred business reorganization expenses totaling by ¥20.5 billion in the fiscal year under review, this decline in non-operating expenses was primarily attributable to the absence of a reserve relating to competition laws that totaled ¥42.2 billion in the fiscal year ended March 31, 2007.

Net income/Net income per share (basic)



Income before Income Taxes

Income before income taxes climbed by ¥41.8 billion compared with the previous fiscal year to ¥226.6 billion for a ratio to net sales of 5.6%. This was primarily due to the aforementioned ¥34.2 billion increase in operating income.

Net Income

Net income totaled ¥158.0 billion, an increase of ¥34.9 billion, or 3.9% (a ratio to net sales), compared with the previous fiscal year. This was mainly attributable to the ¥41.8 billion increase in income before income taxes.

Business Risks

The Mitsubishi Electric Group engages in the development, manufacture, and sale of products in the Energy and Electric Systems, Industrial Automation Systems, Information and Communication Systems, Electronic Devices, Home Appliances and Other business fields in Japan as well as North America, Europe, Asia and other overseas regions. As a result, the Group's financial standing and business performance may be affected by a variety of external factors.

Factors that may affect the financial standing and business performance of the Mitsubishi Electric Group include but are not limited to the following. As such, additional factors may arise at any given time.

- (1) Important trends

The Mitsubishi Electric Group's operations may be affected by trends in the global economy, social conditions, laws, tax codes and regulations.
- (2) Foreign currency exchange rates

Fluctuations in foreign currency markets may affect Mitsubishi Electric's sales of exported products and purchases of imported materials that are denominated in U.S. dollars or euros, as well as its Asian production bases' sales of exported products and purchases of imported materials that are denominated in foreign currencies.
- (3) Stock markets

A fall in stock market prices may cause Mitsubishi Electric to record devaluation losses on marketable securities or cause an increase in retirement benefit obligations in accordance with a decline in the fair value of pension assets.
- (4) Supply/demand balance for products and procurement conditions for materials and components

A decline in prices and shipments due to changes in the supply/demand balance may adversely affect mainly Mitsubishi Electric's Information and Communication Systems, Electronic Devices or Home Appliances segments. In addition, an increase in material prices due to a worsening of material and component procurement conditions may adversely affect all of Mitsubishi Electric's operations.
- (5) Fund procurement

An increase in interest rates, the yen interest rate in particular, would increase Mitsubishi Electric's interest expenses.
- (6) Significant patent matters

Important patent filings, licensing, copyrights and patent-related disputes may adversely affect related businesses.
- (7) Environmental legislation or environmental issues

Mitsubishi Electric may incur losses or expenses owing to changes in environmental legislation or the arising of environmental issues. Such changes in legislation or arising of environmental issues may also affect the Group's overall operations, including manufacturing activities.
- (8) Flaws or defects in products or services

Mitsubishi Electric may incur losses or expenses related to flaws or defects in products or services. A decrease in the general assessment of the quality of Group products and services may also impact overall operations.
- (9) Lawsuits and other legal proceedings

Lawsuits or other legal proceedings against the Mitsubishi Electric Group may affect its overall operations.
- (10) Disruptive changes

Disruptive changes in technology, development and manufacturing of products using new technology, and timing of market introduction may adversely affect performance, mainly in Mitsubishi Electric's Information and Communication Systems, Electronic Devices, and Home Appliances segments.
- (11) Business restructuring

The Mitsubishi Electric Group may record losses due to restructuring measures.
- (12) Natural disasters

The Mitsubishi Electric Group's operations, particularly manufacturing activities, may be affected by the occurrence of earthquakes, typhoons, tsunami, fires and other large-scale disasters.
- (13) Other significant factors

The Mitsubishi Electric Group's operations may be affected by the outbreak of social or political upheaval due to terrorism, war or other factors.

RESULTS BY BUSINESS SEGMENT

Net Sales by Business Segment

Years ended March 31	Yen (millions)					U.S. dollars (thousands)
	2008	2007	2006	2005	2004	2008
Energy and Electric Systems	¥1,057,935	¥ 951,065	¥ 868,789	¥ 791,925	¥ 797,448	\$10,579,350
Industrial Automation Systems	1,017,503	956,930	860,111	781,867	709,695	10,175,030
Information and Communication Systems	644,388	688,004	644,111	614,091	681,757	6,443,880
Electronic Devices	192,087	185,911	170,394	164,383	170,442	1,920,870
Home Appliances	1,000,258	921,948	896,437	866,428	782,256	10,002,580
Others	660,822	630,510	603,585	581,685	508,475	6,608,220
Subtotal	4,572,993	4,334,368	4,043,427	3,800,379	3,650,073	45,729,930
Eliminations	(523,175)	(478,623)	(439,242)	(389,694)	(340,422)	(5,231,750)
Consolidated total	¥4,049,818	¥3,855,745	¥3,604,185	¥3,410,685	¥3,309,651	\$40,498,180

Operating Income (Loss) by Business Segment

Years ended March 31	Yen (millions)					U.S. dollars (thousands)
	2008	2007	2006	2005	2004	2008
Energy and Electric Systems	¥ 68,575	¥ 49,310	¥ 25,296	¥ 28,150	¥ 25,912	\$ 685,750
Industrial Automation Systems	129,257	126,227	95,967	72,362	66,413	1,292,570
Information and Communication Systems	2,352	20,803	20,677	238	511	23,520
Electronic Devices	9,817	12,141	13,531	6,130	(4,678)	98,170
Home Appliances	67,467	36,644	14,958	25,692	19,317	674,670
Others	16,938	15,169	13,342	10,597	8,266	169,380
Subtotal	294,406	260,294	183,771	143,169	115,741	2,944,060
Eliminations	(27,201)	(27,292)	(26,053)	(22,527)	(23,024)	(272,010)
Consolidated total	¥267,205	¥233,002	¥157,718	¥120,642	¥ 92,717	\$2,672,050

Energy and Electric Systems

In the fiscal year under review, sales and orders in the social infrastructure systems business increased compared with the previous fiscal year. This growth was attributable to expansion in the domestic and overseas electric equipment for rolling stock business, growth in the power generation business in Japan and an upswing in power transmission/distribution business overseas.

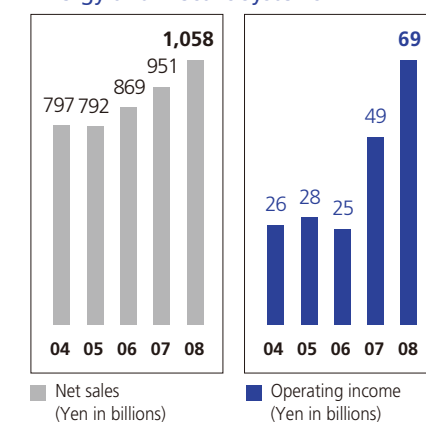
The building systems business also experienced year-on-year order and sales growth. Despite revisions to the Building Standards Law in Japan, which led to a drop in construction starts, this growth was attributable to an increase in orders for elevators and escalators from the retail industry and railroad companies as well as order growth in China, the Middle East and India.

As a result, total sales in the Energy and Electric Systems segment climbed by 11% compared with the previous fiscal year, to ¥1,057.9 billion. Operating income increased by ¥19.3 billion year on year to ¥68.6 billion, chiefly due to sales growth.

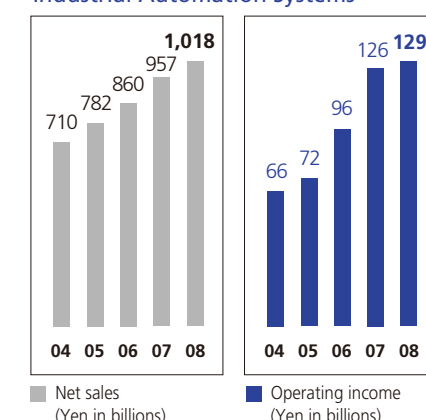
Industrial Automation Systems

The factory automation systems business saw year-on-year growth in both orders and sales owing to robust demand for industrial machinery in Japan. From the second half of the fiscal year ended March 31, 2008, results were also boosted by increased capital investment in overseas markets, including China in addition to Taiwan and Korea, both of which recorded higher flat-panel display-related expenditure.

Net sales and Operating income of Energy and Electric Systems



Net sales and Operating income of Industrial Automation Systems



Spurred by strong global production by Japanese automobile manufacturers, automotive equipment business orders and sales exceeded levels recorded in the previous fiscal year.

Reflecting these factors, total sales in the Industrial Automation Systems business rose by 6% year on year to ¥1,017.5 billion. Operating income increased by ¥3.0 billion compared with the previous fiscal year to ¥129.3 billion, chiefly due to sales growth.

Information and Communication Systems

In the telecommunications equipment business, orders and sales fell compared with the previous fiscal year, due to a decrease in mobile handsets.

Sales in the information systems and services business, on the other hand, increased year on year owing to growth in the systems integration business.

While orders declined compared with the previous fiscal year, sales in the electronic systems business improved year on year reflecting growth in the electronics business.

As a result, total sales in the Information and Communication Systems segment decreased by 6% from the previous fiscal year, to ¥644.4 billion. Operating income also declined by ¥18.5 billion year on year to ¥2.4 billion.

Electronic Devices

In the fiscal year under review, orders and sales in the semiconductor business increased year on year. This was attributable to steady growth in power modules both for industrial and consumer use, consisting primarily of components for air conditioners, as well as red laser diodes for DVD recorders and other products.

Orders and sales in the liquid crystal business declined year on year owing to the drop in demand for consumer-use products.

As a result, total sales in the Electronic Devices segment edged up by 3% compared with the previous fiscal year, to ¥192.1 billion. Operating income decreased by ¥2.3 billion year on year to ¥9.8 billion, reflecting the decline in LCD sale prices.

Home Appliances

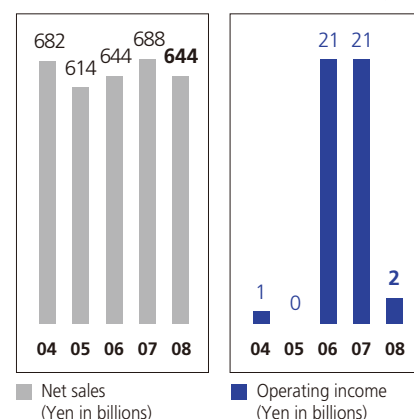
Sales in the home appliances business increased by 8% year on year to ¥1,000.3 billion mainly owing to stronger overseas sales of air conditioners and solar power generation systems as well as the domestic sales growth of electric hot water heaters.

Operating income climbed by ¥30.8 billion from the previous fiscal year to ¥67.5 billion as a result of the increase in sales and other factors.

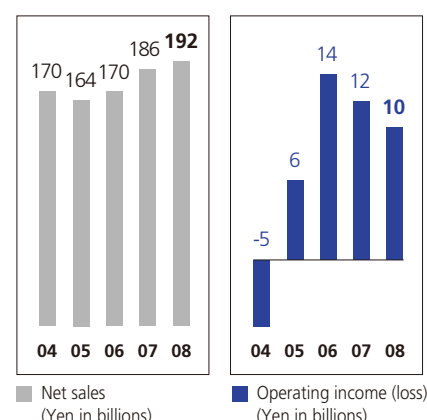
Others

Sales rose by 5% compared with the previous fiscal year to ¥660.8 billion, supported mainly by stronger sales in material procurement, logistics and other affiliated companies. Operating income climbed by ¥1.8 billion year on year to ¥16.9 billion.

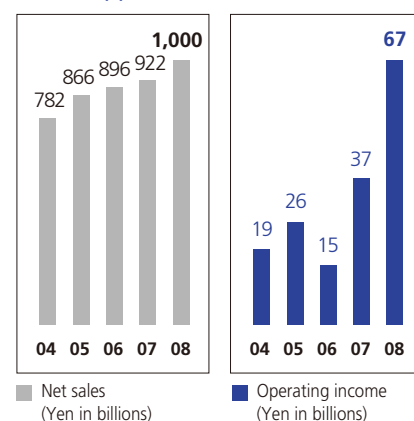
Net sales and Operating income of Information and Communication Systems



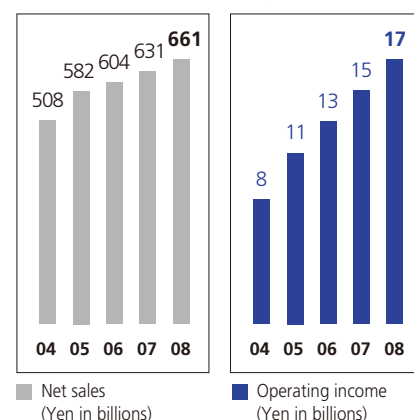
Net sales and Operating income (loss) of Electronic Devices



Net sales and Operating income of Home Appliances



Net sales and Operating income of Others



RESULTS BY GEOGRAPHIC SEGMENT

Net Sales by Geographic Segment

Years ended March 31	Yen (millions)					U.S. dollars (thousands)
	2008	2007	2006	2005	2004	2008
Japan	¥3,468,792	¥3,346,100	¥3,131,472	¥2,927,605	¥2,842,354	\$34,687,920
North America	275,579	277,555	251,717	217,369	216,639	2,755,790
Asia (excluding Japan)	561,759	482,363	430,976	459,363	390,921	5,617,590
Europe	386,113	299,401	228,993	235,188	205,507	3,861,130
Others	31,905	30,819	27,567	23,255	21,498	319,050
Eliminations	(674,330)	(580,493)	(466,540)	(452,095)	(367,268)	(6,743,300)
Consolidated total	¥4,049,818	¥3,855,745	¥3,604,185	¥3,410,685	¥3,309,651	\$40,498,180

Operating Income (Loss) by Geographic Segment

Years ended March 31	Yen (millions)					U.S. dollars (thousands)
	2008	2007	2006	2005	2004	2008
Japan	¥195,889	¥191,274	¥123,578	¥93,118	¥55,880	\$1,958,890
North America	7,574	6,345	(4,100)	(1,006)	2,918	75,740
Asia (excluding Japan)	49,088	31,057	29,205	29,277	26,087	490,880
Europe	16,044	11,041	8,148	2,334	2,710	160,440
Others	1,321	1,007	945	767	1,211	13,210
Eliminations	(2,711)	(7,722)	(58)	(3,848)	3,911	(27,110)
Consolidated total	¥267,205	¥233,002	¥157,718	¥120,642	¥92,717	\$2,672,050

Japan

Sales in Japan increased by 4% year on year to ¥3,468.8 billion owing to stronger sales in the electric equipment for rolling stock, power generation and transmission/distribution, elevators and escalators, automotive equipment and air conditioner related businesses. Operating income increased by ¥4.6 billion to ¥195.9 billion.

North America

Although net sales in North America decreased by 1% year on year to ¥275.6 billion, operating income increased by ¥1.2 billion to ¥7.6 billion owing to improvements in the automotive equipment business.

Asia

Sales in Asia climbed by 16% year on year to ¥561.8 billion due to improved results in factory automation systems, automotive equipment and air conditioners. Operating income rose by ¥18.0 billion to ¥49.1 billion.

Europe

Sales in Europe jumped by 29% year on year to ¥386.1 billion owing primarily to improved sales in the automotive equipment, air conditioner and solar power generation system related businesses. Operating income increased by ¥5.0 billion to ¥16.0 billion.

Others

Sales in other regions, including figures for Mitsubishi Electric's Australian subsidiary, totaled ¥31.9 billion, and operating income was ¥1.3 billion.

RESEARCH AND DEVELOPMENT

Research and Development

Years ended March 31	Yen (billions)					U.S. dollars (millions)
	2008	2007	2006	2005	2004	2008
Energy and Electric Systems	¥ 21.1	¥ 20.5	¥ 18.9	¥ 16.4	¥ 16.6	\$ 210.6
Industrial Automation Systems	37.1	28.3	30.3	28.2	24.8	370.9
Information and Communication Systems	25.2	21.9	23.2	31.3	43.7	252.1
Electronic Devices	8.6	8.8	8.6	9.8	9.8	86.4
Home Appliances	29.6	26.0	23.6	22.4	18.5	295.7
Others	27.2	27.3	26.1	22.5	23.0	272.2
Consolidated total	¥148.8	¥132.7	¥130.6	¥130.5	¥136.5	\$1,487.9

Note: Figures for each segment and the consolidated total are rounded to the nearest unit.

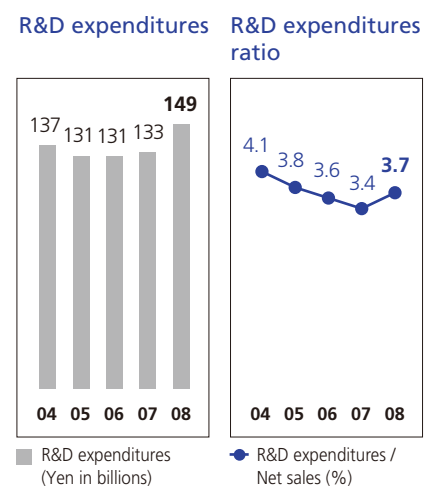
The Mitsubishi Electric Group actively promotes R&D initiatives that cover fundamental through advanced applications as well as product commercialization and manufacturing technologies. Carrying out these initiatives are various Group facilities, including corporate laboratories in Japan and laboratories in the United States and Europe as well as the R&D departments of factories and consolidated subsidiaries. Moreover, we pursue advanced and wide-ranging R&D activities in partnership with universities and research institutions both in Japan and overseas.

In fiscal 2008, total consolidated R&D expenditure, including quality improvement expenses allocated from manufacturing costs, amounted to ¥148.8 billion. Mitsubishi Electric reports R&D activities by business segment according to purpose, type, result and expenditure. However, expenditure on fundamental and basic research that does not fall under the purview of a specific business segment is accounted for under Others.

In the Energy and Electric Systems segment, our research is directed at boosting the competitiveness of such core products as rotating machines for generators, electric motors, and other machinery, switches and transformers; other power transmission/distribution/reception equipment and systems; transportation systems; and elevators and escalators. Other R&D areas include IT-application systems for supervision and control, power information systems, and building management systems. Notable among Mitsubishi Electric's recent R&D achievements are Diamond Vision, which is to be installed in the new Yankee Stadium; a 10kW pumpless water cooling system, the PreSerV Ajax Option web-based geographical system software package; a Type-B motor control center; supervision and control networks for power plants; and DIGUARD total security solutions. R&D expenditures in this segment totaled ¥21.1 billion.

In the Industrial Automation Systems segment, R&D activities are aimed at enhancing the competitiveness of our lineup, which includes motors and related products; mechatronics equipment; FA control equipment and systems; automotive electric and electronic components; electric power steering (EPS) and related products; and car multimedia systems. Mitsubishi Electric's important R&D successes include DIAX EA Advance series electric discharge machines; the new MELFA series of industrial robots; new-generation (9G) alternators; the high power brush EPS system; and reception technology for digital TV tuners in automobiles. R&D expenses in this segment totaled ¥37.1 billion.

In the Information and Communication Systems segment, Mitsubishi Electric pursues research related to the development of information and communication technology (ICT) systems, which includes network systems for telecommunication operators and network solutions equipment, as well as satellite-related systems. Notable R&D successes for Mitsubishi Electric include a UHF-band Radio Frequency Identification Device (RFID); a contact image sensor with ultraviolet light source; MELOOK μ digital CCTV systems; the ultra-compact Femtocell base station for 3G; secure network services; common platforms for networked home appliances; the LogAuditor^{®*1} Mail Saver AM (appliance model), a mail archive appliance to facilitate management of mail and log data; and a large scale security system, which we delivered to the Bank of Tokyo Mitsubishi UFJ, Ltd. R&D expenditures in this segment totaled ¥25.2 billion.



In the Electronic Devices segment, our R&D focuses on semiconductor and other electronic devices that are themselves vital components used in all our business segments. Major R&D achievements include Version 4 series large-scale Dual In-Line Package Intelligent Power Modules (DIP-IPMs); NX Series Insulated Gate Bipolar Transistor (IGBT) modules; GaAs FET internally matched high-power amplifiers for use in Central and Eastern European WiMAX base stations; a 40 Gbps optical communication module with driver circuits; outdoor industrial-use transfective LCD modules; and L/S^{*2}=20/20 μ m fine pitch interposer substrates. R&D expenditures in this segment totaled ¥8.6 billion.

In the Home Appliances segment, Mitsubishi Electric is directing its R&D efforts towards environment-friendly products that focus on energy conservation, recycling, reducing environmental impact and universal design through the use of digital imaging systems and solar cell modules. Notable results include a practical-use multi-crystalline silicon solar cell with world's highest conversion efficiency rate of 18.6%; the REAL Blu-ray series — Blu-ray disc recorders; the "KIRIGAMINE Move Eye" room air conditioner which uses 50% less energy and is the latest development in the evolution of the sensing technology "JINKAN Move Eye"; the LCD television the REAL MZW series, which produces lustrous images thanks to the use of the new DIAMOND Panel; and the Mitsubishi ECOMIST^{*3} an electric bathroom (clothes) dryer, heater and ventilation system with misting function. R&D expenditures in this segment totaled ¥29.6 billion.

In Others, fundamental R&D of technologies to benefit the entire Group is carried out at the Corporate Research and Development Group and the Corporate Total Productivity Management & Environmental Programs Group research centers, which strive to enhance Group competitiveness and create new business. The main areas of R&D are in technologies related to electric power and machinery; environmental issues and energy conservation; information & telecommunications; quality assurance; as the use of common platforms; and manufacturing engineering. Significant results in this area include the SiC power device; the technology of next-generation power capacitors; compact 3-D sensing for robot cell manufacturing (3-D vision sensors and 3-D object recognition technology); automatic patient positioning technology for the particle beam treatment system; watermark technology for printed documents; the new-type large screen LaserTV; video stitching technic for high-resolution live images for large-scale display; large-scale DIP-IPM production technologies that use high-thermal heat conductive insulation sheets; and the cost reduction of high-intensity and thin LED emergency lamp by applying high-efficiency optical system. R&D expenditures in this area totaled ¥27.2 billion.

*1 LogAuditor is a registered trademark of Mitsubishi Electric Information Technology Corporation.

*2 L/S: Line/Space

*3 The term "Eco Mist" is used by power companies and equipment manufacturers in reference to electric "saunas which feature mist functions" and "bathroom ventilation, heater and dryers which feature mist functions."

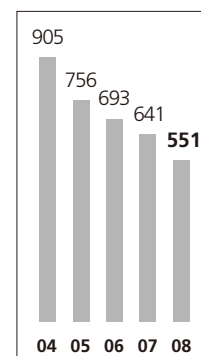
FINANCIAL POSITION

Total assets stood at ¥3,485.1 billion as of March 31, 2008, an increase of by ¥32.8 billion from the previous fiscal year. In addition to an increase of ¥17.7 billion in long-term operating and trade receivables, in line with higher order and sales volumes, the Company recorded growth of ¥3.9 billion in inventories as well as ¥61.7 billion in other assets, primarily deferred tax assets. In contrast, cash and cash equivalents declined by ¥8.3 billion, investments in securities and other fell by ¥19.7 billion and investments in and advances to affiliated companies contracted by ¥12.9 billion.

Under liabilities, the outstanding balance of debt and corporate bonds fell by ¥90.3 billion compared with the previous fiscal year to ¥550.8 billion. As a result, the ratio of interest-bearing debt to total assets was 15.8%, an improvement of 2.8 points year on year. On the other hand, retirement and severance benefits increased by ¥115.5 billion due to higher shortfall of pension reserves arising from falling stock prices. In addition, trade payables increased by ¥18.0 billion as well as a rise in accrued expenses by ¥30.8 billion. As a result, total liabilities increased by ¥61.2 billion.

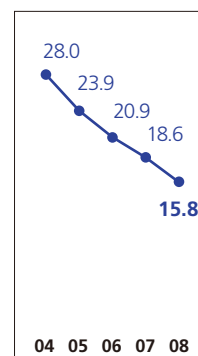
Shareholders' equity decreased by ¥27.8 billion compared with the previous fiscal year to ¥1,031.4 billion, despite net income of ¥158.0 billion. This reflects the decrease of ¥159.9 billion in accumulated other comprehensive income, which turns into loss this year from income previous fiscal year, on the back of falling stock prices and other factors. As a result, the ratio of shareholders' equity to total assets was by 29.6%, a decrease of 1.1 points year on year.

Interest-bearing debt



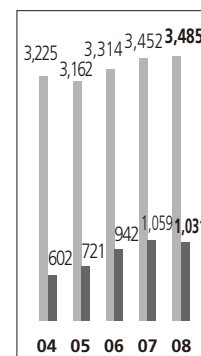
Interest-bearing debt (Yen in billions)

Debt ratio



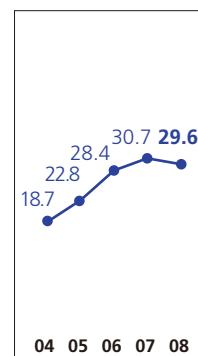
Interest-bearing debt / Total assets (%)

Total assets / Shareholders' equity



Total assets (Yen in billions)
Shareholders' equity (Yen in billions)

Shareholders' equity ratio



Shareholders' equity ratio (%)

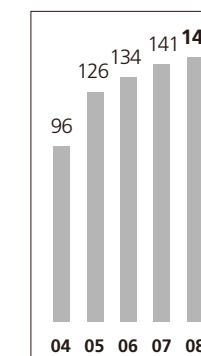
CAPITAL EXPENDITURES

In line with the three viewpoints of its "Balanced Corporate Management" policy, namely, "Growth," "Profitability and Efficiency" and "Soundness," the Mitsubishi Electric Group undertook investments aimed at advancing and accelerating efforts to "make strong businesses stronger." Accordingly, the Group directed its capital investment mainly toward the areas of factory automation systems, automotive equipment, power devices and solar power generation systems. At the same time, we continued to reinforce our solid business platform through the careful selection and concentration of investments from a "Profitability and Efficiency" perspective.

On an individual business segment basis, investments were made in Energy and Electric Systems (including power systems, electric equipment for rolling stock and elevators/escalators) aimed at increasing production capacity, streamlining operations and enhancing quality. In Industrial Automation, capital expenditures were principally used for expanding production capacity for factory automation systems and automotive equipment. In Information and Communication Systems, funds were appropriated for bolstering research and development capabilities, while in Electronic Devices, Mitsubishi Electric directed investment toward increasing production capacity in the power device business. In Home Appliances, expenditure was primarily used to increase the production of air-conditioning equipment and solar power generation systems. And in Common and Others, investments went toward boosting research and development capabilities.

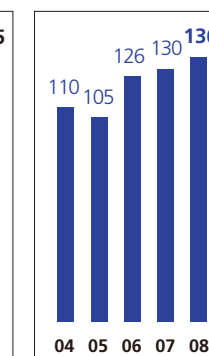
Capital expenditures are derived from cash on hand and funds from operations. During the fiscal year under review, production capacity was not materially affected by the sale, disposal, damage or loss due to natural disaster of property, plant and equipment.

Capital expenditures



Capital expenditures (Yen in billions)

Depreciation



Depreciation (Yen in billions)

CASH FLOWS

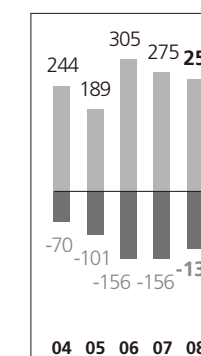
In the fiscal year ended March 31, 2008, net cash provided by operating activities amounted to 258.9 billion, while net cash used in investing activities was ¥132.4 billion. As a result, free cash flow totaled ¥126.5 billion, an increase of ¥7.5 billion compared with the previous fiscal year. Taken into account along with net cash used in financing activities of ¥119.8 billion, these cash flows resulted in fiscal year-end cash and cash equivalents of ¥334.3 billion, a decrease of ¥8.3 billion year on year.

Net cash provided by operating activities declined by ¥15.8 billion year on year to ¥258.9 billion. In the fiscal year under review, net income increased year on year and represented the principal cash inflow. This was more than offset by increases in trade receivables and inventories commensurate with the growth in orders and sales.

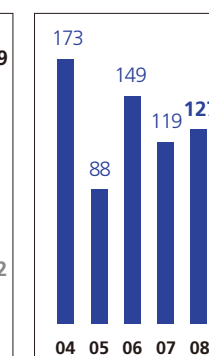
Net cash used in investing activities decreased by ¥23.2 billion to ¥132.4 billion, reflecting an increase in proceeds from sale of short-term investments and investment securities and decrease in loans receivable that together somewhat offset increased capital expenditures mainly in the elevators and escalators, automotive equipment and factory automation equipment fields.

Net cash used in financing activities totaled ¥119.8 billion. As in the previous fiscal year, this reflected the continued repayment of debt and redemption of bonds aimed at improving the Company's financial standing.

Cash flows



Net cash provided by operating activities (Yen in billions)
Net cash used in investing activities (Yen in billions)



Free cash flows (Yen in billions)

CONSOLIDATED BALANCE SHEETS

 Mitsubishi Electric Corporation and Subsidiaries
 March 31, 2008 and 2007

	Yen (millions)		U.S. dollars (thousands) (note 2)
	2008	2007	2008
Assets			
Current assets:			
Cash and cash equivalents	¥ 334,311	¥ 342,640	\$ 3,343,110
Short-term investments (notes 3 and 18)	9,506	16,258	95,060
Trade receivables (notes 4 and 16)	912,171	891,271	9,121,710
Inventories (note 5)	524,162	520,238	5,241,620
Prepaid expenses and other current assets (note 9)	280,478	280,093	2,804,780
Total current assets	2,060,628	2,050,500	20,606,280
Long-term receivables and investments:			
Long-term trade receivables (note 18)	480	3,711	4,800
Investments in securities and other (notes 3 and 18)	292,504	312,189	2,925,040
Investments in and advances to affiliated companies (note 6)	246,419	259,269	2,464,190
	539,403	575,169	5,394,030
Property, plant and equipment (notes 7, 19 and 20):			
Land	102,617	103,090	1,026,170
Buildings	578,956	567,173	5,789,560
Machinery and equipment	1,425,188	1,407,607	14,251,880
Construction in progress	25,733	24,378	257,330
	2,132,494	2,102,248	21,324,940
Less accumulated depreciation	1,530,471	1,496,963	15,304,710
Net property, plant and equipment	602,023	605,285	6,020,230
Other assets (notes 9 and 10)	283,026	221,277	2,830,260
	¥3,485,080	¥3,452,231	\$34,850,800

See accompanying notes to consolidated financial statements.

	Yen (millions)		U.S. dollars (thousands) (note 2)
	2008	2007	2008
Liabilities and Shareholders' Equity			
Current liabilities:			
Bank loans (note 7)	¥ 86,878	¥ 148,621	\$ 868,780
Current portion of long-term debt (notes 7, 18 and 20)	108,179	104,520	1,081,790
Trade payables (note 8)	757,606	739,585	7,576,060
Accrued expenses (note 17)	365,259	334,413	3,652,590
Accrued income taxes (note 9)	69,973	75,971	699,730
Other current liabilities (note 10)	118,006	126,728	1,180,060
Total current liabilities	1,505,901	1,529,838	15,059,010
Long-term debt (notes 7, 18 and 20)	355,740	387,941	3,557,400
Retirement and severance benefits (note 10)	476,224	360,713	4,762,240
Other liabilities (notes 9 and 17)	55,995	54,169	559,950
Total liabilities	2,393,860	2,332,661	23,938,600
Minority interests	59,782	60,361	597,820
Shareholders' equity			
Common stock (note 11):			
Authorized 8,000,000,000 shares;			
issued 2,147,201,551 shares in 2008 and in 2007	175,820	175,820	1,758,200
Capital surplus (note 11)	210,890	210,910	2,108,900
Legal reserve	56,189	54,929	561,890
Retained earnings	708,033	577,074	7,080,330
Accumulated other comprehensive income (loss)			
(notes 3, 9, 10 and 13)	(118,987)	40,932	(1,189,870)
Treasury stock, at cost			
672,710 shares in 2008 and			
686,023 shares in 2007	(507)	(456)	(5,070)
Total shareholders' equity	1,031,438	1,059,209	10,314,380
Commitments and contingent liabilities (note 17)	¥3,485,080	¥3,452,231	\$34,850,800

CONSOLIDATED STATEMENTS OF INCOME

 Mitsubishi Electric Corporation and Subsidiaries
 Years ended March 31, 2008, 2007 and 2006

	Yen (millions)			U.S. dollars (thousands) (note 2)
	2008	2007	2006	2008
Revenues:				
Net sales	¥4,049,818	¥3,855,745	¥3,604,185	\$40,498,180
Interest and dividends	14,539	12,281	9,492	145,390
Gain on transfer of the substitutional portion of Employee Pension Funds (note 10)	—	—	17,767	—
Other (notes 3, 13 and 19)	15,596	28,464	18,721	155,960
Total revenues	4,079,953	3,896,490	3,650,165	40,799,530
Costs and expenses:				
Cost of sales (notes 10 and 20)	2,957,185	2,831,309	2,694,985	29,571,850
Selling, general and administrative (notes 10, 19 and 20)	688,138	667,655	630,438	6,881,380
Research and development	137,290	123,779	121,044	1,372,900
Interest	9,623	9,375	9,648	96,230
Other (notes 3, 13, 16, 17 and 19)	61,105	79,596	41,724	611,050
Total costs and expenses	3,853,341	3,711,714	3,497,839	38,533,410
Income before income taxes	226,612	184,776	152,326	2,266,120
Income taxes (note 9):				
Current	73,868	70,650	46,905	738,680
Deferred	5,442	9,553	22,796	54,420
	79,310	80,203	69,701	793,100
Income from consolidated operations	147,302	104,573	82,625	1,473,020
Equity in earnings of affiliated companies (note 6)	10,675	18,507	13,067	106,750
Net income	¥ 157,977	¥ 123,080	¥ 95,692	\$ 1,579,770

Net income per share (note 14):

	Yen			U.S. dollars (note 2)
Basic	¥73.60	¥57.34	¥44.64	\$0.736
Diluted	73.59	57.34	44.63	0.736

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

 Mitsubishi Electric Corporation and Subsidiaries
 Years ended March 31, 2008, 2007 and 2006

	Yen (millions)						
	Common stock	Capital surplus	Legal reserve	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total
Balance at March 31, 2005	¥175,820	¥210,687	¥52,596	¥394,952	¥(113,022)	¥(396)	¥720,637
Comprehensive income (loss):							
Net income				95,692			95,692
Other comprehensive income (loss), net of tax (note 13):							
Foreign currency translation adjustments					20,148		20,148
Minimum pension liability adjustments (note 10)					79,963		79,963
Unrealized gains (losses) on securities (note 3)					40,612		40,612
Unrealized gains (losses) on derivative instruments					17		17
Transfer to legal reserve			1,918	(1,918)			—
Cash dividends				(15,000)			(15,000)
Purchase of treasury stock						(4,583)	(4,583)
Reissuance of treasury stock		251				4,465	4,716
Balance at March 31, 2006	¥175,820	¥210,938	¥54,514	¥473,726	¥ 27,718	¥(514)	¥942,202
Comprehensive income (loss):							
Net income				123,080			123,080
Other comprehensive income (loss), net of tax (note 13):							
Foreign currency translation adjustments					22,662		22,662
Minimum pension liability adjustments (note 10)					6,282		6,282
Unrealized gains (losses) on securities (note 3)					(8,392)		(8,392)
Unrealized gains (losses) on derivative instruments					(28)		(28)
Adjustment to initially apply SFAS No. 158, net of tax (note 10)					(7,310)		(7,310)
Transfer to legal reserve			415	(415)			—
Cash dividends				(19,317)			(19,317)
Purchase of treasury stock						(132)	(132)
Reissuance of treasury stock		(28)				190	162
Balance at March 31, 2007	¥175,820	¥210,910	¥54,929	¥577,074	¥ 40,932	¥ (456)	¥1,059,209
Comprehensive income (loss):							
Net income				157,977			157,977
Other comprehensive income (loss), net of tax (note 13):							
Foreign currency translation adjustments					(27,199)		(27,199)
Pension liability adjustments (note 10)					(88,523)		(88,523)
Unrealized gains (losses) on securities (note 3)					(44,067)		(44,067)
Unrealized gains (losses) on derivative instruments					(130)		(130)
Transfer to legal reserve			1,260	(1,260)			—
Cash dividends				(25,758)			(25,758)
Purchase of treasury stock						(139)	(139)
Reissuance of treasury stock		(20)				88	68
Balance at March 31, 2008	¥175,820	¥210,890	¥56,189	¥708,033	¥(118,987)	¥ (507)	¥1,031,438

	U.S. dollars (thousands) (note 2)						
	Common stock	Capital surplus	Legal reserve	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total
Balance at March 31, 2007	\$1,758,200	\$2,109,100	\$549,290	\$5,770,740	\$ 409,320	\$(4,560)	\$10,592,090
Comprehensive income (loss):							
Net income				1,579,770			1,579,770
Other comprehensive income (loss), net of tax (note 13):							
Foreign currency translation adjustments					(271,990)		(271,990)
Pension liability adjustments (note 10)					(885,230)		(885,230)
Unrealized gains (losses) on securities (note 3)					(440,670)		(440,670)
Unrealized gains (losses) on derivative instruments					(1,300)		(1,300)
Transfer to legal reserve			12,600	(12,600)			—
Cash dividends				(257,580)			(257,580)
Purchase of treasury stock						(1,390)	(1,390)
Reissuance of treasury stock		(200)				880	680
Balance at March 31, 2008	\$1,758,200	\$2,108,900	\$561,890	\$7,080,330	\$(1,189,870)	\$(5,070)	\$10,314,380

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

 Mitsubishi Electric Corporation and Subsidiaries
 Years ended March 31, 2008, 2007 and 2006

	2008	2007	Yen (millions) 2006	U.S. dollars (thousands) (note 2) 2008
Cash flows from operating activities:				
Net income	¥ 157,977	¥ 123,080	¥ 95,692	\$ 1,579,770
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	136,283	130,130	126,169	1,362,830
Impairment losses of property, plant and equipment	3,043	11,384	9,652	30,430
Loss from sales and disposal of property, plant and equipment, net	2,544	6,206	7,681	25,440
Deferred income taxes	5,442	9,553	22,796	54,420
Loss (gain) from sales of securities and other, net	(2,161)	(4,214)	(5,357)	(21,610)
Devaluation losses of securities and other, net	1,132	1,917	1,635	11,320
Equity in earnings of affiliated companies	(10,675)	(18,507)	(13,067)	(106,750)
Decrease (increase) in trade receivables	(29,936)	(35,474)	(19,359)	(299,360)
Decrease (increase) in inventories	(16,531)	(15,954)	(9,379)	(165,310)
Decrease (increase) in other assets	(4,579)	964	(3,308)	(45,790)
Increase in trade payables	26,890	19,252	60,170	268,900
Increase (decrease) in accrued expenses and retirement and severance benefits	(8,312)	(33,753)	18,880	(83,120)
Increase (decrease) in other liabilities	(12,582)	78,135	16,466	(125,820)
Other, net	10,334	1,911	(3,830)	103,340
Net cash provided by operating activities	258,869	274,630	304,841	2,588,690
Cash flows from investing activities:				
Capital expenditure	(144,623)	(140,557)	(134,413)	(1,446,230)
Proceeds from sale of property, plant and equipment	3,293	4,782	5,374	32,930
Purchase of short-term investments and investment securities	(42,174)	(24,115)	(33,590)	(421,740)
Proceeds from sale of short-term investments and investment securities	32,191	28,163	32,937	321,910
Decrease (increase) in loans receivable	21,405	(18,973)	2,331	214,050
Payment for purchasing of associated assets and liabilities relating to joint venture dissolution	—	—	(25,700)	—
Other, net	(2,442)	(4,899)	(3,148)	(24,420)
Net cash used in investing activities	(132,350)	(155,599)	(156,209)	(1,323,500)
Cash flows from financing activities:				
Proceeds from long-term debt	63,620	32,200	62,675	636,200
Repayment of long-term debt	(107,017)	(154,250)	(100,024)	(1,070,170)
Increase (decrease) in bank loans, net	(50,530)	50,496	(43,794)	(505,300)
Dividends paid	(25,758)	(19,317)	(15,000)	(257,580)
Purchase of treasury stock	(139)	(132)	(4,583)	(1,390)
Reissuance of treasury stock	68	162	125	680
Other, net	—	2,107	—	—
Net cash provided by (used in) financing activities	(119,756)	(88,734)	(100,601)	(1,197,560)
Effect of exchange rate changes on cash and cash equivalents	(15,092)	7,829	9,920	(150,920)
Net increase (decrease) in cash and cash equivalents	(8,329)	38,126	57,951	(83,290)
Cash and cash equivalents at beginning of year	342,640	304,514	246,563	3,426,400
Cash and cash equivalents at end of year	¥ 334,311	¥ 342,640	¥ 304,514	\$ 3,343,110

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Mitsubishi Electric Corporation and Subsidiaries

(1) BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(a) Description of Business

Mitsubishi Electric Corporation (the "Company") is a multinational concern which develops, manufactures, sells and distributes a broad range of electrical and electronic equipment in fields as diverse as home appliances and space electronics.

The Company and its subsidiaries' principal lines of business are: (1) Energy and Electric Systems, (2) Industrial Automation Systems, (3) Information and Communication Systems, (4) Electronic Devices, (5) Home Appliances and (6) Others. Percent of total sales, including internal sales by these categories for the year ended March 31, 2008 are as follows: Energy and Electric Systems—23%, Industrial Automation Systems—22%, Information and Communication Systems—14%, Electronic Devices—4%, Home Appliances—22% and Others—15%.

The operations of the Company and its subsidiaries in Japan are relatively significant in comparison with the Company's worldwide operation. Net sales for the year ended March 31, 2008 are geographically broken down as follows: Japan—67%, North America—7%, Asia (excluding Japan)—13%, Europe—11% and Others—2%.

Manufacturing operations are conducted principally at 24 sites (for the Parent's only) located in Japan and at overseas sites located in the United States, United Kingdom, Thailand, Malaysia, China and other countries.

(b) Basis of Presentation

The Company and its subsidiaries maintain their books of account in conformity with financial accounting standards in the countries of their domicile.

The consolidated financial statements presented herein have been prepared in a manner and reflect the adjustments which are considered necessary to conform with accounting principles generally accepted in the United States of America.

(c) Consolidation

The consolidated financial statements include the accounts of the parent company and those of its majority-owned subsidiaries, whether directly or indirectly controlled. All significant intercompany transactions and accounts have been eliminated.

The Company evaluates whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 46 (revised) (FIN No. 46R), "Consolidation of Variable Interest Entities".

Investments in corporate joint ventures and affiliated companies owned 20% to 50%, in which the Company does not have control, but has the ability to exercise significant influence, are accounted for by the equity method of accounting. Investments of less than 20% or where the Company does not have significant influence are accounted for using the cost method.

(d) Use of Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include valuation allowances for receivables, inventories and deferred tax assets; the carrying amount of property, plant and equipment; and assets and obligations related to employee benefits. Actual results could differ from those estimates. In the fiscal year ended March 31, 2007, the Company changed its accounting estimates relating to the salvage value of certain machinery and equipment. As a result of the change, net income and net income per share (basic and diluted) decreased by ¥7,287 million and ¥3.39, respectively. In the fiscal year ended March 31, 2006, the Company changed its accounting estimates relating to the salvage value of certain machinery and equipment. As a result of the change, net income and net income per share (basic and diluted) decreased by ¥6,466 million and ¥3.02, respectively.

(e) Cash and Cash Equivalents

The Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

(f) Short-Term Investments and Investment Securities

The Company applies Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities", which requires that certain investments in debt and equity securities should be classified as trading, available-for-sale, or held-to-maturity securities. Trading securities are bought and held principally for the purpose of selling them in the near term. Held-to-maturity securities are those securities in which the Company has the ability and intent to hold the security until maturity. All securities not included in trading or held-to-maturity are classified as available-for-sale.

Trading and available-for-sale securities are recorded at fair value. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts. Unrealized holding gains and losses on trading securities are included in earnings. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of other comprehensive income (loss) until realized. Realized gains or losses from the sale of securities are determined on the average cost of the particular security held at the time of sale.

A decline in the market value of any available-for-sale security below costs that is deemed to be other-than-temporary results in a reduction in carrying amount to fair value. The

impairment is charged to earnings and a new cost basis for the security is established. To determine whether an impairment is other-than-temporary, the Company considers whether it has the ability and intent to hold the investment until a market price recovery and considers whether evidence indicating a market price of the investment is recoverable to the carrying amount outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end, and forecasted performance of the investee.

Other investments are stated at cost. The Company would recognize a loss when there is a decline in value of other investments which is deemed to be other-than-temporary, using similar criteria as noted for available-for-sale security impairments described above.

(g) Allowance for Doubtful Receivables

An allowance for doubtful receivables is provided based on credit loss history and evaluation of specific doubtful receivables.

(h) Inventories

Work in process is stated at the lower of cost or estimated net realizable value with cost being determined by accumulated production costs for contract items and by average production costs for regular production items. Net costs in excess of billings on long-term contracts are included in inventories. Raw material and finished product inventories are stated at the lower of cost or market with cost being determined principally by the average-cost method. In accordance with the general practice in the heavy electrical industry, inventories related to Energy and Electric Systems include items with long manufacturing periods which are not realizable within one year.

(i) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is computed generally by the declining-balance method, except for certain assets which are depreciated by the straight-line method, based on the estimated useful lives of the assets according to general class, type of construction and use. The estimated useful life of buildings is 3 to 50 years, while machinery and equipment is 2 to 20 years.

(j) Leases

The Company records capital leases at the inception of the lease at the lower of the discounted present value of future minimum lease payments or the fair value of the leased assets and that amortization of the leased assets be in a manner consistent with the lessee's normal depreciation policy.

(k) Income Taxes

Deferred income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which

the temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established to reduce deferred tax assets to their net realizable value if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

Effective April 1, 2007, the Company adopted FASB Interpretation No. 48 (FIN No. 48), "Accounting for Uncertainty in Income Taxes". The Company recognizes the financial statement effects of tax benefits when they have a threshold of more-likely-than-not for recognition.

The effect of the adoption is discussed in Note 9 Income Taxes.

(l) Product Warranties

The Company generally warrants its products against certain manufacturing and other defects. These product warranties are provided for specific periods of time and/or usage of the product depending on the nature of the product, the geographic location of its sale and other factors. The Company recognizes accrued warranty costs based primarily on historical experience of actual warranty claims as well as current information on repair costs.

(m) Retirement and Severance Benefits

The Company adopted the recognition and disclosure provisions of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of SFAS No. 87, 88, 106, and 132(R)". The recognition and disclosure provisions of SFAS No. 158 requires the Company to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its pension plans in the consolidated balance sheet, with a corresponding adjustment to accumulated other comprehensive income (loss), net of tax.

The Company applies the Emerging Issue Task Force Issue 03-2 (EITF No. 03-2), "Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities". EITF No. 03-2 addresses accounting for a transfer to the Japanese government of a substitutional portion of Employee Pension Funds (EPFs). EITF No. 03-2 requires employers to account for the entire separation process of a substitutional portion from an entire plan (including a corporate portion) upon completion of the transfer to the government of the substitutional portion of the benefit obligation and related plan assets as the culmination of a series of steps in a single settlement transaction.

(n) Revenue Recognition

The Company recognizes revenue when persuasive evidence of an arrangement including title transfer exists, delivery has occurred, the sales price is fixed or determinable, and collectibility is probable. These criteria are met for mass-merchandising products such as consumer products and semiconductors at the time when the product is received by the customer, and for products with acceptance provisions such as heavy machinery and industrial products at the time when

the product is received by the customer and the specific criteria of the product are demonstrated by the Company with only certain inconsequential or perfunctory work left to be performed by the customer. Revenue for maintenance agreements is recognized over the contract term when the maintenance is provided and the cost is incurred. Also, the Company applies the percentage of completion method for long-term construction contracts. The Company measures the percentage of completion by comparing expenses recognized through the current year to the aggregate amount of estimated cost. Any anticipated losses on fixed price contracts are charged to operations when such losses can be estimated. Provisions are made for contingencies in the period when they become known pursuant to specific contract terms and conditions and are estimable.

Arrangements which may include any combination of products, equipment, installation and maintenance are allocated revenue 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 Issue Task Force Issue 00-21 (EITF No. 00-21), "Revenue Arrangements with Multiple Deliverables".

(o) Research and Development and Advertising

The costs of research and development and advertising are expensed as incurred.

(p) Shipping and Handling Costs

Shipping and handling costs are mainly included in selling, general and administrative expenses.

(q) Net Income per Share

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during each year. Diluted net income per share reflects the potential dilution and is computed on the basis that all convertible debentures were converted at the beginning of the year or at time of issuance (if later), and that all dilutive warrants were exercised (less the number of treasury stock assumed to be purchased from the proceeds using the average market price of the Company's common stock).

(r) Foreign Currency Translation

Assets and liabilities of the Company's subsidiaries located outside Japan are translated into Japanese yen at the rates of exchange in effect at the balance sheet date. Income and expense items are translated at the weighted average exchange rate prevailing during the year. Gains and losses resulting from translation of financial statements are excluded from the consolidated statements of income and are accumulated in shareholders' equity as foreign currency translation adjustments which are included in other comprehensive income (loss).

(s) Derivatives

The Company applies SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended, which establishes accounting and reporting standards for derivative instruments and for hedging activities and requires that an entity recognize all derivatives as either assets or liabilities in the

balance sheet and measure those instruments at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income (loss), depending on whether a derivative is designated as a hedge of a change in fair values or cash flows. For derivatives designated as fair value hedges, changes in fair value of the hedged item and the derivative are recognized currently in earnings. For derivatives designated as cash flow hedges, fair value changes of the effective portion of the hedging instruments are recognized in other comprehensive income (loss) until the hedged item is recognized in earnings. The ineffective portion of all hedges is recognized in earnings immediately.

(t) Securitizations

The Company applies SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". In accordance with SFAS No. 140, the sale of receivables is accounted for as a sale because the Company has relinquished control of the receivables. Accordingly, the receivables sold under these facilities are excluded from receivables in the accompanying consolidated balance sheets. Gain or loss on sale of receivables is computed based on the allocated carrying amount of the receivables sold. Retained interests are recorded at the allocated carrying value 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.

(u) Impairment of Long-Lived Assets

The Company applies SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". In accordance with SFAS No. 144, long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment loss is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Long-lived assets to be disposed of other than by sale shall continue to be classified as held and used until they are disposed of. Long-lived assets classified as held-for-sale would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held-for-sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

(v) Stock-based Compensation

The Company applies SFAS No. 123 (revised 2004) (SFAS No. 123R), "Share-Based Payment". SFAS No. 123R requires the Company to recognize the cost of employee services received in exchange for stock compensation based on the grant-date fair value of the employee stock options. Incremental

compensation costs arising from subsequent modifications of awards after the grant date must be recognized.

(w) Goodwill and Other Intangible Assets

The Company applies SFAS No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 requires that the purchase method of accounting be used for all business combinations completed after June 30, 2001 and also specifies the types of acquired other intangible assets that are required to be recognized and reported separately from goodwill and those acquired other intangible assets that are required to be included in goodwill. SFAS No. 142 requires that goodwill no longer be amortized, but instead be tested for impairment at least annually. SFAS No. 142 also requires recognized other intangible assets determined to have finite useful lives to be amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS No. 144. Any recognized other intangible asset determined to have an indefinite useful life is not to be amortized, but instead tested for impairment until its life is determined to no longer be indefinite.

(x) Cost Associated with Exit or Disposal Activities

The Company applies SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities. SFAS No. 146 requires that a liability be recognized for those costs only when the liability is incurred, that is, when it meets the definition of a liability in the Statements of Financial Accounting Concepts No. 6, "Elements of Financial Statements". SFAS No. 146 also establishes fair value as the objective for initial measurement of liabilities related to exit or disposal activities.

(y) Guarantees

The Company applies FASB Interpretation No. 45 (FIN No. 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". FIN No. 45 requires that entities recognize the fair value of guarantee and indemnification arrangements issued or modified by the Company after December 31, 2002, if these arrangements are within the scope of FIN No. 45, and disclosures about the guarantees that the entities have issued, including a rollforward of the Company's product warranty liabilities. In addition, under previously existing generally accepted accounting principles, the Company continues to monitor the conditions that are subject to the guarantees and indemnifications to identify whether it is probable that a loss has occurred, and would recognize any such losses under the guarantees and indemnifications when those losses are estimable.

(z) Asset Retirement Obligations

The Company applies SFAS No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143 applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction and development, and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. SFAS No. 143 requires that the

fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and subsequently allocated to expense over the asset's useful life. Subsequent to the initial measurement of the asset retirement obligation, the obligation would be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation.

(aa) Reclassifications

Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the presentation used for the year ended March 31, 2008.

(bb) Future Application of New Accounting Standards

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". SFAS No. 157 defines fair value, establishes a framework for the measurements of fair value, and enhances disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measures. The Company is required to adopt SFAS No. 157 on April 1, 2008. In February 2008, the FASB issued Staff Positions No. FAS157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and other Accounting Pronouncements that Address Fair Value Measurements for Purpose of Lease Classification or Measurement under Statement No. 13" and No. FAS157-2, "Effective Date of FASB Statement No. 157," which partially delays the effective date of SFAS No. 157 for one year for specific non-financial assets and liabilities, and excludes specific leasing transactions from its scope. The adoption of SFAS No. 157 will not have a material effect on the Company's consolidated financial position and result of operations.

In September 2006, the FASB issued the measurement date provision of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans- an amendment of SFAS No. 87, 88, 106, and 132(R)". The measurement date provision of SFAS No. 158 requires the Company to measure the fair value of plan assets and benefit obligations as of the date of the fiscal year-end consolidated balance sheet. The Company is required to adopt the measurement date provision of SFAS No. 158 in the fiscal year ending on March 31, 2009. The adoption of the measurement date provision of SFAS No. 158 will not have a material effect on the Company's consolidated financial position and result of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115". SFAS No. 159 permits the Company to choose to measure specific financial assets and liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings. The Company is required to adopt SFAS No. 159 on April 1, 2008. The adoption of SFAS No. 159 will not have a material effect on the Company's consolidated financial position and result of operations.

In December 2007, the FASB issued SFAS No. 141 (revised 2007)(SFAS No. 141R), "Business Combinations". SFAS No. 141R establishes standards and requirements regarding recognition and measurement of the recognizable acquired assets, assumed liabilities, the acquired goodwill and any non-controlling interest in acquiree on acquirer's financial statement. SFAS No. 141R also establishes disclosure requirements to enable the evaluation of impact on nature and financial statements resulting from business combination. The Company is required to adopt SFAS No. 141R on April 1, 2009. The adoption of SFAS No. 141R will not have a material effect on the Company's consolidated financial position and result of operations.

In December 2007, the FASB issued SFAS No. 160, "Non-controlling Interest in Consolidated Financial Statement, an amendment of ARB No. 51". SFAS No. 160 establishes accounting and reporting standards for ownership interest in subsidiaries held by parties other than parent, the amounts of consolidated net income subject to parent and to non-controlling interest, change in interest owned by parents, and evaluation of non-controlling interest in investment when subsidiaries are disconsolidated. SFAS No. 160 requires to

clearly identify and distinguish between interest owned by parent and interest owned by non-controlling parties. The Company is required to adopt SFAS No. 160 on April 1, 2009. The adoption of SFAS No. 160 will not have a material effect on the Company's consolidated financial position and result of operations.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of SFAS No. 133". SFAS No. 161 changes the disclosure requirements for derivative instruments and hedging activities. SFAS No. 161 requires to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The Company is required to adopt SFAS No. 161 on April 1, 2009. The adoption of the SFAS No. 161 will not have a material effect on the Company's consolidated financial position and result of operations.

(2) U.S. DOLLAR AMOUNTS

The consolidated financial statements presented herein are expressed in yen and, solely for the convenience of the reader, have been translated into United States dollars at the rate of ¥100=U.S.\$1, the approximate exchange rate

prevailing on the Tokyo Foreign Exchange Market at the end of March 2008. This translation should not be construed as a representation that the amounts shown could be converted into United States dollars at such rate.

(3) SECURITIES

Marketable securities included in short-term investments and investments in securities and other consist of available-for-sale securities. The cost, gross unrealized holding gains,

gross unrealized holding losses and fair value for such securities by major security type at March 31, 2008 and 2007 are as follows:

	Yen (millions)			
	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
2008:				
Current:				
Available-for-sale:				
Japanese and foreign government debt securities	¥ 403	¥ —	¥ —	¥ 403
Corporate debt securities	2,625	3	21	2,607
Fund trusts	6,306	417	227	6,496
	<u>¥ 9,334</u>	<u>¥ 420</u>	<u>¥ 248</u>	<u>¥ 9,506</u>
Noncurrent:				
Available-for-sale:				
Japanese and foreign government debt securities	¥ 2,599	¥ 34	¥ —	¥ 2,633
Corporate debt securities	59,680	98	7,170	52,608
Fund trusts	513	—	—	513
Marketable equity securities	85,399	59,875	7,369	137,905
	<u>¥148,191</u>	<u>¥60,007</u>	<u>¥14,539</u>	<u>¥193,659</u>

Yen (millions)				
	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
2007:				
Current:				
Available-for-sale:				
Corporate debt securities	¥ 14,717	¥ —	¥ 461	¥ 14,256
Fund trusts	2,003	—	1	2,002
	<u>¥ 16,720</u>	<u>¥ —</u>	<u>¥ 462</u>	<u>¥ 16,258</u>
Noncurrent:				
Available-for-sale:				
Japanese and foreign government debt securities	¥ 4,207	¥ 12	¥ 20	¥ 4,199
Corporate debt securities	48,354	419	2,621	46,152
Fund trusts	4,353	86	2	4,437
Marketable equity securities	60,689	114,226	961	173,954
	<u>¥117,603</u>	<u>¥114,743</u>	<u>¥3,604</u>	<u>¥228,742</u>

U.S. dollars (thousands)				
	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
2008:				
Current:				
Available-for-sale:				
Japanese and foreign government debt securities	\$ 4,030	\$ —	\$ —	\$ 4,030
Corporate debt securities	26,250	30	210	26,070
Fund trusts	63,060	4,170	2,270	64,960
	<u>\$ 93,340</u>	<u>\$ 4,200</u>	<u>\$ 2,480</u>	<u>\$ 95,060</u>
Noncurrent:				
Available-for-sale:				
Japanese and foreign government debt securities	\$ 25,990	\$ 340	\$ —	\$ 26,330
Corporate debt securities	596,800	980	71,700	526,080
Fund trusts	5,130	—	—	5,130
Marketable equity securities	853,990	598,750	73,690	1,379,050
	<u>\$1,481,910</u>	<u>\$600,070</u>	<u>\$145,390</u>	<u>\$1,936,590</u>

In the years ended March 31, 2008, 2007 and 2006, net unrealized gains on available-for-sale securities, net of taxes and minority interests, decreased by ¥44,067 million (\$440,670 thousand) and ¥8,392 million and increased by ¥40,612 million, respectively.

As of March 31, 2008 and 2007, the cost of non-marketable equity securities is ¥13,889 million (\$138,890 thousand) and ¥22,367 million, respectively.

Maturities of marketable securities classified as available-for-sale at March 31, 2008 were as follows:

	Yen (millions)		U.S. dollars (thousands)	
	Cost	Fair value	Cost	Fair value
Due within one year	¥ 9,334	¥ 9,506	\$ 93,340	\$ 95,060
Due after one year through five years	16,539	14,755	165,390	147,550
Due after five years	46,253	40,999	462,530	409,990
Marketable equity securities	85,399	137,905	853,990	1,379,050
	<u>¥157,525</u>	<u>¥203,165</u>	<u>\$1,575,250</u>	<u>\$2,031,650</u>

Proceeds from the sale of available-for-sale securities and gross realized gains and gross realized losses on those sales in the years ended March 31, 2008, 2007 and 2006 were as follows:

	Yen (millions)			U.S. dollars (thousands)
	2008	2007	2006	2008
Proceeds	¥11,049	¥20,223	¥8,639	\$110,490
Gross realized gains	114	3,278	2,597	1,140
Gross realized losses	467	147	70	4,670

The devaluation losses due to other-than-temporary declines in fair value of marketable securities were immaterial for the years ended March 31, 2008, 2007 and 2006.

Gross unrealized losses on available-for-sale securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2008, were as follows:

	Yen (millions)					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Current:						
Available-for-sale:						
Corporate debt securities	¥ 296	¥ 4	¥ 1,783	¥ 17	¥ 2,079	¥ 21
Fund trusts	1,785	217	38	10	1,823	227
	<u>¥ 2,081</u>	<u>¥ 221</u>	<u>¥ 1,821</u>	<u>¥ 27</u>	<u>¥ 3,902</u>	<u>¥ 248</u>
Noncurrent:						
Available-for-sale:						
Corporate debt securities	¥26,062	¥ 4,811	¥15,996	¥2,359	¥42,058	¥ 7,170
Marketable equity securities	15,970	5,801	3,417	1,568	19,387	7,369
	<u>¥42,032</u>	<u>¥10,612</u>	<u>¥19,413</u>	<u>¥3,927</u>	<u>¥61,445</u>	<u>¥14,539</u>

	U.S. dollars (thousands)					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Current:						
Available-for-sale:						
Corporate debt securities	\$ 2,960	\$ 40	\$ 17,830	\$ 170	\$ 20,790	\$ 210
Fund trusts	17,850	2,170	380	100	18,230	2,270
	<u>\$ 20,810</u>	<u>\$ 2,210</u>	<u>\$ 18,210</u>	<u>\$ 270</u>	<u>\$ 39,020</u>	<u>\$ 2,480</u>
Noncurrent:						
Available-for-sale:						
Corporate debt securities	\$260,620	\$ 48,110	\$159,960	\$23,590	\$420,580	\$ 71,700
Marketable equity securities	159,700	58,010	34,170	15,680	193,870	73,690
	<u>\$420,320</u>	<u>\$106,120</u>	<u>\$194,130</u>	<u>\$39,270</u>	<u>\$614,450</u>	<u>\$145,390</u>

The Company did not recognize an other-than-temporary impairment loss in its marketable securities since the Company concluded that the decline in fair value of its investments including unrealized losses would not be other-

than-temporary as a result of consideration of the Company's ability and intent to hold these investments for a reasonable period of time sufficient for a recovery of fair value.

(4) TRADE RECEIVABLES

Trade receivables are summarized as follows:

	Yen (millions)		U.S. dollars (thousands)
	2008	2007	2008
Notes receivable	¥ 61,092	¥ 57,582	\$ 610,920
Accounts receivable	857,313	841,980	8,573,130
Allowance for doubtful receivables	(6,234)	(8,291)	(62,340)
	<u>¥912,171</u>	<u>¥891,271</u>	<u>\$9,121,710</u>

(5) INVENTORIES

Inventories are comprised of the following:

	Yen (millions)		U.S. dollars (thousands)
	2008	2007	2008
Work in process	¥281,379	¥277,032	\$2,813,790
Less accumulated billings on long-term contracts	27,604	21,224	276,040
	<u>253,775</u>	<u>255,808</u>	<u>2,537,750</u>
Raw materials	73,428	78,773	734,280
Finished products	196,959	185,657	1,969,590
	<u>¥524,162</u>	<u>¥520,238</u>	<u>\$5,241,620</u>

(6) INVESTMENTS IN AFFILIATED COMPANIES

Summary of combined financial information relating to affiliated companies accounted for by the equity method of accounting as of March 31, 2008 and 2007, and for the years ended March 31, 2008, 2007 and 2006 is as follows:

	Yen (millions)		U.S. dollars (thousands)	
	2008	2007	2008	
Financial Position				
Current assets	¥1,241,306	¥1,311,107	\$12,413,060	
Property, plant and equipment	521,679	510,290	5,216,790	
Other assets	278,689	327,946	2,786,890	
Total assets	<u>¥2,041,674</u>	<u>¥2,149,343</u>	<u>\$20,416,740</u>	
Current liabilities	¥ 976,938	¥1,099,550	\$ 9,769,380	
Long-term debt	411,457	386,743	4,114,570	
Total liabilities	<u>1,388,395</u>	<u>1,486,293</u>	<u>13,883,950</u>	
Shareholders' equity	653,279	663,050	6,532,790	
Total liabilities and shareholders' equity	<u>¥2,041,674</u>	<u>¥2,149,343</u>	<u>\$20,416,740</u>	
Results of Operations				
Sales	¥2,200,157	¥2,144,745	¥2,033,109	\$22,001,570
Net income	44,545	45,296	31,168	445,450

In May 2005, the Company and Toshiba Corporation ("Toshiba") dissolved the corporate joint venture agreement of TM T&D Corporation ("TM T&D"), which was established by the Company and Toshiba for the power transmission

and distribution business. In March 2006, TM T&D was removed as an affiliated company, which was previously accounted for under the equity method of accounting.

Investments in affiliated companies accounted for by the equity method of accounting include the shares of 9 publicly quoted affiliates (10 publicly quoted affiliates existed in 2007), which are summarized as follows:

	Yen (millions)		U.S. dollars (thousands)
	2008	2007	2008
Investments at equity	¥40,084	¥46,271	\$400,840
Quoted market value	35,402	48,667	354,020

(7) BANK LOANS AND LONG-TERM DEBT

Bank loans consisted of the following:

	Yen (millions)		U.S. dollars (thousands)
	2008	2007	2008
Borrowings from banks and others	¥71,878	¥ 88,621	\$718,780
Commercial paper	15,000	60,000	150,000
	<u>¥86,878</u>	<u>¥148,621</u>	<u>\$868,780</u>

The weighted average interest rates on borrowings from banks and others outstanding as of March 31, 2008 and 2007 are 1.93% and 2.04%, respectively.

At March 31, 2008, the Company had unused committed lines of credit that can provide short-term funds from subscribing financial institutions amounting to ¥114,000 million (\$1,140,000 thousand).

Long-term debt consisted of the following:

	Yen (millions)		U.S. dollars (thousands)
	2008	2007	2008
Borrowings from banks and others			
companies, maturing in installments through 2025; bearing interest ranging from 0.55% to 8.91% in 2008 and 0.55% to 8.91% in 2007:			
Secured	¥ 667	¥ 1,367	\$ 6,670
Unsecured	245,465	259,869	2,454,650
2.7% Japanese yen bonds due 2008	—	30,000	—
1.03% Japanese yen bonds due 2008	10,000	10,000	100,000
1.22% Japanese yen bonds due 2008	25,000	25,000	250,000
1.76% Japanese yen bonds due 2011	25,000	25,000	250,000
0.78% Japanese yen bonds due 2007	—	25,000	—
1.09% Japanese yen bonds due 2009	15,000	15,000	150,000
1.7% Japanese yen bonds due 2012	10,000	10,000	100,000
0.55% Japanese yen bonds due 2009	30,000	30,000	300,000
0.74% Japanese yen bonds due 2008	20	—	200
1.09% Japanese yen bonds due 2009	30,000	30,000	300,000
1.4% Japanese yen bonds due 2012	40,000	—	400,000
Capital lease obligations	32,767	31,225	327,670
	<u>463,919</u>	<u>492,461</u>	<u>4,639,190</u>
Less amount due within one year	108,179	104,520	1,081,790
	<u>¥355,740</u>	<u>¥387,941</u>	<u>\$3,557,400</u>

The aggregate annual maturities of long-term debt outstanding at March 31, 2008 were as follows:

Year ending March 31:	Yen (millions)	U.S. dollars (thousands)
2009	¥108,179	\$1,081,790
2010	100,196	1,001,960
2011	53,162	531,620
2012	69,001	690,010
2013	78,207	782,070
Thereafter	55,174	551,740
Total	<u>¥463,919</u>	<u>\$4,639,190</u>

Substantially all of the loans are with banks and others that have basic written agreements with the Company to the effect that, with respect to all present or future loans from borrowing customers, the Company shall provide collateral or guarantors immediately upon the banks' request and that any collateral furnished pursuant to such agreements or otherwise will be applicable to all indebtedness to borrowing customers.

Certain of the secured loan agreements contain provisions that permit the lenders to require additional collateral, and substantially all of the unsecured loan agreements permit the lenders to require collateral or guarantors for such loans. Property, plant and equipment carried at ¥827 million (\$8,270 thousand) are pledged as security for long-term loans from banks and others.

(8) TRADE PAYABLES

Trade payables are summarized as follows:

	Yen (millions)		U.S. dollars (thousands)
	2008	2007	2008
Notes payable	¥ 36,472	¥ 38,400	\$ 364,720
Accounts payable	721,134	701,185	7,211,340
	<u>¥757,606</u>	<u>¥739,585</u>	<u>\$7,576,060</u>

(9) INCOME TAXES

Total income taxes were allocated as follows:

	Yen (millions)			U.S. dollars (thousands)
	2008	2007	2006	2008
Income before income taxes	¥ 79,310	¥80,203	¥ 69,701	\$ 793,100
Shareholders' equity – accumulated other comprehensive income (loss):				
Foreign currency translation adjustments	(3,213)	2,593	5,699	(32,130)
Minimum pension liability adjustments	—	—	57,170	—
Pension liability adjustments	(60,537)	2,109	—	(605,370)
Unrealized gains (losses) on securities	(24,986)	(6,621)	27,290	(249,860)
Unrealized gains (losses) on derivative instruments	(101)	(8)	11	(1,010)
	<u>¥ (9,527)</u>	<u>¥78,276</u>	<u>¥159,871</u>	<u>\$ (95,270)</u>

The significant components of deferred tax expense attributable to income taxes are as follows:

	Yen (millions)			U.S. dollars (thousands)
	2008	2007	2006	2008
Change in valuation allowance related to deferred tax assets	¥2,671	¥17,032	¥ 9,886	\$26,710
Other	2,771	(7,479)	12,910	27,710
	<u>¥5,442</u>	<u>¥ 9,553</u>	<u>¥22,796</u>	<u>\$54,420</u>

The Company is subjected to a number of income taxes. The statutory tax rate is approximately 41% for the years ended March 31, 2008, 2007 and 2006.

The actual tax rate for the years ended March 31, 2008, 2007 and 2006 is reconciled with the Japanese statutory tax rate in the following table:

	2008	2007	2006
Japanese statutory tax rate	41.0%	41.0%	41.0%
Change in valuation allowance	1.2	9.2	6.5
Expenses permanently not deductible for tax purposes	1.3	1.6	2.1
International tax rate difference	(4.4)	(2.8)	(2.2)
Tax credits	(3.8)	(5.1)	(6.6)
Tax effect attributable to investments at equity	0.7	1.1	5.6
Other	(1.0)	(1.6)	(0.6)
Actual income tax rate	<u>35.0%</u>	<u>43.4%</u>	<u>45.8%</u>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2008 and 2007 are as follows:

	Yen (millions)		U.S. dollars (thousands)
	2008	2007	2008
Deferred tax assets:			
Retirement and severance benefits	¥156,929	¥172,040	\$1,569,290
Accrued expenses	108,866	94,263	1,088,660
Property, plant and equipment	40,677	36,220	406,770
Inventories	44,647	37,567	446,470
Pension liability adjustments	104,143	43,606	1,041,430
Tax loss carryforwards	9,231	7,205	92,310
Other	101,005	112,926	1,010,050
Total gross deferred tax assets	565,498	503,827	5,654,980
Valuation allowance	(64,852)	(62,181)	(648,520)
Deferred tax assets, less valuation allowance	500,646	441,646	5,006,460
Deferred tax liabilities:			
Securities contributed to employee retirement benefit trust	32,856	32,856	328,560
Property, plant and equipment	14,270	13,856	142,700
Net unrealized gains on securities	21,707	46,693	217,070
Other	23,533	20,375	235,330
Total gross deferred tax liabilities	92,366	113,780	923,660
Net deferred tax assets	<u>¥408,280</u>	<u>¥327,866</u>	<u>\$4,082,800</u>

The valuation allowance for deferred tax assets as of April 1, 2006 was ¥45,149 million. The net change in the total valuation allowance for the years ended March 31, 2008 and 2007 was an increase of ¥2,671 million (\$26,710 thousand)

and ¥17,032 million, respectively. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of

deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

At March 31, 2008, certain subsidiaries had net operating loss carryforwards of ¥14,501 million (\$145,010

	Yen (millions)		U.S. dollars (thousands)
	2008	2007	2008
Prepaid expenses and other current assets	¥166,247	¥147,023	\$1,662,470
Other assets	242,291	181,047	2,422,910
Other liabilities	(258)	(204)	(2,580)
	<u>¥408,280</u>	<u>¥327,866</u>	<u>\$4,082,800</u>

Income taxes have not been accrued for undistributed income of domestic subsidiaries and affiliated companies as such income, if distributed in the form of dividends, is either not taxable under present circumstances or is not material. Income taxes based on undistributed income of foreign subsidiaries and affiliated companies have been accrued.

Effective April 1, 2007, the Company adopted FASB Interpretation No. 48 (FIN No. 48), "Accounting for Uncertainty in Income Taxes".

Although the Company has not the significant unrecognized tax benefits as of April 1, 2007 and March 31, 2008, the result of determination of tax audit settlements could affect the effective tax in the future periods.

(10) RETIREMENT AND SEVERANCE BENEFITS

The Company has non-contributory and contributory defined benefit plans covering substantially all of its employees who meet eligibility requirements.

Under the non-contributory plans, employees with less than twenty years of service are entitled to lump-sum severance indemnities at date of severance, and employees with twenty or more years of service are entitled to annuity payments subsequent to retirement, determined by the current basic rate of pay, length of service and termination conditions. In addition, certain employees who meet the eligibility requirements are entitled to additional lump-sum payments at the date of retirement based on the retirement age. Under the contributory plans, employees are entitled to annuity payments at a certain age. The assets of certain of the non-contributory plans and the contributory plans are combined in accordance with the regulations and administered by a board of trustees comprised equally of employer and employee representatives. An employee

thousand) and ¥29,207 million (\$292,070 thousand) for corporate and local income tax purposes, which were available to offset future taxable income, if any. A significant portion of the net operating loss carryforwards will expire in the years ending March 31, 2012 and 2015.

Net deferred tax assets and liabilities at March 31, 2008 and 2007 are reflected in the accompanying consolidated balance sheets under the following captions:

	Yen (millions)		U.S. dollars (thousands)
	2008	2007	2008
Prepaid expenses and other current assets	¥166,247	¥147,023	\$1,662,470
Other assets	242,291	181,047	2,422,910
Other liabilities	(258)	(204)	(2,580)
	<u>¥408,280</u>	<u>¥327,866</u>	<u>\$4,082,800</u>

The Company recognizes interest and penalties accrued related to additional tax etc. in income taxes in the consolidated statements of income. Both interest and penalties accrued as of March 31, 2008 and interest and penalties for the year ended March 31, 2008 are not material.

The Company and its subsidiaries files income tax returns in Japan and various foreign tax jurisdictions. The tax years that remain subject to examination by major tax jurisdictions are as follows:

Location	Open Tax Years
Japan	2001—2008
United States	2005—2008
Thailand	2003—2008
Europe	2000—2008

retirement benefit trust is established for certain of the non-contributory plans.

The Company amended its benefit plan under labor and management agreement during the year ended March 31, 2005, and established a defined contribution plan on April 1, 2005. In addition, the Company amended its contributory defined benefit plan and introduced a cash balance pension plan. Under the cash balance pension plan, each participant has a notional account which is credited yearly based on the current rate of contribution and market-related interest rate.

Certain subsidiaries sponsor varying types of retirement and severance benefit plans covering substantially all of their employees who meet eligibility requirements, most of which are defined benefit plans and some of which are defined contribution plans.

The applications, which were submitted by certain subsidiaries for approval, were approved by the government for an exemption from the obligation to pay benefits for future

employee service related to the substitutional portion of the Governmental Welfare Pension Insurance. Furthermore, these companies transferred the government-specified portion of the plan assets for past services related to the substitutional portion to the government, which were approved by the government for an exemption from the obligation to pay benefits for past employee services related to the substitutional portion.

Upon the completion of the transfer to the government of the government-specified portion of the plan assets for past services related to the substitutional portion, the Company recognized a net gain for ¥17,767 million in "Revenues – Gain on transfer of the substitutional portion of

Employee Pension Funds" in the accompanying consolidated statements of income for the year ended March 31, 2006.

Effective March 31, 2007, the Company adopted the recognition and disclosure provisions of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of SFAS No. 87, 88, 106, and 132(R)". The recognition and disclosure provisions of SFAS No. 158 requires the Company to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its pension plans in the consolidated balance sheet, with a corresponding adjustment to accumulated other comprehensive income (loss), net of tax.

Obligations and funded status

Reconciliations of beginning and ending balances of the benefit obligations and the fair value of the plan assets are as follows:

	Yen (millions)		U.S. dollars (thousands)
	2008	2007	2008
Change in benefit obligations:			
Benefit obligations at beginning of year	¥1,132,327	¥1,118,007	\$11,323,270
Service cost	34,295	34,210	342,950
Interest cost	28,686	28,587	286,860
Plan participants' contributions	1,240	1,305	12,400
Amendments	(650)	(1,353)	(6,500)
Actuarial loss (gain)	35,003	2,638	350,030
Benefits paid	(78,787)	(63,166)	(787,870)
Acquisitions and divestitures, etc.	6,410	12,099	64,100
Benefit obligations at end of year	<u>1,158,524</u>	<u>1,132,327</u>	<u>11,585,240</u>
Change in plan assets:			
Fair value of plan assets at beginning of year	765,548	703,136	7,655,480
Actual return on plan assets	(100,455)	15,932	(1,004,550)
Employer contributions	46,002	64,455	460,020
Contribution to employee retirement benefit trust	—	2,000	—
Plan participants' contributions	1,240	1,305	12,400
Benefits paid	(35,818)	(29,337)	(358,180)
Acquisitions and divestitures, etc.	10,629	8,057	106,290
Fair value of plan assets at end of year	<u>687,146</u>	<u>765,548</u>	<u>6,871,460</u>
Funded status at end of year	<u>¥ (471,378)</u>	<u>¥ (366,779)</u>	<u>\$ (4,713,780)</u>

Amounts recognized in the consolidated balance sheet at March 31, 2008 and 2007 consist of:

	Yen (millions)		U.S. dollars (thousands)
	2008	2007	2008
Other assets	¥ 10,922	¥ —	\$ 109,220
Other current liabilities	(6,076)	(6,066)	(60,760)
Retirement and severance benefits	(476,224)	(360,713)	(4,762,240)
	<u>¥(471,378)</u>	<u>¥(366,779)</u>	<u>\$ (4,713,780)</u>

Amounts recognized in accumulated other comprehensive income (loss) at March 31, 2008 and 2007 consist of:

	Yen (millions)		U.S. dollars (thousands)
	2008	2007	2008
Actuarial gain or loss	¥ 409,054	¥ 272,031	\$ 4,090,540
Prior service benefit	(154,380)	(168,336)	(1,543,800)
	<u>¥ 254,674</u>	<u>¥ 103,695</u>	<u>\$ 2,546,740</u>

The accumulated benefit obligation for all defined benefit plans was as follows:

	Yen (millions)		U.S. dollars (thousands)
	2008	2007	2008
Accumulated benefit obligation	¥1,152,299	¥1,126,498	\$11,522,990

Components of net periodic benefit cost and other amounts recognized in other comprehensive income (loss)

Net periodic retirement and severance costs for the years ended March 31, 2008, 2007 and 2006 consisted of the following components:

	Yen (millions)			U.S. dollars (thousands)
	2008	2007	2006	2008
Service cost	¥ 35,535	¥ 35,515	¥ 33,943	\$ 355,350
Interest cost on projected benefit obligation	28,686	28,587	29,595	286,860
Expected return on plan assets	(15,595)	(13,871)	(12,134)	(155,950)
Amortization of prior service benefit	(14,606)	(14,494)	(14,493)	(146,060)
Amortization of actuarial losses	17,453	17,933	26,402	174,530
	<u>51,473</u>	<u>53,670</u>	<u>63,313</u>	<u>514,730</u>
Plan participants' contributions	(1,240)	(1,305)	(1,442)	(12,400)
Net periodic retirement and severance costs	<u>¥ 50,233</u>	<u>¥ 52,365</u>	<u>¥ 61,871</u>	<u>\$ 502,330</u>

Other changes in plan assets and projected benefit obligations recognized in other comprehensive income (loss) for the year ended March 31, 2008 were summarized as follows:

	Yen (millions)	U.S. dollars (thousands)
Actuarial gain or loss	¥154,476	\$ 1,544,760
Amortization of actuarial loss	(17,453)	(174,530)
Prior service benefit	(650)	(6,500)
Amortization of prior service benefit	14,606	146,060
	<u>¥150,979</u>	<u>\$ 1,509,790</u>

The estimated actuarial gain or loss and prior service benefit for the defined benefit pension plans that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost over the next year are summarized as follows:

	Yen (millions)	U.S. dollars (thousands)
Actuarial gain or loss	¥ 26,768	\$ 267,680
Prior service benefit	(15,505)	(155,050)

Actuarial assumptions

Actuarial assumptions used to determine benefit obligations at March 31, 2008 and 2007 were as follows:

	2008	2007
Discount rate	2.0%	2.5%
Assumed rate of increase in future compensation levels	1.7%	1.7%

Actuarial assumptions used to determine net periodic retirement and severance costs for the years ended March 31, 2008, 2007 and 2006 were as follows:

	2008	2007	2006
Discount rate	2.5%	2.5%	2.5%
Assumed rate of increase in future compensation levels	1.7%	1.7%	1.7%
Expected long-term rate of return on plan assets	3.0%	3.0%	3.0%

The expected long-term rate of return is based on actual historical returns and the expectations for future returns of each plan asset category in which the Company invests.

Plan Assets

The weighted-average asset allocation of the Company's pension benefits and postretirement benefits at March 31, 2008 and 2007 were as follows:

Asset Category	2008	2007
Equity securities	54.4%	58.5%
Debt securities	31.2%	26.8%
Cash	1.2%	3.9%
Life insurance company general accounts	10.3%	8.6%
Other	2.9%	2.2%
	<u>100.0%</u>	<u>100.0%</u>

The Company's investment policies are designed to ensure adequate plan assets are available to provide future payments of pension benefits to eligible participants. Taking into account the expected long-term rate of return on plan assets, the Company formulates an investment portfolio comprised of the optimal combination of equity and debt securities. Plan assets are invested in individual equity and debt securities using the guidelines of the investment portfolio in order to produce a total return that will match the

expected return on a mid-term to long-term basis. The Company evaluates the gap between expected return and actual return of invested plan assets on an annual basis. In addition, taking into the consideration the management environment and the revision of regulations, the Company revises the investment portfolio when and to the extent considered necessary to achieve the expected long-term rate of return on plan assets based on the pension asset and liability management method.

Cash Flows

The Company expects to contribute ¥43,019 million (\$430,190 thousand) to its pension plan in the year ending March 31, 2009.

Estimated future benefit payments are as follows:

Year ending March 31:	Yen (millions)	U.S. dollars (thousands)
2009	¥ 78,860	\$ 788,600
2010	75,640	756,400
2011	71,931	719,310
2012	72,710	727,100
2013	67,086	670,860
2014—2018	284,278	2,842,780

The amount of cost recognized for the Company and certain subsidiaries' defined contribution plans for the years ended March 31, 2008, 2007 and 2006 was ¥5,262 million (\$52,620 thousand), ¥4,962 million and ¥3,740 million, respectively.

(11) SHAREHOLDERS' EQUITY

Changes in common stock for the years ended March 31, 2008 and 2007 were as follows:

	2008	Shares 2007
Number of common shares issued:		
Balance at beginning of year	2,147,201,551	2,147,201,551
Balance at end of year	2,147,201,551	2,147,201,551

Conversions into common stock of convertible debenture issued subsequent to October 1, 1982 and exercise of warrants were accounted for in accordance with the provisions of the Japanese Commercial Code by crediting one-half of the conversion price and exercise price to each of the common stock account and the capital surplus account.

Certain sections of the Japanese Commercial Code are repealed by the Japanese Corporate Law effective May 1, 2006.

The Japanese Corporate Law provides that an amount equal to 10% of dividends and other distributions paid in cash by the Company and its domestic subsidiaries be appropriated as a legal reserve until an aggregated amount of additional paid-in capital and the legal reserve equals 25% of their respective common stock. The additional paid-in capital and the legal reserve may be used to reduce a deficit or transferred to common stock by resolution of the shareholders' meeting.

(12) STOCK OPTION PLANS

The Company granted stock options to directors, executive officers and senior employees. Under the stock option plan, options to purchase common stock, which were granted at exercise prices not less than market value at date of grant, are exercisable from two years after the date of grant and expire within four years after the date of vest. Effective April 1, 2006, the Company adopted SFAS No. 123 (revised 2004) (SFAS No. 123R), "Share-Based Payment" and uses Modified prospective application transition method of accounting. Under this method, SFAS No. 123R applies to new awards and to awards modified, repurchased, or cancelled after April 1, 2006. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered that are outstanding as of April 1, 2006 shall be recognized. The adoption of SFAS No. 123R did not have a material impact on the Company's financial position and

The amount available for dividends under the Japanese Corporate Law is based on the amount recorded in the Company's books of account in accordance with accounting standards of Japan. The adjustments included in the accompanying consolidated financial statements to have them conform with accounting principles generally accepted in the United States of America, but not recorded in the books of account, have no effect on the determination of retained earnings available for dividends under the Japanese Corporate Law. Retained earnings available for dividends shown in the Company's books of account amounted to ¥194,142 million (\$1,941,420 thousand) at March 31, 2008.

Cash dividends and appropriations to the legal reserve charged to retained earnings during the years ended March 31, 2008, 2007 and 2006 represent dividends paid out during the years and the related appropriations to the legal reserve.

results of operations as of and for the year ended March 31, 2008 and 2007.

Prior to the adoption of SFAS No. 123R, the Company applied APB Opinion No. 25, "Accounting for Stock Issued to Employees" and used the intrinsic-value-based method of accounting. Under this method, the Company recognized no compensation expense related to employee stock options, as no options were granted at an exercise price below the market price on the date of grant. The pro forma effect of applying SFAS No. 123, "Accounting for Stock-based Compensation" on net income and net income per share for the years ended March 31, 2008, 2007 and 2006 was not material.

A summary of the stock option plan activity for the years ended March 31, 2008, 2007 and 2006 is shown as follows:

	Shares	Weighted average exercise price	
		Yen	U.S. dollars
Outstanding at March 31, 2005	995,000	¥522	
Granted	—	—	
Exercised	241,000	467	
Outstanding at March 31, 2006	754,000	539	
Granted	—	—	
Exercised	295,000	517	
Outstanding at March 31, 2007	459,000	554	\$5.54
Granted	—	—	—
Exercised	113,000	483	4.83
Expired	330,000	584	5.84
Outstanding at March 31, 2008	16,000	¥437	\$4.37

The weighted average remaining contractual life is 1.25 years, and the exercisable stock options were 16,000 shares as of March 31, 2008.

(13) OTHER COMPREHENSIVE INCOME (LOSS)

Change in accumulated other comprehensive income (loss) is as follows:

	Yen (millions)			U.S. dollars (thousands)
	2008	2007	2006	2008
Foreign currency translation adjustments:				
Balance at beginning of year	¥ 32,088	¥ 9,426	¥(10,722)	\$ 320,880
Adjustments for the year	(27,199)	22,662	20,148	(271,990)
Balance at end of year	4,889	32,088	9,426	48,890
Minimum pension liability adjustments:				
Balance at beginning of year	—	(58,695)	(138,658)	—
Adjustments for the year	—	6,282	79,963	—
Adjustment to initially apply SFAS No. 158	—	52,413	—	—
Balance at end of year	—	—	(58,695)	—
Pension liability adjustments:				
Balance at beginning of year	(59,723)	—	—	(597,230)
Adjustments for the year	(88,523)	—	—	(885,230)
Adjustment to initially apply SFAS No. 158	—	(59,723)	—	—
Balance at end of year	(148,246)	(59,723)	—	(1,482,460)
Unrealized gains (losses) on securities:				
Balance at beginning of year	68,578	76,970	36,358	685,780
Adjustments for the year	(44,067)	(8,392)	40,612	(440,670)
Balance at end of year	24,511	68,578	76,970	245,110
Unrealized gains (losses) on derivative instruments:				
Balance at beginning of year	(11)	17	—	(110)
Adjustments for the year	(130)	(28)	17	(1,300)
Balance at end of year	(141)	(11)	17	(1,410)
Total accumulated other comprehensive income (loss):				
Balance at beginning of year	40,932	27,718	(113,022)	409,320
Adjustments for the year	(159,919)	20,524	140,740	(1,599,190)
Adjustment to initially apply SFAS No. 158	—	(7,310)	—	—
Balance at end of year	¥(118,987)	¥ 40,932	¥ 27,718	\$(1,189,870)

Tax effects allocated to each component of other comprehensive income (loss) and reclassification adjustments are as follows:

Yen (millions)			
	Before-tax amount	Tax (expense) or benefit	Net-of-tax amount
2008:			
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities held at end of year	¥ (29,673)	¥ 2,917	¥ (26,756)
Reclassification adjustments for the portion of gains and losses realized upon sale or liquidation of investments in foreign entities	(739)	296	(443)
Net change in foreign currency translation adjustments during the year	(30,412)	3,213	(27,199)
Pension liability adjustments:			
Amount arising during the year on pension liability adjustments	(151,907)	61,704	(90,203)
Less reclassification adjustments for gains (losses) included in net income	2,847	(1,167)	1,680
Net change in pension liability adjustment	(149,060)	60,537	(88,523)
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the year	(72,350)	26,332	(46,018)
Less reclassification adjustments for gains (losses) included in net income	3,297	(1,346)	1,951
Net change in unrealized gains (losses) on securities	(69,053)	24,986	(44,067)
Unrealized gains (losses) on derivative instruments:			
Unrealized holding gains (losses) arising during the year	(231)	101	(130)
Other comprehensive income (loss)	¥(248,756)	¥88,837	¥(159,919)

Yen (millions)			
	Before-tax amount	Tax (expense) or benefit	Net-of-tax amount
2007:			
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities held at end of year	¥ 25,251	¥(2,593)	¥22,658
Reclassification adjustments for the portion of gains and losses realized upon sale or liquidation of investments in foreign entities	4	0	4
Net change in foreign currency translation adjustments during the year	25,255	(2,593)	22,662
Minimum pension liability adjustments	10,703	(4,421)	6,282
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the year	(11,017)	4,943	(6,074)
Less reclassification adjustments for gains (losses) included in net income	(3,996)	1,678	(2,318)
Net change in unrealized gains (losses) on securities	(15,013)	6,621	(8,392)
Unrealized gains (losses) on derivative instruments:			
Unrealized holding gains (losses) arising during the year	(36)	8	(28)
Other comprehensive income (loss)	¥ 20,909	¥ (385)	¥20,524

Yen (millions)			
	Before-tax amount	Tax (expense) or benefit	Net-of-tax amount
2006:			
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities held at end of year	¥ 25,238	¥ (5,572)	¥ 19,666
Reclassification adjustments for the portion of gains and losses realized upon sale or liquidation of investments in foreign entities	609	(127)	482
Net change in foreign currency translation adjustments during the year	25,847	(5,699)	20,148
Minimum pension liability adjustments	137,133	(57,170)	79,963
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the year	71,624	(28,816)	42,808
Less reclassification adjustments for gains (losses) included in net income	(3,722)	1,526	(2,196)
Net change in unrealized gains (losses) on securities	67,902	(27,290)	40,612
Unrealized gains (losses) on derivative instruments:			
Unrealized holding gains (losses) arising during the year	28	(11)	17
Other comprehensive income (loss)	¥230,910	¥(90,170)	¥140,740

U.S. dollars (thousands)			
	Before-tax amount	Tax (expense) or benefit	Net-of-tax amount
2008:			
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities held at end of year	\$ (296,730)	\$ 29,170	\$ (267,560)
Reclassification adjustments for the portion of gains and losses realized upon sale or liquidation of investments in foreign entities	(7,390)	2,960	(4,430)
Net change in foreign currency translation adjustments during the year	(304,120)	32,130	(271,990)
Pension liability adjustments:	(1,490,600)	605,370	(885,230)
Amount arising during the year on pension liability adjustments	(1,519,070)	617,040	(902,030)
Less reclassification adjustments for gains (losses) included in net income	28,470	(11,670)	16,800
Net change in pension liability adjustment	(1,490,600)	605,370	(885,230)
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the year	(723,500)	263,320	(460,180)
Less reclassification adjustments for gains (losses) included in net income	32,970	(13,460)	19,510
Net change in unrealized gains (losses) on securities	(690,530)	249,860	(440,670)
Unrealized gains (losses) on derivative instruments:			
Unrealized holding gains (losses) arising during the year	(2,310)	1,010	(1,300)
Other comprehensive income (loss)	\$(2,487,560)	\$888,370	\$(1,599,190)

(14) NET INCOME PER SHARE

A reconciliation of the numerators and denominators of the basic and diluted net income per share computations is as follows:

	Yen (millions)			U.S. dollars (thousands)
	2008	2007	2006	2008
Net income available to common stockholders	¥157,977	¥123,080	¥95,692	\$1,579,770
Effect of dilutive securities	—	—	—	—
Diluted net income	¥157,977	¥123,080	¥95,692	\$1,579,770

	Shares		
	2008	2007	2006
Average common shares outstanding	2,146,535,495	2,146,457,505	2,143,700,823
Effect of dilutive securities:			
Stock option	51,610	209,194	184,942
Diluted common shares outstanding	2,146,587,105	2,146,666,699	2,143,885,765

	Yen			U.S. dollars
	2008	2007	2006	2008
Net income per share:				
Basic	¥73.60	¥57.34	¥44.64	\$0.736
Diluted	73.59	57.34	44.63	0.736

(15) DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Foreign Exchange Risk Management and Interest Rate Risk Management

The Company and its subsidiaries operate internationally, giving rise to significant exposure to market risks from changes in foreign currencies and interest rates. Derivative financial instruments are comprised principally of foreign exchange contracts, foreign currency swaps and interest rate swaps utilized by the Company and certain of its subsidiaries to reduce these risks. The Company and its subsidiaries do not hold or issue financial instruments for trading purposes.

Contract amounts of foreign exchange contracts and foreign currency swaps and notional principal amounts of interest rate swaps at March 31, 2008 and 2007 are set forth below:

	Yen (millions)		U.S. dollars (thousands)
	2008	2007	2008
Foreign exchange contracts			
Forwards to sell foreign currencies	¥49,197	¥122,171	\$491,970
Forwards to buy foreign currencies	24,255	16,559	242,550
Foreign currency swaps	4,983	5,396	49,830
Interest rate swaps	12,700	12,950	127,000

Contract Amounts, Notional Principal Amounts and Credit Risk

The Company and its subsidiaries are exposed to risk of credit-related losses in the event of nonperformance by counterparties to foreign exchange contracts, foreign currency swaps and interest rate swaps, but they believe such risk to be minor because of the high credit ratings of the counterparties.

Information with Respect to Fair Value Hedges

Certain subsidiaries have entered into foreign currency swaps to hedge currency exposure and designate them as fair value hedges. The gains or losses as ineffective portion of hedges and excluded from the assessment of hedge effectiveness were immaterial for the years ended March 31, 2008, 2007 and 2006.

Information with Respect to Cash Flow Hedges

The Company and certain of its subsidiaries have entered into interest rate swap agreements, the effect of which is to modify the interest rate characteristics of a portion of its long-term debt from a variable to a fixed rate and designate them as cash flow hedges. The gains or losses as ineffective

portion of hedges and excluded from the assessment of hedge effectiveness were immaterial for the years ended March 31, 2008, 2007 and 2006.

Undesignated Derivative Instruments

Foreign exchange contracts and certain of foreign currency swaps and interest rate swaps not designated as hedging instruments under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, are also used to hedge certain foreign currency and interest rate exposures. The Company and certain of its subsidiaries recognize changes in unrealized gains and losses on such instruments in earnings.

(16) SECURITIZATIONS

The Company transfers trade accounts receivable and trade notes receivable under several securitization programs.

When the Company holds subordinated retained interests for certain trade accounts receivable upon the sale of receivables, a portion of these, where the Company holds subordinated retained interests, is not taken off the balance sheet and is recorded at their fair value. Such carrying value is adjusted to reflect the portion that is not expected to be collectible. As of March 31, 2008, the Company did not hold subordinated retained interests for certain trade accounts receivable upon the sale of receivables.

The Company recognized losses of ¥1,147 million (\$11,470 thousand), ¥823 million and ¥422 million on the securitizations of receivables for the years ended March 31, 2008, 2007 and 2006, respectively.

Subsequent to securitization, the Company retains collection and administrative responsibilities for the receivables. The Company has not recorded a servicing asset or liability since the cost of service for collection is similar to the commission income.

Certain cash flows received from special purpose entities (SPEs) and banks on the above transactions for the years ended March 31, 2008, 2007 and 2006 are as follows:

	Yen (millions)			U.S. dollars (thousands)
	2008	2007	2006	2008
Proceeds from new securitizations	¥478,765	¥458,295	¥382,503	\$4,787,650
Cash flow received on retained interests	—	24	4,745	—

Quantitative information about trade receivables including securitized receivables as of March 31, 2008 and 2007 are as follows:

	Yen (millions)		U.S. dollars (thousands)
	2008	2007	2008
Trade receivables	¥1,031,890	¥1,001,269	\$10,318,900
Less: Securitized receivables	119,719	109,998	1,197,190
Total receivables	¥ 912,171	¥ 891,271	\$ 9,121,710

As of March 31, 2008 and 2007, delinquencies and credit losses of trade receivables including securitized receivables are immaterial.

(17) COMMITMENTS AND CONTINGENT LIABILITIES

At March 31, 2008, commitments outstanding for the purchase of property, plant and equipment were ¥19,384 million (\$193,840 thousand).

It is common practice in Japan for companies, in the ordinary course of business, to receive promissory notes in settlement of trade accounts receivable and to subsequently discount such notes at banks. At March 31, 2008, certain subsidiaries were contingently liable to trade notes discounted in the amount of ¥633 million (\$6,330 thousand). Discounted notes are accounted for as sales.

As of March 31, 2008, the Company had no significant concentrations of credit risk.

While the Company and certain of its subsidiaries are defendants and co-defendants in various lawsuits and legal actions, based upon the advice of legal counsel, the Company's management is of the opinion that damages, if any, would not have a material adverse effect on the Company's consolidated financial position and results of operations, except for the following cases.

The Company and certain of its subsidiaries are under investigations conducted by the Antitrust Division of the United States Department of Justice against an alleged violation of the United States antitrust laws in the markets of DRAM and SRAM. Certain numbers of associated civil lawsuits have been filed against several companies involved, including the Company and concerned subsidiaries. The Company and certain of its subsidiaries move toward

reconciliation about DRAM in some cases. In addition, the Company received a decision rendered by the European Commission imposing fines for an infringement of EU Competition Rules against its sales of certain gas-insulated switchgears in Europe. However, there is significant inconsistency on recognition of the material underlying facts between the European Commission and the Company. Therefore, the Company has appealed to the European Court of First Instance and is challenging the decision. Requests for Information were served to the Company by the European Commission inquiring competition-related matters concerning the sales of DRAM and power transformers in the European market. As of March 31, 2008, the Company recognized a reasonably estimable amount of ¥39,893 million (\$398,930 thousand) as a reserve for various competition-law-related expenses in "Other liabilities" relating to the DRAM case in the United States and gas-insulated switchgears in Europe about aforementioned matters. The Company is unable to estimate the impact on the Company's consolidated financial position and operational results as to be arising out of other legal proceedings. For the year ended March 31, 2007, the Company recognized a reasonably estimable amount of ¥42,167 million as a reserve for various competition-law-related expenses in "Costs and expenses – Other" relating to the DRAM case in the United States and gas-insulated switchgears in Europe.

The following table provides the undiscounted maximum amount of potential future payments for each major group of guarantees at March 31, 2008:

	Yen (millions)	U.S. dollars (thousands)
Guarantees of bank loan:		
Employees	¥17,071	\$170,710
Affiliated and other companies	5,325	53,250
Other	5,282	52,820
Total	<u>¥27,678</u>	<u>\$276,780</u>

The guarantees for the employees are principally made for their housing loans, and the term of guarantees is 1 year to 29 years. The guarantees for the affiliated and other

companies are made to enhance their credit, and the term of guarantees is 1 year to 7 years.

Change in accrued product warranty for the years ended March 31, 2008 and 2007 is summarized as follows:

	Yen (millions)		U.S. dollars (thousands)
	2008	2007	2008
Balance at beginning of year	¥37,299	¥31,560	\$372,990
Addition	47,319	33,543	473,190
Utilization	32,734	28,054	327,340
Foreign currency translation adjustments	(390)	250	(3,900)
Balance at end of year	<u>¥51,494</u>	<u>¥37,299</u>	<u>\$514,940</u>

(18) FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practical to estimate that value:

(a) Cash and cash equivalents, Trade receivables, Bank loans, Trade payables, Accrued expenses and Other current liabilities

The carrying amount approximates fair value because of the short maturity of these instruments.

(b) Short-term investments and Investments in securities and other

The fair values of most short-term investments and investments in securities and other are estimated based on quoted market prices for these instruments. For other investments for which there are no quoted market prices, a reasonable estimate of fair value could not be made without incurring excessive costs.

(c) Long-term trade receivables

The fair value of the Company's long-term trade receivables are estimated based on the amount of future cash flows discounted using estimated market discount rates.

(d) Long-term debt

The fair value of the Company's long-term debt is estimated based on the amount of future cash flows associated with each instrument discounted using the Company's current borrowing rate for similar debt of comparable maturity, or based on the quoted market prices for the same or similar issues.

(e) Derivative financial instruments

The fair values of derivative financial instruments, consisting principally of foreign exchange contracts, foreign currency swaps and interest rate swaps are estimated by obtaining quotes from brokers. (See note 15)

The estimated fair values of the Company's financial instruments at March 31, 2008 and 2007 are summarized as follows:

	2008		2007		2008	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Nonderivatives:						
Assets:						
Marketable securities	¥ 203,165	¥ 203,165	¥ 245,000	¥ 245,000	\$ 2,031,650	\$ 2,031,650
Long-term trade receivables	480	953	3,711	4,468	4,800	9,530
Liabilities:						
Long-term debt, including current portion	(431,152)	(428,525)	(461,236)	(455,610)	(4,311,520)	(4,285,250)
Derivatives:						
Foreign exchange contracts	1,289	1,289	(1,932)	(1,932)	12,890	12,890
Foreign currency swaps	(27)	(27)	33	33	(270)	(270)
Interest rate swaps	(119)	(119)	(124)	(124)	(1,190)	(1,190)

Limitations

Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates are subjective in nature

and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(19) SUPPLEMENTARY INCOME AND EXPENSE INFORMATION

	Yen (millions)			U.S. dollars (thousands)
	2008	2007	2006	2008
Advertising expenses	¥(24,475)	¥(22,029)	¥(22,417)	\$(244,750)
Shipping and handling costs	(76,958)	(73,031)	(73,920)	(769,580)
Exchange gains (losses)	(16,524)	(668)	34	(165,240)
Restructuring charges	(20,468)	—	(1,949)	(204,680)
Impairment losses	(3,189)	(14,630)	(9,839)	(31,890)

Advertising expenses are included in "Costs and expenses – Selling, general and administrative."

Shipping and handling costs represents the costs included in "Costs and expenses – Selling, general and administrative."

Exchange gains (losses) are included in "Revenues – Other" and "Costs and expenses – Other."

Restructuring charges are included in "Costs and expenses – Other."

For the year ended March 31, 2008, the Company recognized restructuring charges of ¥20,468 million (\$204,680 thousand) for the removal and disposal of facilities and the after-sale service expense resulting from the company's decision to terminate the mobile handset business.

For the year ended March 31, 2006, the Company recognized restructuring charges of ¥1,949 million for restructuring the overseas mobile handset business, which included retirement benefits and other charges associated with the dissolution of R&D departments and sales departments of the mobile handset business in China.

Impairment losses are included in "Costs and expenses – Other."

For the year ended March 31, 2008, the Company and certain of its subsidiaries recognized impairment losses of ¥3,043 million (\$30,430 thousand) for tangible assets such as buildings and machinery as well as ¥146 million (\$1,460 thousand) for intangible assets. The Company recognized the impairment losses of ¥1,422 million (\$14,220 thousand) for the assets for the Electronic Device business due to a decline in the profitability, with price fall of the product in the domestic market. Overseas subsidiary recognized impairment losses of ¥1,713 million (\$17,130 thousand) for molds

due to a decline in the profitability in the projection TV business in North America. The impairment losses were mainly measured based on the fair value less cost to sell.

For the year ended March 31, 2007, the Company and certain of its subsidiaries recognized impairment losses of ¥11,384 million for tangible assets such as buildings and machinery and ¥3,246 million for intangible assets. The Company recognized the impairment losses for a part of the assets for the Home Appliances business due to a decline in the profitability, corresponding to intensified price competition in the domestic market and a change in the business environment. The impairment losses were mainly measured based on the fair value less cost to sell.

For the year ended March 31, 2006, the Company and certain of its subsidiaries recognized impairment losses of ¥9,652 million for tangible assets, such as land, buildings and tools, and ¥187 million for intangible assets. The Company recognized impairment losses of ¥3,205 million, based on a real-estate appraisal value, for Sanda Education Center in Hyogo, which is scheduled to be sold, as part of integration and reorganization of the education centers in the Kansai district. A domestic subsidiary recognized impairment losses of ¥1,920 million for the logistics center due to a decline in the profitability corresponding to price reductions for major customers, while an overseas subsidiary recognized impairment losses of ¥2,313 million for molds for the old model products due to a decline in the profitability in the projection TV business in North America. The impairment losses were mainly measured based on the fair value of the discounted present value of expected future cash flow.

(20) LEASES

The Company and certain of its subsidiaries enter into capital lease and operating lease agreements with Mitsubishi Electric Credit Corporation, that is accounted under the equity method of accounting. The leased assets, which are committed under capital lease agreements, are capitalized.

The Company and certain of its subsidiaries lease mainly certain parts of machinery and equipment. At March 31, 2008, the gross amount of leased assets at cost under capital leases and accumulated depreciation amounted to ¥58,178 million (\$581,780 thousand) and ¥31,557 million (\$315,570 thousand), respectively.

Future minimum lease payments under capital and non-cancelable operating leases as of March 31, 2008 are as follows:

	Yen (millions)		U.S. dollars (thousands)	
	Capital leases	Operating leases	Capital leases	Operating leases
Year ending March 31:				
2009	¥12,311	¥2,571	\$123,110	\$25,710
2010	9,389	1,503	93,890	15,030
2011	6,489	1,063	64,890	10,630
2012	3,466	208	34,660	2,080
2013	1,837	27	18,370	270
Thereafter	1,846	39	18,460	390
Total minimum lease payments	35,338	<u>¥5,411</u>	353,380	<u>\$54,110</u>
Less: Estimated executory costs	927		9,270	
Net minimum lease payments	34,411		344,110	
Less: Amount representing interest	1,644		16,440	
Present value of net minimum capital lease payments	32,767		327,670	
Less: Current portion of obligations under capital leases	11,306		113,060	
Obligations under capital leases, excluding current portion	<u>¥21,461</u>		<u>\$214,610</u>	

Rental expenses related to operating leases for the years ended March 31, 2008, 2007 and 2006 amounted to ¥40,093 million (\$400,930 thousand), ¥39,178 million and

¥39,981 million, respectively. These operating leases are for office space, warehouses, employee facilities and computer equipment, and are customarily renewed.

(21) SUPPLEMENTARY CASH FLOW INFORMATION

	Yen (millions)			U.S. dollars (thousands)
	2008	2007	2006	2008
Cash paid during the year for:				
Interest	¥ 9,839	¥ 9,786	¥ 9,668	\$ 98,390
Income taxes	62,248	51,170	29,581	622,480



Independent Auditors' Report

The Board of Directors
Mitsubishi Electric Corporation:

We have audited the accompanying consolidated balance sheets (expressed in yen) of Mitsubishi Electric Corporation and subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three-year period ended March 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, as well as 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 certain information required by Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information". In our opinion, disclosure of this information is required by U.S. generally accepted accounting principles for a complete presentation of the consolidated financial statements.

In our opinion, except for the omission of segment information discussed in the preceding paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mitsubishi Electric Corporation and subsidiaries as of March 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2008, in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated financial statements have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into United States dollars on the basis set forth in note 2 to the consolidated financial statements.

KPMG A&S A Co.

Tokyo, Japan
June 27, 2008