

FINANCIAL SECTION

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FIVE-YEAR SUMMARY

Mitsubishi Electric Corporation and Subsidiaries

Years ended March 31	Yen (millions)					U.S. dollars (thousands)
	2006	2005	2004	2003	2002	2006
Summary of Operations						
Net sales	¥3,604,185	¥ 3,410,685	¥ 3,309,651	¥ 3,639,071	¥ 3,648,986	\$30,805,000
Cost of sales	2,694,985	2,559,499	2,508,519	2,782,180	2,842,658	23,034,060
Selling, general, administrative and Other expenses	751,482	730,544	708,415	793,751	874,355	6,422,923
Operating costs	3,446,467	3,290,043	3,216,934	3,575,931	3,717,013	29,456,983
Operating income (loss)	157,718	120,642	92,717	63,140	(68,027)	1,348,017
Income (loss) before income taxes	152,326	102,316	84,784	2,475	(155,142)	1,301,932
Net income (loss)	¥ 95,692	¥ 71,175	¥ 44,839	¥ (11,825)	¥ (77,970)	\$ 817,880
Financial Ratios						
Return on sales (%)	2.66	2.09	1.35	(0.32)	(2.14)	—
Return on equity (%)	11.51	10.77	9.00	(2.53)	(12.78)	—
Return on assets (%)	2.96	2.23	1.30	(0.31)	(1.89)	—
Equity ratio (%)	28.43	22.79	18.65	10.74	13.35	—
Per-Share Amounts						
Net income (loss) (yen/U.S. dollars)						
Basic	¥ 44.64	¥33.16	¥ 20.89	¥ (5.51)	¥(36.31)	\$ 0.382
Diluted	44.63	33.16	20.74	(5.51)	(36.31)	0.381
Cash dividends declared (yen/U.S. dollars)	¥ 8	¥ 6	¥ 4	¥ 3	¥ —	\$ 0.068
Statistical Information						
Current assets	¥1,886,779	¥1,740,333	¥1,743,381	¥1,937,537	¥2,157,889	\$16,126,316
Current liabilities	1,440,133	1,277,662	1,315,739	1,589,322	1,960,863	12,308,829
Working capital	446,646	462,671	427,642	348,215	197,026	3,817,487
Shareholders' equity	942,202	720,637	601,532	394,587	541,710	8,053,009
Cash dividends paid	15,000	12,877	6,440	—	12,883	128,205
Total assets	3,313,742	3,162,472	3,225,223	3,673,637	4,057,404	28,322,581
Capital expenditure	134,413	125,657	96,253	133,223	221,092	1,148,829
R&D expenditure	130,639	130,541	136,518	179,562	204,652	1,116,573
Depreciation	¥ 126,169	¥ 105,356	¥ 109,975	¥ 208,884	¥ 230,518	\$ 1,078,368
Employees (at the end of the year)	99,444	97,661	98,988	110,279	116,192	—

Notes: 1. In order to be consistent with financial reporting practices generally accepted in Japan, operating income (loss) 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 charges are included as part of operating income (loss).

2. U.S. dollar amounts are translated from yen at the rate of ¥117=U.S.\$1, the approximate rate on the Tokyo Foreign Exchange Market on March 31, 2006.

3. The Company has 141 consolidated subsidiaries and 44 equity-method companies as of March 31, 2006.

FINANCIAL REVIEW

OVERVIEW

The business environment in the fiscal year ended March 31, 2006 displayed a general underlying strength in the global economy, mainly in the U.S. and China, with European manufacturing and capital expenditure also picking up slightly in the latter half of the fiscal year. The Japanese economy gradually broke away from its deflationary slump, experiencing stronger demand for capital expenditure than initially anticipated, in addition to brisk consumer spending from continued improvements in employment and income conditions.

Meanwhile, the Mitsubishi Electric Group has been involved in structural reforms that respond to changing operating circumstances in order to increase and strengthen profitability in each business segment under its "make strong businesses stronger" strategy. It has also continued to strengthen production and sales systems both in domestic and overseas markets by establishing and reinforcing operating facilities, as well as strengthening its competitive edge through business alliances, and so forth.

In addition, we have been carrying out extensive companywide management reform initiatives such as reducing inventory and increasing productivity through our "Just In Time" activities, as well as continuing the cost-reducing AΣ21 Program. We are also strengthening our competitive edge through HR investments and optimizing our HR structure.

As a result, the Mitsubishi Electric Group recorded consolidated net sales of ¥3,604.2 billion in the fiscal year ended March 31, 2006. Operating income was ¥157.7 billion, income before income taxes reached ¥152.3 billion, and net income totaled ¥95.7 billion.

Net Sales

Net sales for the fiscal year under review totaled ¥3,604.2 billion, an increase of ¥193.5 billion compared with the previous fiscal year. This was due to sales increases in all segments, led by Energy and Electric Systems, as well as Industrial Automation Systems.

Cost of Sales, Expenses and Operating Income

Though cost of sales rose by ¥135.5 billion year on year to ¥2,695.0 billion, the cost of sales ratio improved 0.3 points to 74.8%. Selling, general and administrative (SG&A) expenses and research and development (R&D) expenses increased ¥20.9 billion to ¥751.5 billion, while the ratio of SG&A and R&D expenses to net sales improved 0.6 points to 20.8%.

As a result, operating income climbed ¥37.1 billion year on year to ¥157.7 billion.

Non-Operating Income and Expenses

Financial expenses, the sum of interest and dividend income less interest payable, decreased ¥3.3 billion year on year to ¥0.2 billion. This was primarily due to a decline in interest payable as a result of repayment of loans and redemption of corporate bonds.

Non-operating income, excluding interest and dividend income, rose ¥7.5 billion over the previous fiscal year to ¥36.5 billion. This was due to a gain on the transfer of the substitutional portion of employee pension funds of consolidated subsidiaries.

Non-operating expenses, excluding interest payable, declined ¥2.1 billion compared to the previous fiscal year to ¥41.7 billion, owing to a decrease in restructuring costs.

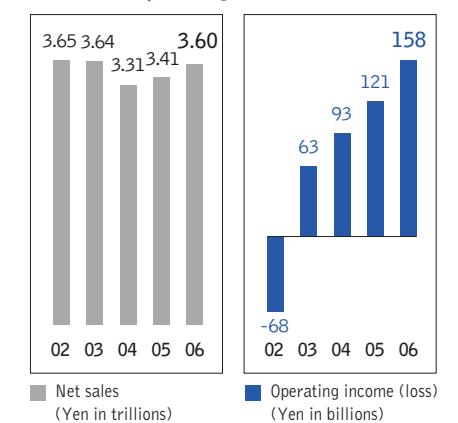
Income Before Income Taxes

Income before income taxes climbed ¥50.0 billion compared with the previous fiscal year to ¥152.3 billion, a ratio of 4.2% of net sales. This was due to the increases of ¥37.1 billion in operating income and ¥12.9 billion in non-operating income mentioned above.

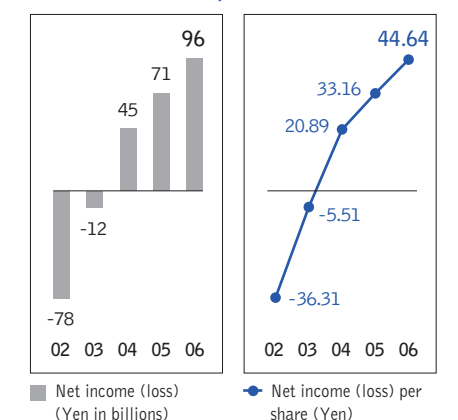
Net Income

Net income for the fiscal year ended March 31, 2006 totaled ¥95.7 billion (2.7% of net sales), an increase of ¥24.5 billion year on year. Though equity in earnings of affiliated companies declined by ¥4.0 billion, income before income taxes rose by ¥50.0 billion.

Net sales/Operating income (loss)



Net income (loss)/ Net income (loss) per share (basic)



Business Risks

The Mitsubishi Electric Group engages in the development, manufacture, and sales of products in the Energy and Electric Systems, Industrial Automation Systems, Information and Communication Systems, Electronic Devices, Home Appliances and Others business fields in Japan, North America, Europe, Asia, and other overseas regions. As a result, the Mitsubishi Electric 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 the following:

- (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, and 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) Litigation and other legal proceedings

The Mitsubishi Electric Group's operations may be affected by lawsuits or other legal proceedings against Mitsubishi Electric, its subsidiaries and/or equity-method affiliated companies.
- (8) Disruptive changes

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

The Mitsubishi Electric Group may record losses due to restructuring measures.
- (10) 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.
- (11) 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)
	2006	2005	2004	2003	2002	2006
Energy and Electric Systems	¥ 868,789	¥ 791,925	¥ 797,448	¥ 861,120	¥ 920,667	\$ 7,425,547
Industrial Automation Systems	860,111	781,867	709,695	639,422	600,589	7,351,376
Information and Communication Systems	644,111	614,091	681,757	686,432	762,586	5,505,222
Electronic Devices	170,394	164,383	170,442	460,469	470,225	1,456,359
Home Appliances	896,437	866,428	782,256	789,149	726,151	7,661,855
Others	603,585	581,685	508,475	566,199	569,799	5,158,846
Subtotal	4,043,427	3,800,379	3,650,073	4,002,791	4,050,017	34,559,205
Eliminations	(439,242)	(389,694)	(340,422)	(363,720)	(401,031)	(3,754,205)
Consolidated total	¥ 3,604,185	¥ 3,410,685	¥ 3,309,651	¥ 3,639,071	¥ 3,648,986	\$30,805,000

Operating Income (Loss) by Business Segment

Years ended March 31	Yen (millions)					U.S. dollars (thousands)
	2006	2005	2004	2003	2002	2006
Energy and Electric Systems	¥ 25,296	¥ 28,150	¥ 25,912	¥ 59,406	¥ 46,580	\$ 216,205
Industrial Automation Systems	95,967	72,362	66,413	57,969	33,165	820,231
Information and Communication Systems	20,677	238	511	(27,273)	(90,246)	176,726
Electronic Devices	13,531	6,130	(4,678)	(53,078)	(80,560)	115,650
Home Appliances	14,958	25,692	19,317	36,195	37,170	127,846
Others	13,342	10,597	8,266	11,080	8,563	114,034
Subtotal	183,771	143,169	115,741	84,299	(45,328)	1,570,692
Eliminations	(26,053)	(22,527)	(23,024)	(21,159)	(22,699)	(222,675)
Consolidated total	¥ 157,718	¥ 120,642	¥ 92,717	¥ 63,140	¥ (68,027)	\$ 1,348,017

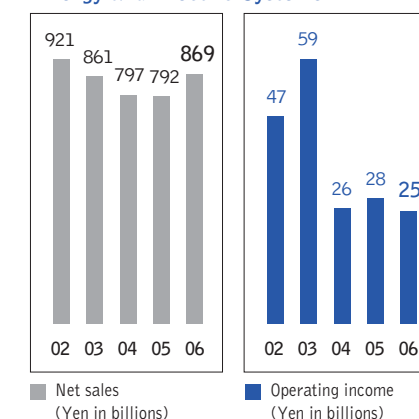
Energy and Electric Systems

The social infrastructure systems business saw increases in both orders and sales from the previous fiscal year due to reintegration of the electric transmission and distribution related businesses, in addition to expansion in the overseas business for electric equipment for rolling stock.

The building systems business experienced an increase in both orders and sales from the previous fiscal year due to an increase in domestic large-scale orders for elevators and escalators, in addition to rising demand in India and the Middle East.

As a result, sales in the Energy and Electric Systems segment climbed 10% to ¥868.8 billion, compared to the previous fiscal year. Operating income decreased ¥2.9 billion to ¥25.3 billion owing to a decline in sales prices and other factors compared to the previous fiscal year.

Net sales and Operating income of Energy and Electric Systems



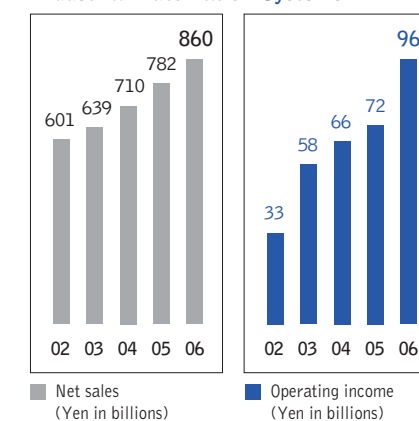
Industrial Automation Systems

The factory automation systems business posted gains in orders and sales due to increased investment by the automotive industry in Japan and overseas, as well as by flat-panel display-related businesses in Japan, Korea and Taiwan.

The automotive equipment business also recorded increases in orders and sales due to stronger demand for alternators, starters and other equipment from domestic and overseas auto manufacturers.

As a result, sales in the Industrial Automation Systems segment climbed 10% to ¥860.1 billion, compared to the previous fiscal year. Operating income totaled ¥96.0 billion, an increase of ¥23.6 billion compared to the previous fiscal year.

Net sales and Operating income of Industrial Automation Systems



Information and Communication Systems

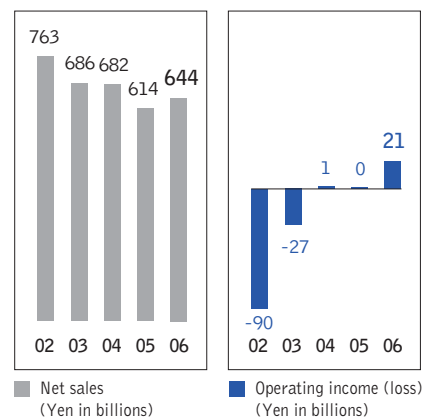
The telecommunications business saw an increase in orders and sales compared to the previous fiscal year as a result of stronger demand for 3G mobile handsets and optical broadband access system products in Japan.

The information systems and services business posted a sales increase due to growth in the systems integration business.

In the electronics systems business, orders increased from the previous fiscal year due to orders for the Superbird 7 satellite. However, sales remained the same as the previous fiscal year.

As a result, total sales for the Information and Communication Systems segment showed an increase of 5% from the previous fiscal year, finishing at ¥644.1 billion. Operating income increased to ¥20.7 billion, up ¥20.4 billion from the previous fiscal year owing to improvements in the mobile handset business.

Net sales and Operating income (loss) of Information and Communication Systems



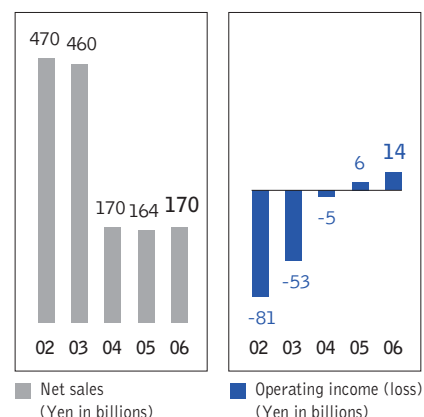
Electronic Devices

The semiconductor business saw an increase in both orders and sales from the previous fiscal year due to increases in power modules for hybrid cars and domestic industrial machinery, as well as red laser diodes for recordable DVD players.

The liquid crystal business saw a decrease in orders and sales from the previous fiscal year. Despite increases in small- and medium-sized products for industrial use, there were decreases in large-sized products for PC monitors.

As a result, sales for the Electronic Devices segment totaled ¥170.4 billion, an increase of 4% from the previous fiscal year. Operating income was ¥13.5 billion, an increase of ¥7.4 billion compared to the previous fiscal year, owing to the increase in sales.

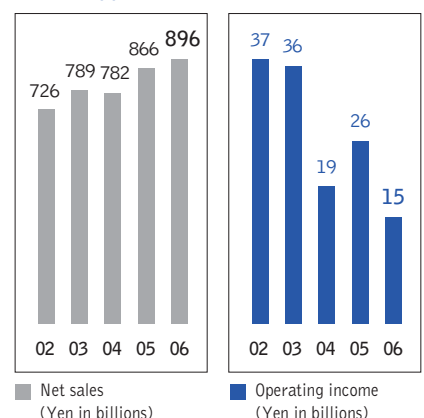
Net sales and Operating income (loss) of Electronic Devices



Home Appliances

Sales in the home appliances business rose 3% from the previous fiscal year to ¥896.4 billion due to increases in room and package air conditioners for both the foreign and domestic market. Increases were also seen in residential home equipment such as solar power generation systems, electric water heaters and IH cooking heaters, as well as in refrigerators and LCD televisions. Operating income finished at ¥15.0 billion, a decrease of ¥10.7 billion compared to the previous fiscal year, owing to a decline in sales prices.

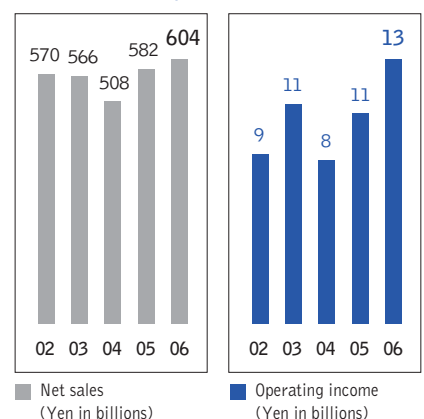
Net sales and Operating income of Home Appliances



Others

Sales rose 4% from the previous fiscal year to ¥603.6 billion, supported mainly by stronger sales in material procurement, engineering and other affiliated companies. Operating income rose to ¥13.3 billion, an increase of ¥2.7 billion compared to the previous fiscal year, owing to stronger sales and other factors.

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)
	2006	2005	2004	2003	2002	2006
Japan	¥ 3,131,472	¥2,927,605	¥ 2,842,354	¥ 3,168,639	¥ 3,232,688	\$26,764,718
North America	251,717	217,369	216,639	301,034	327,648	2,151,427
Asia (excluding Japan)	430,976	459,363	390,921	384,891	305,957	3,683,556
Europe	228,993	235,188	205,507	206,946	232,260	1,957,205
Others	27,567	23,255	21,498	15,268	13,625	235,615
Eliminations	(466,540)	(452,095)	(367,268)	(437,707)	(463,192)	(3,987,521)
Consolidated total	¥ 3,604,185	¥3,410,685	¥ 3,309,651	¥ 3,639,071	¥ 3,648,986	\$30,805,000

Operating Income (Loss) by Geographic Segment

Years ended March 31	Yen (millions)					U.S. dollars (thousands)
	2006	2005	2004	2003	2002	2006
Japan	¥ 123,578	¥ 93,118	¥ 55,880	¥ 42,559	¥ (36,980)	\$ 1,056,222
North America	(4,100)	(1,006)	2,918	3,628	(18,086)	(35,043)
Asia (excluding Japan)	29,205	29,277	26,087	23,189	17,544	249,616
Europe	8,148	2,334	2,710	(9,921)	(46,852)	69,641
Others	945	767	1,211	471	364	8,077
Eliminations	(58)	(3,848)	3,911	3,214	15,983	(496)
Consolidated total	¥ 157,718	¥ 120,642	¥ 92,717	¥ 63,140	¥ (68,027)	\$ 1,348,017

Japan

Sales in Japan rose 7% year on year to ¥3,131.5 billion, due primarily to stronger sales of factory automation systems, automotive equipment, mobile handsets for domestic use, communications infrastructure equipment, air conditioners, solar power generation systems and LCD TVs, as well as the impact from the reintegration of the electric transmission and distribution related businesses and the display monitor business. Operating income was ¥123.6 billion, an increase of ¥30.5 billion.

North America

Sales climbed 16% year on year to ¥251.7 billion owing primarily to higher sales of transformer equipment and electrical equipment for locomotives and rolling stock. Operating losses, however, were ¥4.1 billion, a worsening of ¥3.1 billion compared to the previous fiscal year as a result of a decline in sales prices for visual-related equipment.

Asia

Though sales declined 6% year on year to ¥431.0 billion due to weaker sales of DVD-related equipment, operating income totaled ¥29.2 billion, on par with the previous fiscal year, due to sales growth of FA systems.

Europe

Sales declined 3% year on year to ¥229.0 billion as a result of the restructuring of the mobile handset business. Operating income climbed ¥5.8 billion to ¥8.1 billion.

Others

Sales in other regions, which include Mitsubishi Electric's Australian subsidiary, totaled ¥27.6 billion, and operating income was ¥0.9 billion.

RESEARCH AND DEVELOPMENT

Research and Development

Years ended March 31	Yen (billions)					U.S. dollars (millions)
	2006	2005	2004	2003	2002	2006
Energy and Electric Systems	¥ 18.9	¥ 16.4	¥ 16.6	¥ 20.7	¥ 24.5	\$ 161.9
Industrial Automation Systems	30.3	28.2	24.8	20.1	22.3	258.8
Information and Communication Systems	23.2	31.3	43.7	49.2	65.3	198.4
Electronic Devices	8.6	9.8	9.8	50.0	50.2	73.3
Home Appliances	23.6	22.4	18.5	18.3	19.6	201.5
Others	26.1	22.5	23.0	21.2	22.7	222.7
Consolidated total	¥ 130.6	¥130.5	¥136.5	¥179.5	¥204.6	\$1,116.6

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

The Mitsubishi Electric Group actively promotes a wide range of research and development (R&D) activities embracing fundamental to advanced application research, development for the commercialization of particular technologies, and R&D for improving productivity. Such R&D efforts involve various facilities and sites such as corporate laboratories in Japan, overseas laboratories in the United States and Europe, factories, and consolidated subsidiaries. Also, Mitsubishi Electric is conducting varied and advanced R&D activities worldwide in cooperation with various independent scientific institutions such as universities and laboratories both in Japan and overseas.

In the fiscal year under review, the total consolidated expenditure invested in R&D activities amounted to ¥130.6 billion, including cost elements spent on quality improvements, which are transferred to manufacturing costs. Mitsubishi Electric reports R&D activities by purpose, type, result, and development expenditure for each business segment. Fundamental and basic common research that cannot be classified to a specific business segment, however, is reported in Common and Others.

In the Energy and Electric Systems segment, Mitsubishi Electric conducts research to enhance the competitiveness of core products such as rotating machines for generators, electric motors, and other machinery, as well as switches and transformers and other power transmission equipment, distribution and reception equipment and systems, transportation systems, elevators, and building management systems. At the same time, Mitsubishi Electric actively pursues research in new business fields, including IT-application systems such as supervision and control, energy and service solutions, and others. We expect that such business fields will attract increased future demand. Mitsubishi Electric has achieved a number of successes in this segment, notably in the following areas: wide-area ship management systems to support safe sea transport; Diamond Vision display systems, which are large-scale, full-screen displays that enable the superimposing of multiple moving images at a frame rate of 60fps, which is higher than that of broadcast quality; HG-VA cubicle-type, composite-insulated 72kV switchgear; scroll-type compact air compressors for rolling stock; post-earthquake autonomous damage diagnosis and recovery systems for elevators; and MELSAFETY-G Mitsubishi integrated building systems. R&D expenses in this segment totaled ¥18.9 billion.

In Industrial Automation Systems, Mitsubishi Electric is active in implementing R&D to enhance the competitiveness of motors and related products, mechatronics equipment, FA control equipment and systems, and automotive equipment such as rotating machines, electric power steering, car multimedia systems and other related products. The Company has successfully developed the numerical controllers M7 Series; the programmable display systems GOT1000 Series; Top Runner N Series transformers; WS Series 30AF-1600AF no-fuse circuit breakers and short-circuit breakers; and the TU-100D terrestrial digital TV tuners for automobiles. R&D expenses in the segment were ¥30.3 billion.

In Information and Communication Systems, Mitsubishi Electric conducts research into the development of mobile handsets, information and communications infrastructure and network solutions equipment, and other products. Mitsubishi Electric is also active in the R&D of space-related systems. Notable successes included: 3G FOMA[®]* mobile handsets, including slim, slide-open types and call-only types aimed at attracting users of varied ages; DIGITAL MELLOOK series digital CCTVs; QuickSBC anti-divulgence solutions; MistyGuard

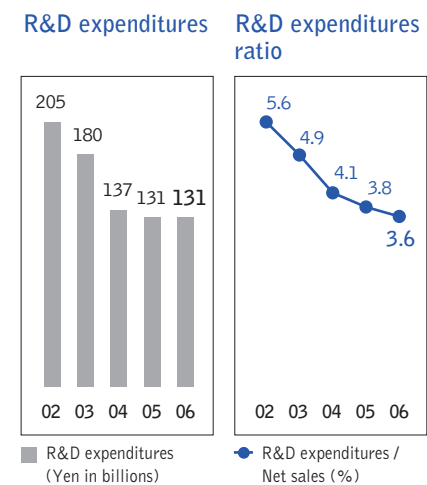
“CRYPTOFILE LOCK for Mobile” software to prevent the copying of authenticated files; LogAuditor Enterprise internal-control assisting solutions; the Superbird 7 next-generation communications satellite; and compact, optical fiber Doppler Lidar systems. R&D expenses in the segment totaled ¥23.2 billion.

In Electronic Devices, Mitsubishi Electric conducts R&D in electronic devices for semiconductor equipment that underpins all business domains. Major results included: the industry-leading 1200V-resistant HVIC for inverter systems; small size, high-efficiency power amplifier modules for data transmission with mobile handsets; the Real Color Series of ultra-bright TFT-LCD modules for industrial uses; and fine-pitch interposers made of pure glass-epoxy substrate for image processing engines. R&D expenditures in the segment totaled ¥8.6 billion.

In Home Appliances, Mitsubishi Electric is actively pursuing R&D in a number of areas. In particular, it is focusing on environmentally conscious products emphasizing energy conservation, recycling, and the reduction of environmental impact. At the same time, Mitsubishi Electric is pursuing research in universal design, barrier-free products, and digital imaging systems. Notable results included: the room air conditioner “KIRIGAMINE W Move Eye,” which won the Chairman's Award at the 2005 Energy Conservation Awards; symmetrical door refrigerators with wood-tone design under the concept of universal design, winning the Good Design Award for two consecutive years; premium rice cookers “HON-SUMIGAMA” with an inner bowl made of carbon; DVD recorders “RAKU-RECO” with functions such as detecting and extracting highlight scenes; and the high-resolution projector LVP-HC3000 for home theaters. R&D expenses in the segment totaled ¥23.6 billion.

In Common and Others, groupwide fundamental research and the development of technologies for the creation of new businesses are undertaken at the Corporate Research and Development Group and the Corporate Total Productivity Management & Environmental Program Group research centers. Principal areas of R&D are in Information and Communications-related technologies, quality assurance technology, common platform technology, fundamental technology, and production technology. Major results of R&D initiatives in the segment include: a laser projection TV compatible with the xvYCC international standard for extended color space in video applications; a high-speed electrical-discharge machining module with magnetic-support actuator; key devices for optical-fiber communication systems; an SiC-MOSFET inverter; a high-speed identification system for massive-volume biometrics database; advanced plastic recycling technology for household appliances; and molding technology for ultra-slim mobile handsets. R&D expenses in this segment totaled ¥26.1 billion.

* FOMA is a registered trademark of NTT DoCoMo, Inc.



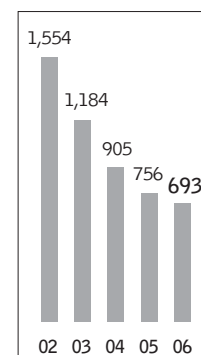
FINANCIAL POSITION

Total assets stood at ¥3,313.7 billion as of March 31, 2006, an increase of ¥151.3 billion from the previous fiscal year. In addition to an increase of ¥58.0 billion in cash and cash equivalents, the Company recorded increases of ¥48.8 billion in long-term operating receivables and trade receivables, as well as ¥44.6 billion in inventories commensurate with higher orders and sales volume. While investment securities and others increased by ¥89.1 billion as a result of higher valuation of marketable securities, other assets declined ¥110.5 billion, primarily due to a decrease in deferred tax assets.

The outstanding balance of debt and corporate bonds fell ¥62.6 billion year on year to ¥693.2 billion. The ratio of interest-bearing debt to total assets was 20.9%, an improvement of 3.0 points from the end of the previous fiscal year. Trade payables rose by ¥77.6 billion, and accrued income taxes increased ¥25.6 billion. Retirement and severance benefits decreased by ¥164.3 billion, primarily as a result of a decline in insufficient pension funds stemming from an increase in pension fund assets.

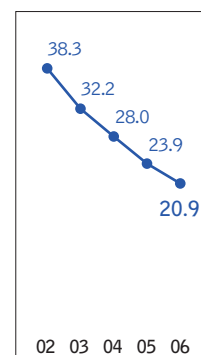
Shareholders' equity increased ¥221.6 billion year on year to ¥942.2 billion, reflecting ¥95.7 billion in net income, a reduction in deductions for minimum pension liability adjustments commensurate with increases in share prices, and an increase in unrealized gains on securities. The ratio of shareholders' equity to total assets was 28.4%, an increase of 5.6 points compared with the end of the previous fiscal year.

Interest-bearing debt



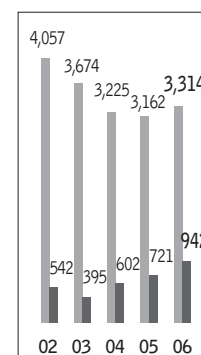
■ Interest-bearing debt (Yen in billions)

Debt ratio



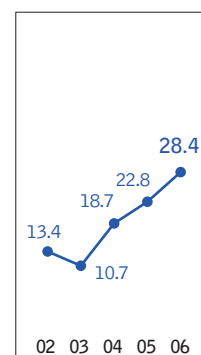
◆ Interest-bearing debt / Total assets (%)

Total assets / Shareholders' equity



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

Shareholders' equity ratio



◆ Shareholders' equity ratio (%)

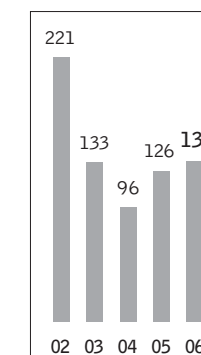
CAPITAL EXPENDITURES

Based upon its balanced management perspective founded upon the three pillars of "Growth," "Profitability & Efficiency" and "Soundness," the Mitsubishi Electric Group made investments to accelerate its "make strong businesses stronger" strategy. The Mitsubishi Electric Group invested mainly in escalators and elevators, industrial automation, automotive equipment, power devices and air conditioning equipment. At the same time, the Mitsubishi Electric Group aims to select and concentrate investments from the perspective of "Profitability & Efficiency" in corporate management, with an eye toward constructing a solid business platform.

In Energy and Electric Systems, investment was made for streamlining and quality improvements. In Industrial Automation Systems, capital expenditures were mainly for upgrading the production structure for industrial automation and automotive businesses. In Information and Communication Systems, funds were earmarked for bolstering research and development capabilities. In Electronic Devices, Mitsubishi Electric directed investment toward enhancement of production capacity in the power devices business. In Home Appliances, investment was primarily for strengthening the global production structure of air-conditioning compressors. In Common and Others, capital expenditures went to boosting research and development capabilities.

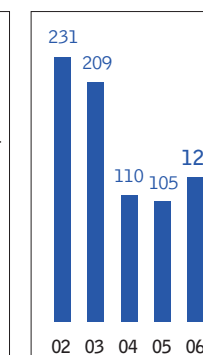
Capital expenditure is essentially derived from cash on hand and funds from operations. During the fiscal year under review, production capacity was not materially affected by the sale, disposal, damage or loss by natural disaster of fixed assets.

Capital expenditures



■ Capital expenditures (Yen in billions)

Depreciation



■ Depreciation (Yen in billions)

CASH FLOWS

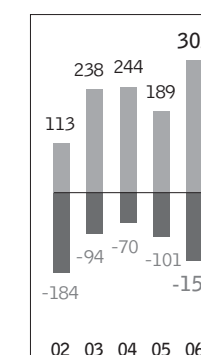
In the fiscal year under review, net cash provided by operating activities amounted to ¥304.8 billion. Net cash used in investing activities was ¥156.2 billion, and as a result, free cash flows totaled ¥148.6 billion, an increase of ¥60.8 billion from the previous fiscal year. Net cash used in financing activities amounted to ¥100.6 billion. As a result, cash and cash equivalents at the end of the fiscal year increased ¥58.0 billion to ¥304.5 billion.

Net cash provided by operating activities climbed ¥115.9 billion to ¥304.8 billion, primarily as a result of an increase in net income from stronger performance.

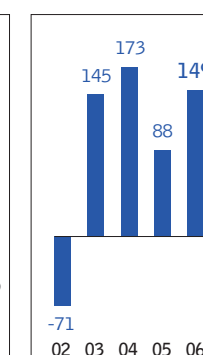
Net cash used in investing activities increased ¥55.1 billion to ¥156.2 billion, reflecting capital expenditures mainly in industrial automation and automotive equipment, as well as payment for purchasing of associated assets and liabilities relating to joint venture dissolution of the merger of the electric transmission and distribution businesses.

Net cash used in financing activities totaled ¥100.6 billion, from the continued repayment of debts and redemption of bonds, to improve the financial standing of the Company, just the same as during the previous fiscal year.

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, 2006 and 2005

	Yen (millions)		U.S. dollars (thousands) (note 2)
	2006	2005	2006
Assets			
Current assets:			
Cash and cash equivalents	¥ 304,514	¥ 246,563	\$ 2,602,684
Short-term investments (notes 3 and 18)	7,991	23,719	68,299
Trade receivables (notes 4 and 16)	843,600	789,463	7,210,256
Inventories (note 5)	491,950	447,382	4,204,701
Prepaid expenses and other current assets (note 9)	238,724	233,206	2,040,376
Total current assets	1,886,779	1,740,333	16,126,316
Long-term receivables and investments:			
Long-term trade receivables (note 18)	4,378	9,700	37,419
Investments in securities and other (notes 3 and 18)	332,193	243,081	2,839,256
Investments in and advances to affiliated companies (note 6)	252,678	240,466	2,159,641
	589,249	493,247	5,036,316
Property, plant and equipment (notes 7, 19 and 20):			
Land	102,434	93,271	875,504
Buildings	545,631	530,170	4,663,513
Machinery and equipment	1,339,749	1,312,028	11,450,846
Construction in progress	28,297	23,269	241,855
	2,016,111	1,958,738	17,231,718
Less accumulated depreciation	1,426,113	1,388,078	12,189,000
Net property, plant and equipment	589,998	570,660	5,042,718
Other assets (note 9)	247,716	358,232	2,117,231
	¥ 3,313,742	¥ 3,162,472	\$ 28,322,581

See accompanying notes to consolidated financial statements.

	Yen (millions)		U.S. dollars (thousands) (note 2)
	2006	2005	2006
Liabilities and Shareholders' Equity			
Current liabilities:			
Bank loans (note 7)	¥ 93,958	¥ 133,789	\$ 803,060
Current portion of long-term debt (notes 7, 18 and 20)	153,637	100,453	1,313,137
Trade payables (note 8)	714,455	636,829	6,106,453
Accrued expenses (note 17)	314,105	266,382	2,684,658
Accrued income taxes (note 9)	64,590	38,941	552,051
Other current liabilities	99,388	101,268	849,470
Total current liabilities	1,440,133	1,277,662	12,308,829
Long-term debt (notes 7, 18 and 20)	445,583	521,542	3,808,402
Retirement and severance benefits (note 10)	420,348	584,601	3,592,718
Other liabilities (note 9)	13,081	11,307	111,803
Total liabilities	2,319,145	2,395,112	19,821,752
Minority interests	52,395	46,723	447,820
Shareholders' equity			
Common stock (note 11):			
Authorized 8,000,000,000 shares;			
issued 2,147,201,551 shares in 2006 and in 2005	175,820	175,820	1,502,735
Capital surplus (note 11)	210,938	210,687	1,802,889
Legal reserve	54,514	52,596	465,932
Retained earnings	473,726	394,952	4,048,940
Accumulated other comprehensive income (loss) (notes 3, 9, 10 and 13)	27,718	(113,022)	236,906
Treasury stock, at cost			
862,650 shares in 2006 and			
967,493 shares in 2005	(514)	(396)	(4,393)
Total shareholders' equity	942,202	720,637	8,053,009
Commitments and contingent liabilities (note 17)	¥ 3,313,742	¥ 3,162,472	\$ 28,322,581

CONSOLIDATED STATEMENTS OF CASH FLOWS

 Mitsubishi Electric Corporation and Subsidiaries
 Years ended March 31, 2006, 2005 and 2004

	Yen (millions)			U.S. dollars (thousands) (note 2)
	2006	2005	2004	2006
Cash flows from operating activities:				
Net income	¥ 95,692	¥ 71,175	¥ 44,839	\$ 817,880
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	126,169	105,356	109,975	1,078,368
Impairment losses of property, plant and equipment	9,652	5,974	8,411	82,496
Loss from sales and disposal of property, plant and equipment, net	7,681	1,737	3,362	65,650
Deferred income taxes	22,796	17,001	20,119	194,838
Loss (gain) from sales of securities and other, net	(5,357)	(5,986)	(3,123)	(45,787)
Devaluation losses of securities and other, net	1,635	3,892	1,701	13,974
Equity in earnings of affiliated companies	(13,067)	(17,029)	(5,653)	(111,683)
Decrease (increase) in trade receivables	(19,359)	(29,665)	(1,316)	(165,462)
Decrease (increase) in inventories	(9,379)	(41,223)	50,686	(80,162)
Decrease (increase) in prepaid expenses and other assets	(3,308)	18,855	(21,308)	(28,274)
Increase in trade payables	60,170	14,927	17,758	514,274
Increase in accrued expenses and retirement and severance benefits	18,880	3,712	27,280	161,368
Increase (decrease) in other liabilities	16,466	30,768	(8,406)	140,735
Other, net	(3,830)	9,430	(814)	(32,736)
Net cash provided by operating activities	304,841	188,924	243,511	2,605,479
Cash flows from investing activities:				
Capital expenditure	(134,413)	(125,657)	(96,253)	(1,148,829)
Proceeds from sale of property, plant and equipment	5,374	16,492	17,722	45,932
Purchase of short-term investments and investment securities	(33,590)	(52,489)	(71,233)	(287,094)
Proceeds from sale of short-term investments and investment securities	32,937	58,978	75,252	281,513
Payment for purchasing of associated assets and liabilities relating to joint venture dissolution	(25,700)	—	—	(219,658)
Other, net	(817)	1,541	4,425	(6,984)
Net cash used in investing activities	(156,209)	(101,135)	(70,087)	(1,335,120)
Cash flows from financing activities:				
Proceeds from long-term debt	62,675	49,590	97,183	535,684
Repayment of long-term debt	(100,024)	(116,698)	(274,355)	(854,905)
Increase (decrease) in bank loans, net	(43,794)	(94,214)	(15,280)	(374,308)
Dividends paid	(15,000)	(12,877)	(6,440)	(128,205)
Purchase of treasury stock	(4,583)	(58)	(310)	(39,171)
Reissuance of treasury stock	125	50	6	1,068
Net cash provided by (used in) financing activities	(100,601)	(174,207)	(199,196)	(859,837)
Effect of exchange rate changes on cash and cash equivalents	9,920	2,385	(7,227)	84,786
Net increase (decrease) in cash and cash equivalents	57,951	(84,033)	(32,999)	495,308
Cash and cash equivalents at beginning of year	246,563	330,596	363,595	2,107,376
Cash and cash equivalents at end of year	¥ 304,514	¥ 246,563	¥ 330,596	\$ 2,602,684

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 multi-national concern which develops, manufactures and distributes a broad range of electrical equipment in fields as diverse as home appliances and space electronics.

The Company's 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, 2006 are as follows: Energy and Electric Systems—22%, Industrial Automation Systems—21%, Information and Communication Systems—16%, Electronic Devices—4%, Home Appliances—22% and Others—15%.

The operations of the Company in Japan are relatively significant in comparison with the Company's worldwide operation. Net sales for the year ended March 31, 2006 are geographically broken down as follows: Japan—71%, North America—8%, Asia (excluding Japan)—12%, Europe—7% and Others—2%.

Manufacturing operations are conducted principally at 24 sites (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, 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 (\$5,265 thousand) and ¥3.02 (\$0.026), respectively.

(e) 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 the cost of the investment is recoverable 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 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.

(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 applies SFAS No. 87, "Employers' Accounting for Pensions," and SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits." The Company and certain of its subsidiaries have various employee retirement and severance plans covering substantially all employees who meet eligibility requirements. The benefit formula is generally dependent upon employees' basic rates of pay, length of service and conditions under which the termination occurs. The plans subject to annuity payments are funded generally in conformity with applicable governmental regulations. Provision has been made for an unfunded portion of the plans in the accompanying consolidated balance sheets for the estimated liability under the plans.

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 has been 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 has been 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 require 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 it is 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 the intrinsic-value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," regarding stock option plans. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price.

SFAS No. 123, "Accounting for Stock-based Compensation," established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic-value-based method of accounting described above, and has adopted the disclosure requirements of SFAS No. 123.

The Company will apply SFAS No. 123R on April 1, 2006 regarding stock-based compensation as discussed in (bb) Future Application of New Accounting Standards below.

(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, 2006.

(bb) Future Application of New Accounting Standards

In December 2004, the FASB issued SFAS No. 123 (revised 2004) (SFAS No. 123R), "Share-Based Payment," which addresses the accounting for transactions in which an entity exchanges its equity instruments for goods or services, with a primary focus on transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123R is a revision to SFAS No. 123, and supersedes APB

Opinion No. 25 and its related implementation guidance. SFAS No. 123 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. SFAS No. 123R eliminates the alternative to use APB Opinion No. 25's intrinsic-value-based method of accounting that was provided in SFAS No. 123 as originally issued. The Company is required to apply SFAS No. 123R on April 1, 2006. The adoption of SFAS No. 123R will not have a material effect on the Company's consolidated financial position and result of operations.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs," which clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Under SFAS No. 151, such items will be recognized as current-period charges. In addition, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The Company is required to apply SFAS No. 151 on April 1, 2006. The adoption of

SFAS No. 151 will not have a material effect on the Company's consolidated financial position and result of operations.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets," which eliminates an exception in APB Opinion No. 29, "Accounting for Nonmonetary Transactions," for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. The Company is required to apply SFAS No. 153 on April 1, 2006. The adoption of SFAS No. 153 will not have a material effect on the Company's consolidated financial position and result of operations.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections." SFAS No. 154 establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to a newly adopted accounting principle. The Company is required to apply SFAS No. 154 on April 1, 2006. The adoption of SFAS No. 154 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 ¥117=U.S.\$1, the approximate exchange rate prevailing on

the Tokyo Foreign Exchange Market at end of March 2006. This translation should not be construed as a representation that the amounts shown could be converted into United States dollars at such rate.

(3) MARKETABLE 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, 2006 and 2005 are as follows:

	Yen (millions)			
	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
2006:				
Current:				
Available-for-sale:				
Japanese and foreign government debt securities	¥ 1,400	¥ —	¥ —	¥ 1,400
Corporate debt securities	3,643	27	43	3,627
Fund trusts	2,953	11	—	2,964
	<u>¥ 7,996</u>	<u>¥ 38</u>	<u>¥ 43</u>	<u>¥ 7,991</u>
Noncurrent:				
Available-for-sale:				
Japanese and foreign government debt securities	¥ 8,103	¥ 6	¥ 86	¥ 8,023
Corporate debt securities	53,565	50	2,476	51,139
Fund trusts	3,812	37	80	3,769
Equity securities	83,693	130,531	392	213,832
	<u>¥ 149,173</u>	<u>¥ 130,624</u>	<u>¥ 3,034</u>	<u>¥ 276,763</u>

Yen (millions)				
	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
2005:				
Current:				
Available-for-sale:				
Corporate debt securities	¥ 16,209	¥ 97	¥ 1	¥ 16,305
Bank debt securities	2,400	21	—	2,421
Fund trusts	4,952	56	15	4,993
	<u>¥ 23,561</u>	<u>¥ 174</u>	<u>¥ 16</u>	<u>¥ 23,719</u>
Noncurrent:				
Available-for-sale:				
Japanese and foreign government debt securities	¥ 9,094	¥ 84	¥ 12	¥ 9,166
Corporate debt securities	34,327	230	765	33,792
Fund trusts	230	—	—	230
Equity securities	86,043	63,193	481	148,755
	<u>¥129,694</u>	<u>¥63,507</u>	<u>¥1,258</u>	<u>¥191,943</u>

U.S. dollars (thousands)				
	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
2006:				
Current:				
Available-for-sale:				
Japanese and foreign government debt securities	\$ 11,966	\$ —	\$ —	\$ 11,966
Corporate debt securities	31,137	231	368	31,000
Fund trusts	25,239	94	—	25,333
	<u>\$ 68,342</u>	<u>\$ 325</u>	<u>\$ 368</u>	<u>\$ 68,299</u>
Noncurrent:				
Available-for-sale:				
Japanese and foreign government debt securities	\$ 69,257	\$ 51	\$ 735	\$ 68,573
Corporate debt securities	457,820	428	21,162	437,086
Fund trusts	32,581	316	684	32,213
Equity securities	715,325	1,115,650	3,351	1,827,624
	<u>\$1,274,983</u>	<u>\$1,116,445</u>	<u>\$25,932</u>	<u>\$2,365,496</u>

In the years ended March 31, 2006, 2005 and 2004, net unrealized gains on available-for-sale securities, net of taxes and minority interests, increased by ¥40,612 million (\$347,111

thousand), ¥903 million and ¥30,910 million, respectively. Maturities of marketable securities classified as available-for-sale at March 31, 2006 were as follows:

	Yen (millions)		U.S. dollars (thousands)	
	Cost	Fair value	Cost	Fair value
Due within one year	¥ 7,996	¥ 7,991	\$ 68,342	\$ 68,299
Due after one year through five years	24,337	23,944	208,008	204,650
Due after five years	41,143	38,987	351,650	333,222
Equity securities	83,693	213,832	715,325	1,827,624
	<u>¥ 157,169</u>	<u>¥ 284,754</u>	<u>\$1,343,325</u>	<u>\$ 2,433,795</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, 2006, 2005 and 2004 were as follows:

	Yen (millions)			U.S. dollars (thousands)
	2006	2005	2004	2006
Proceeds	¥ 11,642	¥ 53,484	¥ 74,902	\$ 99,504
Gross realized gains	5,427	6,222	3,171	46,385
Gross realized losses	70	236	48	598

In August and September 2003, the Company contributed certain marketable equity securities, not including those of its subsidiaries and affiliated companies, to an established employee retirement benefit trust. The fair value of these securities at the time of contribution was ¥29,233 million. Upon contribution of these available-for-sale securities, the net unrealized gains amounting to ¥9,378 million were realized and accounted for as "Revenues – Gains on securities contributed to employee retirement benefit trust" in the consolidated statement of income for the year ended March 31, 2004.

The devaluation losses due to other-than-temporary declines in fair value of marketable securities were immaterial for the years ended March 31, 2006, 2005 and 2004.

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, 2006, 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	¥ 1,460	¥ 40	¥ 97	¥ 3	¥ 1,557	¥ 43
	<u>¥ 1,460</u>	<u>¥ 40</u>	<u>¥ 97</u>	<u>¥ 3</u>	<u>¥ 1,557</u>	<u>¥ 43</u>
Noncurrent:						
Available-for-sale:						
Japanese and foreign government debt securities	¥ 3,950	¥ 55	¥ 2,767	¥ 31	¥ 6,717	¥ 86
Corporate debt securities	34,461	1,921	6,845	555	41,306	2,476
Fund trusts	2,422	80	—	—	2,422	80
Equity securities	1,255	227	636	165	1,891	392
	<u>¥42,088</u>	<u>¥2,283</u>	<u>¥10,248</u>	<u>¥ 751</u>	<u>¥52,336</u>	<u>¥ 3,034</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	\$ 12,479	\$ 342	\$ 829	\$ 26	\$ 13,308	\$ 368
	<u>\$ 12,479</u>	<u>\$ 342</u>	<u>\$ 829</u>	<u>\$ 26</u>	<u>\$ 13,308</u>	<u>\$ 368</u>
Noncurrent:						
Available-for-sale:						
Japanese and foreign government debt securities	\$ 33,761	\$ 470	\$ 23,649	\$ 265	\$ 57,410	\$ 735
Corporate debt securities	294,538	16,419	58,505	4,743	353,043	21,162
Fund trusts	20,701	684	—	—	20,701	684
Equity securities	10,726	1,940	5,436	1,411	16,162	3,351
	<u>\$359,726</u>	<u>\$19,513</u>	<u>\$87,590</u>	<u>\$ 6,419</u>	<u>\$447,316</u>	<u>\$ 25,932</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)
	2006	2005	2006
Notes	¥ 54,673	¥ 55,001	\$ 467,290
Accounts	796,300	744,937	6,805,983
Allowance for doubtful receivables	(7,373)	(10,475)	(63,017)
	<u>¥843,600</u>	<u>¥789,463</u>	<u>\$ 7,210,256</u>

(5) INVENTORIES

Inventories are comprised of the following:

	Yen (millions)		U.S. dollars (thousands)
	2006	2005	2006
Work in process	¥264,414	¥229,145	\$ 2,259,949
Less accumulated billings on long-term contracts	14,723	16,709	125,838
	<u>249,691</u>	<u>212,436</u>	<u>2,134,111</u>
Raw materials	71,390	68,324	610,171
Finished products	170,869	166,622	1,460,419
	<u>¥491,950</u>	<u>¥447,382</u>	<u>\$ 4,204,701</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, 2006 and 2005, and for the years ended March 31, 2006, 2005 and 2004 is as follows:

	Yen (millions)		U.S. dollars (thousands)
	2006	2005	2006
Financial Position			
Current assets	¥ 1,241,333	¥ 1,313,398	\$ 10,609,684
Property, plant and equipment	493,291	495,976	4,216,162
Other assets	309,019	277,208	2,641,188
Total assets	<u>¥ 2,043,643</u>	<u>¥ 2,086,582</u>	<u>\$ 17,467,034</u>
Current liabilities	¥ 1,052,611	¥ 1,066,601	\$ 8,996,675
Long-term debt	360,622	407,200	3,082,239
Total liabilities	<u>1,413,233</u>	<u>1,473,801</u>	<u>12,078,914</u>
Shareholders' equity	630,410	612,781	5,388,120
Total liabilities and shareholders' equity	<u>¥ 2,043,643</u>	<u>¥ 2,086,582</u>	<u>\$ 17,467,034</u>
Results of Operations			
Sales	¥ 2,033,109	¥ 2,424,823	¥ 2,314,136
Net income	31,168	45,389	15,365

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.

In February 2005, the Company and NEC Corporation ("NEC") entered into an agreement to dissolve the corporate joint venture of NEC Mitsubishi Electric Visual Systems Corporation ("NMV"), which was established by the Company and NEC to assemble cathode-ray tubes for monitors. In March 2005, the Company transferred all of its shares (on 50% ownership) in NMV to the NEC group pursuant to the share transfer agreement. Accordingly, NMV was removed as an affiliated company, which was previously accounted for under the equity method of accounting.

In April 2003, as allowed under the corporate split provisions of the Japanese Commercial Code, the Company established a joint venture, named Renesas Technology Corp. ("Renesas") with Hitachi, Ltd. ("Hitachi") in order to improve the mutual competitive position in domestic and overseas semiconductor (mainly system LSI) markets. The Company acquired a 45% share in Renesas amounting to ¥88,096 million, by contributing assets of ¥285,537 million, liabilities of ¥196,081 million and minority interests of ¥1,360 million. As the Company and Hitachi participate in the significant management decisions of Renesas under the

corporate joint venture agreement, the Company accounts for its interest in Renesas under the equity method of accounting. The Company's carrying value for the joint venture investment differs from the reported underlying net asset value because of different depreciation methods used by the joint venture partners. Such difference will be adjusted over the useful life of the assets by conforming depreciation adjustments made each year based on contributed asset values and Company depreciation methods.

In October 2003, as allowed under the corporate split provisions of the Japanese Commercial Code, the Company contributed the net assets of an electrical equipment business used in the manufacturing plants to TMA Electric Corporation ("TMAE"), which is a joint venture established by Toshiba and the Company. TMAE subsequently merged with its subsidiary which transferred from Toshiba to the joint venture and changed its name to Toshiba Mitsubishi-Electric Industrial Systems Corporation ("TMEIC"). The Company acquired a 50% share in TMEIC amounting to ¥18,958 million, by contributing assets of ¥30,339 million and liabilities of ¥11,381 million. Since the Company and Toshiba participate in significant management decisions of TMEIC under the corporate joint venture agreement, the Company accounts for its interest in TMEIC under the equity method of accounting.

Investments in affiliated companies accounted for by the equity method of accounting include the shares of 10 publicly quoted affiliates (11 publicly quoted affiliates existed in 2005), which are summarized as follows:

	Yen (millions)		U.S. dollars (thousands)
	2006	2005	2006
Investments at equity	¥ 43,479	¥ 39,437	\$ 371,615
Quoted market value	47,624	38,610	407,043

(7) BANK LOANS AND LONG-TERM DEBT

Bank loans consisted of the following:

	Yen (millions)		U.S. dollars (thousands)
	2006	2005	2006
Bank borrowings	¥ 93,958	¥ 93,789	\$ 803,060
Commercial paper	—	40,000	—
	<u>¥ 93,958</u>	<u>¥ 133,789</u>	<u>\$ 803,060</u>

The weighted average interest rates on bank loans outstanding as of March 31, 2006 and 2005 are 0.58% and 0.61%, respectively.

At March 31, 2006, the Company had unused committed lines of credit amounting to ¥114,000 million (\$974,359 thousand).

Long-term debt consisted of the following:

	Yen (millions)		U.S. dollars (thousands)
	2006	2005	2006
Loans, principally from banks and insurance companies, maturing in installments through 2025; bearing interest ranging from 0.11% to 8.91% in 2006 and 0.27% to 8.91% in 2005:			
Secured	¥ 9,423	¥ 6,977	\$ 80,538
Unsecured	251,361	240,362	2,148,385
2.7% Japanese yen bonds due 2008	30,000	30,000	256,410
2.075% Japanese yen bonds due 2005	—	20,000	—
1.86% Japanese yen bonds due 2005	—	15,000	—
0.63% Japanese yen bonds due 2006	15,000	15,000	128,206
1.03% Japanese yen bonds due 2008	10,000	10,000	85,470
0.83% Japanese yen bonds due 2006	100,000	100,000	854,701
1.22% Japanese yen bonds due 2008	25,000	25,000	213,675
1.76% Japanese yen bonds due 2011	25,000	25,000	213,675
0.78% Japanese yen bonds due 2007	25,000	25,000	213,675
1.09% Japanese yen bonds due 2009	15,000	15,000	128,206
1.7% Japanese yen bonds due 2012	10,000	10,000	85,470
0.55% Japanese yen bonds due 2009	30,000	30,000	256,410
1.09% Japanese yen bonds due 2009	30,000	30,000	256,410
Capital lease obligations	23,436	24,656	200,308
	599,220	621,995	5,121,539
Less amount due within one year	153,637	100,453	1,313,137
	¥ 445,583	¥ 521,542	\$ 3,808,402

The aggregate annual maturities of long-term debt outstanding at March 31, 2006 were as follows:

Year ending March 31:	Yen (millions)	U.S. dollars (thousands)
2007	¥ 153,637	\$ 1,313,137
2008	100,336	857,573
2009	100,991	863,171
2010	90,380	772,479
2011	47,202	403,436
Thereafter	106,674	911,743
Total	¥ 599,220	\$ 5,121,539

Substantially all of the loans are with banks that have basic written agreements with the Company to the effect that, with respect to all present or future loans from such banks, 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 such banks.

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 ¥8,194 million (\$70,034 thousand) are pledged as security for long-term loans from banks and insurance companies.

(8) TRADE PAYABLES

Trade payables are summarized as follows:

	Yen (millions)		U.S. dollars (thousands)
	2006	2005	2006
Notes	¥ 63,435	¥ 71,436	\$ 542,179
Accounts	651,020	565,393	5,564,274
	¥714,455	¥636,829	\$6,106,453

(9) INCOME TAXES

Total income taxes were allocated as follows:

	Yen (millions)			U.S. dollars (thousands)
	2006	2005	2004	2006
Income before income taxes	¥ 69,701	¥ 48,170	¥ 45,598	\$ 595,735
Shareholders' equity – accumulated other comprehensive income (loss):				
Foreign currency translation adjustments	5,699	1,838	(5,457)	48,710
Minimum pension liability adjustments	57,170	35,014	127,924	488,632
Unrealized gains (losses) on securities	27,290	1,517	18,780	233,248
Unrealized gains (losses) on derivative instruments	11	—	—	94
	¥159,871	¥86,539	¥186,845	\$1,366,419

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

	Yen (millions)			U.S. dollars (thousands)
	2006	2005	2004	2006
Effect of income tax rate change	¥ —	¥ —	¥ 2,941	\$ —
Other	22,796	17,001	17,178	194,838
	¥22,796	¥17,001	¥20,119	\$194,838

The Company is subject to a number of taxes based on income, which in the aggregate resulted in a statutory tax rate of approximately 42% in the year ended March 31, 2004. The new rate was enacted on March 31, 2003 and effective from the year beginning April 1, 2004. As a result of these amendments, the statutory tax rate was approximately 41% for the years ended March 31, 2006 and 2005.

Deferred tax assets and liabilities at March 31, 2006, 2005 and 2004 are accounted for at a statutory tax rate of approximately 41%.

The actual tax rate for the years ended March 31, 2006, 2005 and 2004 is reconciled with the Japanese statutory tax rate in the following table:

	2006	2005	2004
Japanese statutory tax rate	41.0%	41.0%	42.0%
Change in valuation allowance	0.9	(6.1)	0.6
Expenses permanently not deductible for tax purposes	2.1	2.9	3.6
Tax deductible expenses eliminated	—	—	2.0
Dividends received	4.5	10.1	7.2
Effect of income tax rate change	—	—	3.5
International tax rate difference	(1.1)	(5.7)	(1.5)
Other	(1.6)	4.9	(3.6)
Actual income tax rate	45.8%	47.1%	53.8%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2006 and 2005 are as follows:

	Yen (millions)		U.S. dollars (thousands)
	2006	2005	2006
Deferred tax assets:			
Retirement and severance benefits	¥189,184	¥190,205	\$1,616,957
Accrued expenses	88,255	73,923	754,316
Property, plant and equipment	33,318	30,222	284,769
Inventories	30,341	34,392	259,325
Minimum pension liability adjustments	45,414	102,885	388,154
Tax loss carryforwards	11,449	29,661	97,855
Other	80,963	87,240	691,992
Total gross deferred tax assets	478,924	548,528	4,093,368
Valuation allowance	(30,928)	(29,507)	(264,342)
Deferred tax assets, less valuation allowance	447,996	519,021	3,829,026
Deferred tax liabilities:			
Securities contributed to employee retirement benefit trust	32,856	32,856	280,821
Property, plant and equipment	13,506	8,415	115,436
Net unrealized gains on securities	53,314	26,024	455,675
Other	16,055	7,488	137,222
Total gross deferred tax liabilities	115,731	74,783	989,154
Net deferred tax assets	¥332,265	¥444,238	\$2,839,872

The valuation allowance for deferred tax assets as of April 1, 2004 was ¥92,605 million. The net change in the total valuation allowance for the years ended March 31, 2006 and 2005 was an increase of ¥1,421 million (\$12,145 thousand) and a decrease of ¥63,098 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 not 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, 2006, the Company and certain subsidiaries had net operating loss carryforwards of ¥12,254 million (\$104,735 thousand) and ¥57,123 million (\$488,231 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, 2009 and 2011.

Net deferred tax assets and liabilities at March 31, 2006 and 2005 are reflected in the accompanying consolidated balance sheets under the following captions:

	Yen (millions)		U.S. dollars (thousands)
	2006	2005	2006
Prepaid expenses and other current assets	¥130,079	¥131,786	\$1,111,787
Other assets	202,659	312,605	1,732,128
Other liabilities	(473)	(153)	(4,043)
	¥332,265	¥444,238	\$2,839,872

Income taxes have not been accrued for undistributed income of domestic subsidiaries 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.

(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 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 retirement benefit trust is established for certain of 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.

Net periodic retirement and severance costs of these plans for the years ended March 31, 2006, 2005 and 2004 consisted of the following components:

	Yen (millions)			U.S. dollars (thousands)
	2006	2005	2004	2006
Service cost	¥ 33,943	¥ 29,253	¥ 29,157	\$ 290,111
Interest cost on projected benefit obligation	29,595	33,088	53,739	252,949
Expected return on plan assets	(12,134)	(13,679)	(22,245)	(103,709)
Amortization of the unrecognized transition obligations	—	986	987	—
Amortization of prior service benefit	(14,493)	(5,365)	(5,371)	(123,872)
Amortization of actuarial losses	26,402	26,045	44,152	225,658
	63,313	70,328	100,419	541,137
Employee contributions	(1,442)	(2,417)	(2,719)	(12,325)
Net periodic retirement and severance costs	¥ 61,871	¥ 67,911	¥ 97,700	\$ 528,812

The applications, which were submitted by the Company and 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 ¥17,767million (\$151,855 thousand) and ¥2,718 million in "Revenues – Gain on transfer of the substitutional portion of Employee Pension Funds" in the accompanying consolidated statements of income for the years ended March 31, 2006 and 2005, respectively, a net loss for ¥9,384 million in "Costs and expenses – Loss on the transfer of the substitutional portion of Employee Pension Funds" in the accompanying consolidated statement of income for the year ended March 31, 2004.

In February 2004, the Company settled a portion of pension plans. As a result of the settlement, the Company recognized a settlement gain for ¥12,073 million in "Revenues – Other" in the accompanying consolidated statement of income for the year ended March 31, 2004.

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)
	2006	2005	2006
Change in benefit obligations:			
Benefit obligations at beginning of year	¥ 1,177,512	¥ 1,323,616	\$ 10,064,205
Service cost	32,501	26,836	277,786
Interest cost	29,595	33,088	252,949
Plan participants' contributions	1,442	2,417	12,325
Amendments	(179)	(127,787)	(1,530)
Actuarial loss (gain)	(5,255)	12,822	(44,915)
Benefits paid	(60,902)	(74,164)	(520,530)
Acquisitions and divestitures	11,723	—	100,197
Transfer of the substitutional portion of EPF	(68,430)	(19,316)	(584,872)
Benefit obligations at end of year	1,118,007	1,177,512	9,555,615
Change in plan assets:			
Fair value of plan assets at beginning of year	560,066	551,313	4,786,889
Actual return on plan assets	161,818	15,192	1,383,059
Employer contributions	46,797	36,491	399,974
Plan participants' contributions	1,442	2,417	12,325
Benefits paid	(33,117)	(31,225)	(283,051)
Acquisitions and divestitures	3,956	—	33,812
Transfer of the substitutional portion of EPF	(37,826)	(14,122)	(323,299)
Fair value of plan assets at end of year	703,136	560,066	6,009,709
Funded status	414,871	617,446	3,545,906
Unrecognized actuarial gain or loss	(287,946)	(479,753)	(2,461,077)
Unrecognized prior service benefit being recognized over 14 years	181,656	195,970	1,552,615
Net amount recognized	308,581	333,663	2,637,444
Adjustments to recognize minimum pension liability:			
Amount included in accumulated other comprehensive income (loss), gross of tax	111,767	250,938	955,274
Accrued pension and severance cost recognized in the consolidated balance sheets	¥ 420,348	¥ 584,601	\$ 3,592,718
Actuarial present value of accumulated benefit obligations at end of year	¥ 1,111,403	¥ 1,144,667	\$ 9,499,171

Actuarial assumptions used to determine benefit obligations at March 31, 2006 and 2005 were as follows:

	2006	2005
Discount rate	2.5%	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, 2006, 2005 and 2004 were as follows:

	2006	2005	2004
Discount rate	2.5%	2.5%	3.0%
Assumed rate of increase in future compensation levels	1.7%	3.7%	2.7—3.7%
Expected long-term rate of return on plan assets	3.0%	3.5%	3.5%

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, 2006 and 2005 were as follows:

Asset Category	2006	2005
Equity securities	63.2%	54.5%
Debt securities	22.2%	27.6%
Cash	1.2%	8.5%
Life insurance company general accounts	8.0%	7.2%
Other	5.4%	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 the 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 ¥44,786 million (\$382,786 thousand) to its pension plan in the year ending March 31, 2007.

Estimated future benefit payments are as follows:

Year ending March 31:	Yen (millions)	U.S. dollars (thousands)
2007	¥ 63,267	\$ 540,744
2008	63,855	545,769
2009	72,428	619,043
2010	72,727	621,598
2011	71,028	607,077
2012—2016	329,659	2,817,598

The amount of cost recognized for the Company and certain subsidiaries' defined contribution plans for the years ended March 31, 2006, 2005 and 2004 were ¥3,740 million (\$31,966 thousand), ¥686 million and ¥713 million, respectively.

(11) SHAREHOLDERS' EQUITY

Changes in common stock for the years ended March 31, 2006 and 2005 were as follows:

	2006	Shares 2005
Number of common shares:		
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.

The Japanese Commercial Code provides that an amount equal to at least 10% of appropriations 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 by resolution of the shareholders' meeting or it may be transferred to common stock by resolution of the board of directors.

The amount available for dividends under the Japanese Commercial Code 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 Commercial Code. Retained earnings available for dividends shown in the Company's books of account amounted to ¥119,722 million (\$1,023,265 thousand) at March 31, 2006.

In addition, certain sections of the Japanese Commercial Code are to be repealed by the Japanese Corporate Law effective May 1, 2006.

Cash dividends and appropriations to the legal reserve charged to retained earnings during the years ended March 31, 2006, 2005 and 2004 represent dividends paid out during the years and the related appropriations to the legal reserve.

(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. Under APB Opinion

No. 25, "Accounting for Stock Issued to Employees," 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.

A summary of the stock option plan activity for the years ended March 31, 2006, 2005 and 2004 is shown as follows:

	Shares	Weighted average exercise price	
		Yen	U.S. dollars
Outstanding at March 31, 2003	645,000	¥ 584	
Granted	420,000	437	
Exercised	—	—	
Outstanding at March 31, 2004	1,065,000	526	
Granted	—	—	
Exercised	70,000	584	
Outstanding at March 31, 2005	995,000	522	\$ 4.46
Granted	—	—	—
Exercised	241,000	467	3.99
Outstanding at March 31, 2006	754,000	¥ 539	\$ 4.61

The weighted average remaining contractual life is 1.86 years, and the exercisable stock options were 754,000 shares as of March 31, 2006. 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, 2006, 2005 and 2004 was not material.

(13) OTHER COMPREHENSIVE INCOME (LOSS)

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

	Yen (millions)			U.S. dollars (thousands)
	2006	2005	2004	2006
Foreign currency translation adjustments:				
Balance at beginning of year	¥ (10,722)	¥ (16,448)	¥ (686)	\$ (91,641)
Adjustments for the year	20,148	5,726	(15,762)	172,205
Balance at end of year	9,426	(10,722)	(16,448)	80,564
Minimum pension liability adjustments:				
Balance at beginning of year	(138,658)	(192,844)	(346,546)	(1,185,111)
Adjustments for the year	79,963	54,186	153,702	683,445
Balance at end of year	(58,695)	(138,658)	(192,844)	(501,666)
Unrealized gains (losses) on securities:				
Balance at beginning of year	36,358	35,455	4,545	310,752
Adjustments for the year	40,612	903	30,910	347,111
Balance at end of year	76,970	36,358	35,455	657,863
Unrealized gains (losses) on derivative instruments:				
Balance at beginning of year	—	—	—	—
Adjustments for the year	17	—	—	145
Balance at end of year	17	—	—	145
Total accumulated other comprehensive income (loss):				
Balance at beginning of year	(113,022)	(173,837)	(342,687)	(966,000)
Adjustments for the year	140,740	60,815	168,850	1,202,906
Balance at end of year	¥ 27,718	¥ (113,022)	¥ (173,837)	\$ 236,906

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
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

	Yen (millions)		
	Before-tax amount	Tax (expense) or benefit	Net-of-tax amount
2005:			
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities held at end of year	¥ 4,656	¥ (932)	¥ 3,724
Reclassification adjustments for the portion of gains and losses realized upon sale or liquidation of investments in foreign entities	2,908	(906)	2,002
Net change in foreign currency translation adjustments during the year	7,564	(1,838)	5,726
Minimum pension liability adjustments	89,200	(35,014)	54,186
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the year	4,332	(2,375)	1,957
Less reclassification adjustments for gains (losses) included in net income	(1,912)	858	(1,054)
Net change in unrealized gains (losses) on securities	2,420	(1,517)	903
Other comprehensive income (loss)	<u>¥99,184</u>	<u>¥(38,369)</u>	<u>¥60,815</u>

	Yen (millions)		
	Before-tax amount	Tax (expense) or benefit	Net-of-tax amount
2004:			
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities held at end of year	¥ (22,280)	¥ 5,457	¥ (16,823)
Reclassification adjustments for the portion of gains and losses realized upon sale or liquidation of investments in foreign entities	1,061	—	1,061
Net change in foreign currency translation adjustments during the year	(21,219)	5,457	(15,762)
Minimum pension liability adjustments	281,626	(127,924)	153,702
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the year	60,398	(23,208)	37,190
Less reclassification adjustments for gains (losses) included in net income	(10,708)	4,428	(6,280)
Net change in unrealized gains (losses) on securities	49,690	(18,780)	30,910
Other comprehensive income (loss)	<u>¥310,097</u>	<u>¥(141,247)</u>	<u>¥168,850</u>

	U.S. dollars (thousands)		
	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	\$ 215,710	\$ (47,625)	\$ 168,085
Reclassification adjustments for the portion of gains and losses realized upon sale or liquidation of investments in foreign entities	5,205	(1,085)	4,120
Net change in foreign currency translation adjustments during the year	220,915	(48,710)	172,205
Minimum pension liability adjustments	1,172,077	(488,632)	683,445
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the year	612,171	(246,291)	365,880
Less reclassification adjustments for gains (losses) included in net income	(31,812)	13,043	(18,769)
Net change in unrealized gains (losses) on securities	580,359	(233,248)	347,111
Unrealized gains (losses) on derivative instruments:			
Unrealized holding gains (losses) arising during the year	239	(94)	145
Other comprehensive income (loss)	<u>\$1,973,590</u>	<u>\$ (770,684)</u>	<u>\$ 1,202,906</u>

(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)
	2006	2005	2004	2006
Net income available to common stockholders	¥ 95,692	¥ 71,175	¥ 44,839	\$ 817,880
Effect of dilutive securities:				
2% Japanese yen convertible debentures due 2003	—	—	459	—
Diluted net income	<u>¥ 95,692</u>	<u>¥ 71,175</u>	<u>¥ 45,298</u>	<u>\$ 817,880</u>

	Shares		
	2006	2005	2004
Average common shares outstanding	2,143,700,823	2,146,281,308	2,146,540,562
Effect of dilutive securities:			
2% Japanese yen convertible debentures due 2003	—	—	37,615,898
Stock option	184,942	72,472	6,046
Diluted common shares outstanding	<u>2,143,885,765</u>	<u>2,146,353,780</u>	<u>2,184,162,506</u>

	Yen			U.S. dollars
	2006	2005	2004	2006
Net income per share:				
Basic	¥ 44.64	¥ 33.16	¥ 20.89	\$ 0.382
Diluted	44.63	33.16	20.74	0.381

(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, 2006 and 2005 are set forth below:

	Yen (millions)		U.S. dollars (thousands)
	2006	2005	2006
Foreign exchange contracts			
Forwards to sell foreign currencies	¥117,481	¥103,352	\$1,004,111
Forwards to buy foreign currencies	13,971	15,433	119,410
Foreign currency swaps	3,620	8,133	30,940
Interest rate swaps	8,200	12,000	70,085

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 effect recognized in net income as ineffective portions of fair value hedges was immaterial for the years ended March 31, 2006, 2005 and 2004.

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. As of March 31, 2006, 2005 and 2004,

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.

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

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 to certain Special Purpose Entities (SPEs).

Upon the sale of receivables, the Company holds subordinated retained interests for certain trade accounts receivable. A portion of these receivables, where the Company holds subordinated retained interests, is not taken off the balance sheet and is recorded at their fair value. Such carrying value is adjusted to reflect the portion that is not expected to be collectible. As of March 31, 2006 and 2005, the fair value of retained interest is ¥24 million (\$205 thousand) and ¥583 million, respectively.

The Company recognized losses of ¥422 million (\$3,607 thousand), ¥341 million and ¥305 million on the securitizations of receivables for the years ended March 31, 2006, 2005 and 2004, respectively. Subsequent to sale, 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 the SPEs on the above transactions for the years ended March 31, 2006, 2005 and 2004 are as follows:

	2006	Yen (millions)		U.S. dollars (thousands)
		2005	2004	2006
Proceeds from new securitizations	¥382,503	¥314,103	¥270,193	\$3,269,256
Cash flow received on retained interests	4,745	6,306	9,363	40,556

As of March 31, 2006, the key economic assumptions used to compute the fair value of retained interests are as follows:

	Accounts receivable
Weighted-average life (in years)	0.10
Residual cash flows discount rate	0.475—0.495%

Quantitative information about trade receivables including securitized receivables as of March 31, 2006 and 2005 are as follows:

	Yen (millions)		U.S. dollars (thousands)
	2006	2005	2006
Trade receivables	¥944,314	¥874,716	\$8,071,060
Less: Securitized receivables	100,714	85,253	860,804
Total receivables	¥843,600	¥789,463	\$7,210,256

As of March 31, 2006 and 2005, delinquencies and credit losses of trade receivables including securitized receivables are immaterial.

(17) COMMITMENTS AND CONTINGENT LIABILITIES

At March 31, 2006, commitments outstanding for the purchase of property, plant and equipment were ¥23,650 million (\$202,137 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, 2006, certain companies were contingently liable to trade notes discounted in the amount of ¥512 million (\$4,376 thousand). Discounted notes are accounted for as sales.

As of March 31, 2006, 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 currently under investigation by the United States Department of Justice's (DOJ) Antitrust Division for potential antitrust violations in the DRAM business in the United States of America for the period from 1998 to 2002. In addition, civil antitrust lawsuits have been filed against several companies in the DRAM industry, including the Company and certain of its subsidiaries. The Mitsubishi Electric Group withdrew from the DRAM business in early 2003. The Company is unable to estimate the impact of these legal proceedings on the Company's financial position and results of operations.

The following table provides the undiscounted maximum amount of potential future payments for each major group of guarantees at March 31, 2006:

	Yen (millions)	U.S. dollars (thousands)
Guarantees on third party loan:		
Employees	¥ 25,347	\$ 216,641
Affiliated and other companies	17,391	148,641
Other	4,285	36,624
Total	¥ 47,023	\$ 401,906

Change in accrued product warranty for the years ended March 31, 2006 and 2005 is summarized as follows:

	Yen (millions)		U.S. dollars (thousands)
	2006	2005	2006
Balance at beginning of year	¥ 28,323	¥ 22,077	\$ 242,077
Addition	28,613	25,718	244,556
Utilization	25,600	19,601	218,803
Foreign currency translation adjustments	224	129	1,914
Balance at end of year	¥ 31,560	¥ 28,323	\$ 269,744

(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, 2006 and 2005 are summarized as follows:

	2006		2005		2006	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Nonderivatives:						
Assets:						
Marketable securities	¥ 284,754	¥ 284,754	¥ 215,662	¥ 215,662	\$ 2,433,795	\$ 2,433,795
Long-term trade receivables	4,378	5,358	9,700	10,985	37,419	45,795
Liabilities:						
Long-term debt, including current portion	(575,784)	(570,254)	(597,339)	(603,242)	(4,921,231)	(4,873,966)
Derivatives relating to:						
Trade receivables (credit)	(2,965)	(2,965)	(1,840)	(1,840)	(25,342)	(25,342)
Long-term debt, including current portion (credit):						
Foreign exchange contracts	249	249	(113)	(113)	2,128	2,128
Foreign currency swaps	40	40	(224)	(224)	342	342
Interest rate swaps	(190)	(190)	(150)	(150)	(1,624)	(1,624)

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)
	2006	2005	2004	2006
Advertising expenses	¥ (22,417)	¥ (19,943)	¥ (17,837)	\$ (191,598)
Shipping and handling costs	(73,920)	(65,904)	(58,898)	(631,795)
Exchange gains (losses)	34	2,602	(8,967)	291
Restructuring charges	(1,949)	(13,820)	(2,577)	(16,658)
Impairment losses	(9,839)	(6,460)	(9,452)	(84,094)

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

Shipping and handling costs presents 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, 2006, the Company recognized restructuring charges of ¥1,949 million (\$16,658 thousand) for restructuring the overseas mobile phone businesses, which included retirement benefits and other charges associated with the dissolution of R&D departments and sales departments of the mobile phone businesses in China.

For the year ended March 31, 2005, the Company recognized restructuring charges of ¥8,020 million for restructuring the domestic businesses. The restructuring included losses of ¥6,518 million generated from the removal and disposal of facilities associated with the cathode-ray tubes monitor business. In addition, the Company recognized restructuring charges of ¥5,800 million for restructuring the overseas businesses. The restructuring included charges of ¥3,798 million for retirement benefits and costs for the removal and disposal of facilities associated with the restructuring of the mobile phone businesses in Europe.

For the year ended March 31, 2004, the Company recognized restructuring charges of ¥2,577 million for debt waivers, retirement benefits and other charges associated with the restructuring of a consolidated domestic subsidiary.

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

For the year ended March 31, 2006, the Company and certain of its subsidiaries recognized impairment losses of ¥9,652 million (\$82,496 thousand) for tangible assets, such as land, buildings and tools, and ¥187 million (\$1,598 thousand) for intangible assets. The Company recognized impairment losses of ¥3,205 million (\$27,393 thousand), 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 Kansai district. A domestic subsidiary recognized impairment losses of ¥1,920 million (\$16,410 thousand) for the logistics center due to a decline in the profitability corresponding to price down for major customers, while an overseas subsidiary recognized impairment losses of ¥2,313 million (\$19,769 thousand) for molds for the old model products due to a decline in the profitability on 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.

For the year ended March 31, 2005, the Company recognized impairment losses of ¥3,834 million, for tools, equipment and fixtures used in the production of its second-generation mobile phones. The migration to third-generation mobile phones has significantly reduced the production levels of the second-generation phones. The mobile manufacturing industry is operating in an extremely competitive market and pressure is constantly applied to the maximize production levels. In addition, the Company recognized impairment losses of ¥486 million for intangible assets. Domestic subsidiaries recognized impairment losses of ¥2,140 million for property, plant and equipment such as buildings and lands. The impairment losses were mainly measured based on the fair value of the discounted present value of expected future cash flow.

For the year ended March 31, 2004, the Company recognized impairment losses of ¥4,134 million, ¥4,277 million and ¥1,041 million for cathode-ray tubes production equipment for monitors. Such impairment losses related to subject market contraction, reflecting the trend of changing to liquid crystal displays and the related deterioration of the price of cathode-ray tubes, and also included buildings and lands of domestic subsidiaries and intangible assets with indefinite useful lives, respectively. The impairment losses were measured based on the fair value less cost to sell.

(20) LEASES

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

The Company and certain of its subsidiaries are the lessee of certain machinery and equipment. At March 31, 2006, the gross amount of lease assets at cost under capital leases and accumulated depreciation amounted to ¥40,659 million (\$347,513 thousand) and ¥21,276 million (\$181,846 thousand), respectively.

Future minimum lease payments under capital and non-cancelable operating leases as of March 31, 2006 are as follows:

	Yen (millions)		U.S. dollars (thousands)	
	Capital leases	Operating leases	Capital leases	Operating leases
Year ending March 31:				
2007	¥ 9,357	¥ 1,523	\$ 79,974	\$ 13,017
2008	7,349	1,243	62,812	10,624
2009	4,464	1,321	38,154	11,291
2010	2,343	512	20,026	4,376
2011	812	89	6,940	761
Thereafter	459	15	3,923	128
Total minimum lease payments	24,784	¥ 4,703	211,829	\$ 40,197
Less: Estimated executory costs	683		5,838	
Net minimum lease payments	24,101		205,991	
Less: Amount representing interest	665		5,683	
Present value of net minimum capital lease payments	23,436		200,308	
Less: Current portion of obligations under capital leases	8,759		74,864	
Obligations under capital leases, excluding current portion	¥ 14,677		\$ 125,444	

Rental expenses related to operating leases for the years ended March 31, 2006, 2005 and 2004 aggregated ¥39,981 million (\$341,718 thousand), ¥39,772 million and ¥42,492

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)
	2006	2005	2004	2006
Cash paid during the year for:				
Interest	¥ 9,668	¥ 10,744	¥ 14,332	\$ 82,632
Income taxes	29,581	21,552	36,406	252,829

The Company contributed certain marketable equity securities, not including those of its subsidiaries and affiliated companies, to an established employee retirement benefit trust, with no cash proceeds thereon in the year ended March 31, 2004. The fair value of these securities at the time of contribution was ¥29,233 million for 2004. Upon contribution of these available-for-sale securities, the net unrealized gains amounting to ¥9,378 million were realized for the year ended March 31, 2004.

In April 2003, the Company acquired shares in Renesas Technology Corp., which was a joint venture established with Hitachi, Ltd., amounted to ¥88,096 million, by contributing

assets of ¥285,537 million, liabilities of ¥196,081 million and minority interests of ¥1,360 million, with no cash proceeds.

In October 2003, the Company contributed assets of ¥30,339 million and liabilities of ¥11,381 million to TMA Electric Corporation ("TMAE"), which was a joint venture established by Toshiba Corporation ("Toshiba"). The Company acquired shares in Toshiba Mitsubishi-Electric Industrial Systems Corporation, which was established through the merger of TMAE and its subsidiary transferred from Toshiba, amounted to ¥18,958 million by contributing these assets and liabilities with no cash proceeds.



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, 2006 and 2005, 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, 2006. 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, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2006, 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 A2 SA & Co.

Tokyo, Japan
April 25, 2006, except for note 17, as to which the date is June 29, 2006