MITSUBISHI ELECTRIC CORPORATION ANNUAL REPORT 2006

ANNUAL REPORT
For the year ended March 31, 2006

2006

Changes for the Better

MITSUBISHI ELECTRIC

CORPORATE DATA

As of March 31, 2006

MITSUBISHI ELECTRIC CORPORATION
Tokyo Building,
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Chiyoda-ku, Tokyo 100-8310,
Japan
Phone: +81 (3) 3218-2111

ESTABLISHED:
January 15,1921

PAID-IN CAPITAL:
¥175,820 million

SHARES ISSUED:
2,147,201,551 shares

CONSOLIDATED NET SALES:
¥3,604,185 million

CONSOLIDATED TOTAL ASSETS:
¥3,313,742 million

EMPLOYEES:
99,444

CONTENTS

FINANCIAL HIGHLIGHTS

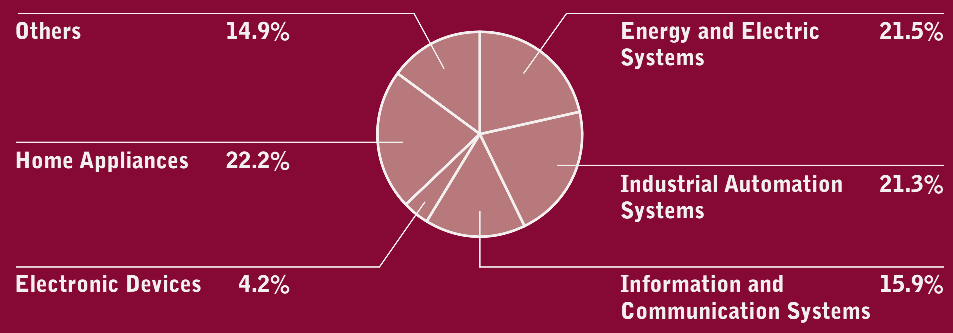
Years ended March 31

	Yen (millions)			U.S. dollars (thousands)
	2006	2005	2004	**2006**
Net sales	**¥3,604,185**	¥3,410,685	¥3,309,651	**$30,805,000**
Operating income	**157,718**	120,642	92,717	**1,348,017**
Net income	**95,692**	71,175	44,839	**817,880**
Total assets	**3,313,742**	3,162,472	3,225,223	**28,322,581**
Shareholders' equity	**942,202**	720,637	601,532	**8,053,009**
Capital expenditure	**134,413**	125,657	96,253	**1,148,829**
R&D expenditure	**130,639**	130,541	136,518	**1,116,573**

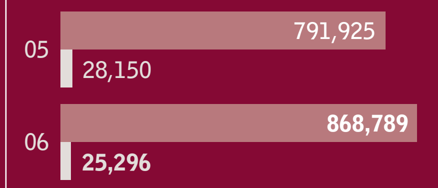
	Yen			U.S. dollars
Per-Share Amounts				
Net income				
Basic	**¥44.64**	¥33.16	¥20.89	**$0.382**
Diluted	**44.63**	33.16	20.74	**0.381**
Cash dividends declared	**8**	6	4	**0.068**

See accompanying notes to consolidated financial statements.

NET SALES BREAKDOWN BY BUSINESS SEGMENT



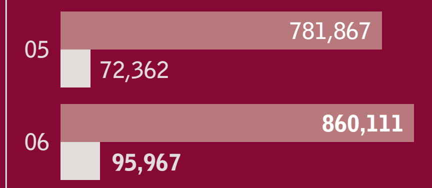
Energy and Electric Systems



MAIN PRODUCTS AND BUSINESS LINES

Turbine generators, hydraulic turbine generators, nuclear power plant equipment, motors, transformers, power electronics equipment, circuit breakers, gas insulated switches, switch control devices, surveillance-system control and security systems, electrical equipment for locomotives and rolling stock, elevators, escalators, particle beam treatment systems, and others

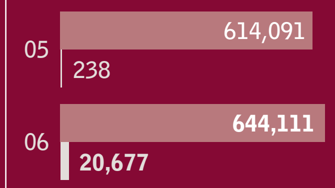
Industrial Automation Systems



MAIN PRODUCTS AND BUSINESS LINES

Programmable logic controllers, inverters, servomotors, human-machine interface, motors, hoists, magnetic switches, no-fuse circuit breakers, short-circuit breakers, transformers for electricity distribution, time and power meters, uninterruptible power supply, industrial sewing machines, computerized numerical controllers, electrical-discharge machines, laser processing machines, industrial robots, clutches, car audio equipment, car navigation systems, automotive electrical equipment, car electronics, and others

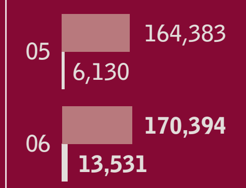
Information and Communication Systems



MAIN PRODUCTS AND BUSINESS LINES

Wireless communications equipment, mobile handsets, cable communications systems, satellite communications equipment, artificial satellites, radar equipment, antennas, missile systems, fire-control systems, broadcasting equipment, data transmission devices, information systems equipment, systems integration, and others

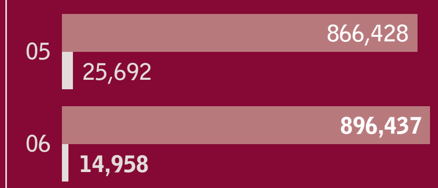
Electronic Devices



MAIN PRODUCTS AND BUSINESS LINES

Power modules, high-frequency devices, optical devices, LCD devices, printed circuit boards, system LSIs, and others

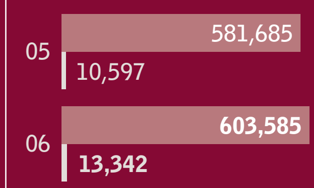
Home Appliances



MAIN PRODUCTS AND BUSINESS LINES

Color televisions, projection TVs, display monitors, video projectors, VCRs, DVDs, room air conditioners, package air conditioners, refrigerators, electric fans, washing machines, ventilators, solar power generation systems, hot water supply systems, fluorescent lamps, indoor lighting, clean-air heaters, compressors, chillers, humidifiers, dehumidifiers, air purifiers, air-conditioning systems, showcases, cleaners, microwave ovens, and others

Others



MAIN PRODUCTS AND BUSINESS LINES

Finance, logistics, real estate, advertising, procurement and other services

NET SALES
OPERATING INCOME
(Yen in millions)

In the fiscal year ended March 31, 2006, the Mitsubishi Electric Group pressed ahead with its balanced management initiatives focused on "Growth," "Profitability and Efficiency," and "Soundness." At the same time, we implemented a series of initiatives comprising: (1) structural reforms to respond to changes in the business environment; (2) strengthening the management structure through various across-the-board actions; (3) growth strategies to make our strong businesses stronger, reinforce our solutions businesses centered on those strong businesses, and advance global expansion, and; (4) improvement of financial standing through structural reforms and enhanced asset efficiency measures.

As a result of these efforts, the Mitsubishi Electric Group recorded increases in consolidated revenues for the second consecutive year and in income for the fourth consecutive year. Net sales increased 6% year on year to ¥3,604.2 billion, operating income climbed 31% to ¥157.7 billion, and net income jumped 34% to ¥95.7 billion.

The Mitsubishi Electric Group will make further advances with the comprehensive initiatives it has previously implemented, aiming to continue on a path of steady growth without being swayed by changes in the business climate. We will be proactive in refining our competence in "monozukuri" (craftsmanship), the most crucial aspect of our manufacturing operations, in order to further improve our performance results and enhance corporate value.

July 2006

S. Shimomura

President & CEO
Setsuhiro Shimomura

Changes for the Better

Based upon its "Changes for the Better" corporate statement, the Mitsubishi Electric Group aims for a brighter tomorrow in its commitment to bringing innovations to society, industry and everyday life.

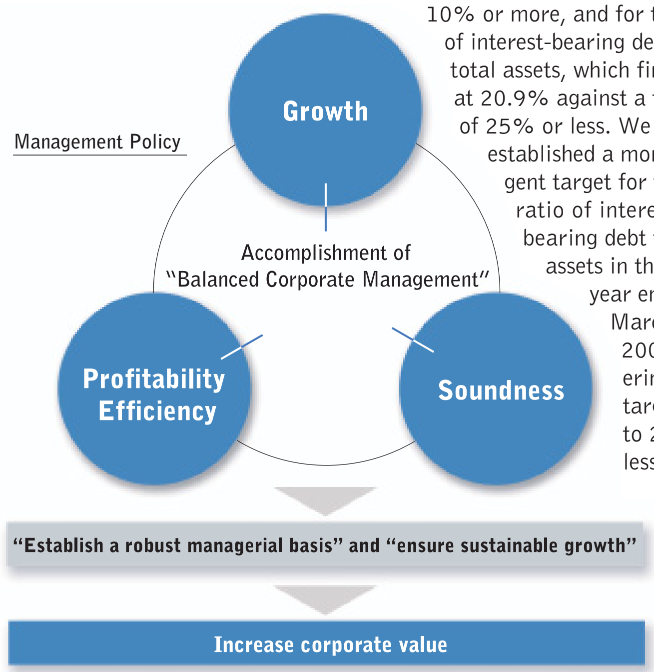
Promoting balanced management initiatives emphasizing "Growth," "Profitability and Efficiency," and "Soundness," we are aiming to construct a firm management system and to attain sustainable growth.

We are also actively promoting corporate social responsibility (CSR) initiatives based upon our Corporate Mission and our Seven Guiding Principles. The Mitsubishi Electric Group is taking thorough measures, particularly in the area of compliance, expanding its training programs and strengthening its internal control systems. In addition, we work to respond appropriately to changes in external factors, such as revisions to legislation.

Furthermore, in order to meet the expectations of shareholders, we will forge ahead with reform measures to become a conglomerate of highly competitive electric-electronic businesses with synergetic unity and to increase corporate value.

Improved Performance through Balanced Management

The Mitsubishi Electric Group aims to consistently attain the three management targets identified at right, above. In the fiscal year ended March 31, 2006, improvements in business efficiency and reforms of the financial structure helped the Mitsubishi Electric Group to attain its targets for the second consecutive year for return on equity (ROE), which was 11.5% against a target of 10% or more, and for the ratio of interest-bearing debt to total assets, which finished at 20.9% against a target of 25% or less. We have established a more stringent target for the ratio of interest-bearing debt to total assets in the fiscal year ending March 31, 2007, lowering our target ratio to 20% or less.



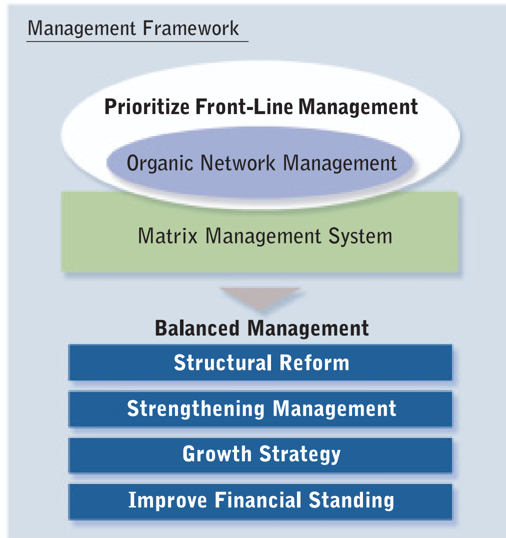
Though the operating income ratio remained at 4.4%, this marked a further steady improvement compared to the 1.7% ratio recorded in the fiscal year ended March 31, 2003. We will continue our efforts to achieve all three targets ahead of schedule.

Three Management Targets to Maintain Consistently

Operating income ratio:	5% or more
ROE:	10% or more
Interest-bearing debt to total assets:	25% or less⇒20% or less

Framework for Balanced Management

From a management perspective focused on the front lines of operations, the Mitsubishi Electric Group will continue to implement measures to strengthen competitiveness in the areas of quality, costs, manufacturing technologies, development capabilities, intellectual property and marketing. Through organic network management, we will press ahead with global integration initiatives aimed at constructing an optimal business structure on a worldwide scale. We will deliver high-quality goods and services to customers through our top-class manufacturing and sales network by expanding collaboration between development and design, procurement, manufacturing, sales and service operations. Our matrix management system, which organizes both production and sales divisions for each business into individual profit centers so they can regularly monitor achievement of performance targets, will support these efforts. By leveraging synergies between business segments and enhancing corporate-wide support functions, we will press ahead with initiatives to reform structures, strengthen management, carry out growth strategies and improve our financial standing. The Mitsubishi Electric Group will work to implement balanced corporate management through these efforts.



Structural Reforms

The Mitsubishi Electric Group promotes perpetual structural reforms in response to an ever-changing business climate. Such reforms include strengthening business promotion systems, forging business alliances, and implementing business restructuring.

Across business segments including elevators and escalators, factory automation systems, automotive products and others, we are pushing aggressively ahead with the establishment of new bases and facility expansion to strengthen our production and sales structures in Japan and on a global scale. Our initiatives to forge strategic alliances for the sake of enhancing competitiveness are producing concrete results. We have entered a strategic tie-up with Amada Co., Ltd. in the business of laser processing machinery and are working in collaboration with Fujitsu Limited on the development of 3G mobile handsets. In the business of electric equipment for rolling stock, the Mitsubishi Electric Group recently established a joint venture together with China's Zhuzhou Electric Locomotive Research Institute, which has commenced local production. In the area of business restructuring, we terminated North American and European mobile handset operations, followed by the closing of R&D and sales bases in China. We are also working to reconstruct the North America AV business.

Strengthening Management Structure

The Mitsubishi Electric Group is consistently promoting across-the-board management improvement measures throughout the entire Group, working to further strengthen its management structure.

With the aim of enhancing craftsmanship as a manufacturing company, we are working to increase productivity and quality by strengthening software and hardware production capabilities, deepening and broadening Just In Time activities, and advancing initiatives to augment quality from the development and design stage. At the same time, we are stepping up intellectual property activities such as securing effective patent rights and engaging in licensing initiatives. We also continue to promote cost cutting by working to improve materials procurement.

The Mitsubishi Electric Group maintains an emphasis on strengthening marketing prowess by promoting the expansion of cross-divisional marketing activities. We are also pressing forward with efforts to bolster our financial standing by further development of our inventory reduction program. With the aim of making strong businesses stronger, we are working to utilize our human resources effectively, stationing and shifting personnel among businesses. In response to the so-called 2007 problem*, we are bolstering employment initiatives and utilizing veteran technicians.

By persistently and fervently pushing ahead with these policies, the Mitsubishi Electric Group is working to strengthen competitiveness in terms of quality, costs, production technology capabilities, development abilities, intellectual property and marketing prowess. We aim to link these initiatives with improved profitability.

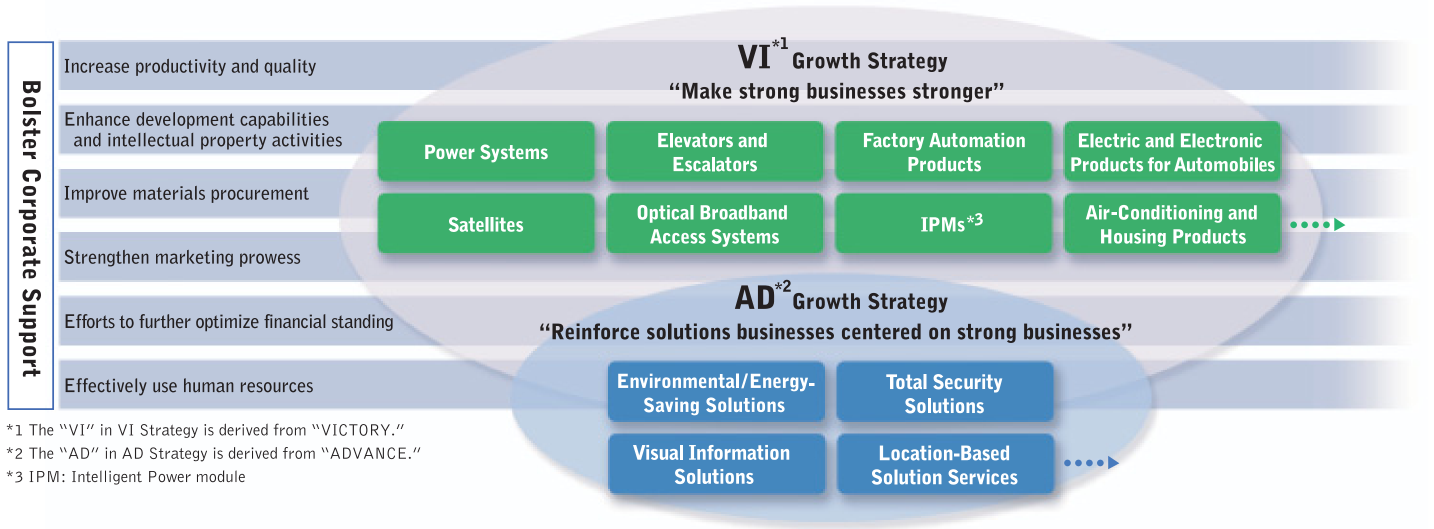
*2007 is known in Japan as the year the majority of baby boomers enter mandatory retirement, causing concerns about a sudden reduction in the labor force, inability to pass on professional skills, etc.

Growth Strategies

Based upon its balanced corporate management initiatives emphasizing "Growth," "Profitability and Efficiency," and "Soundness," the Mitsubishi Electric Group is advancing a growth strategy composed of three parts: the VI*1 Strategy, aiming to make strong businesses stronger, the AD*2 Strategy to strengthen the solutions businesses centered on strong businesses, and the Global Strategy.

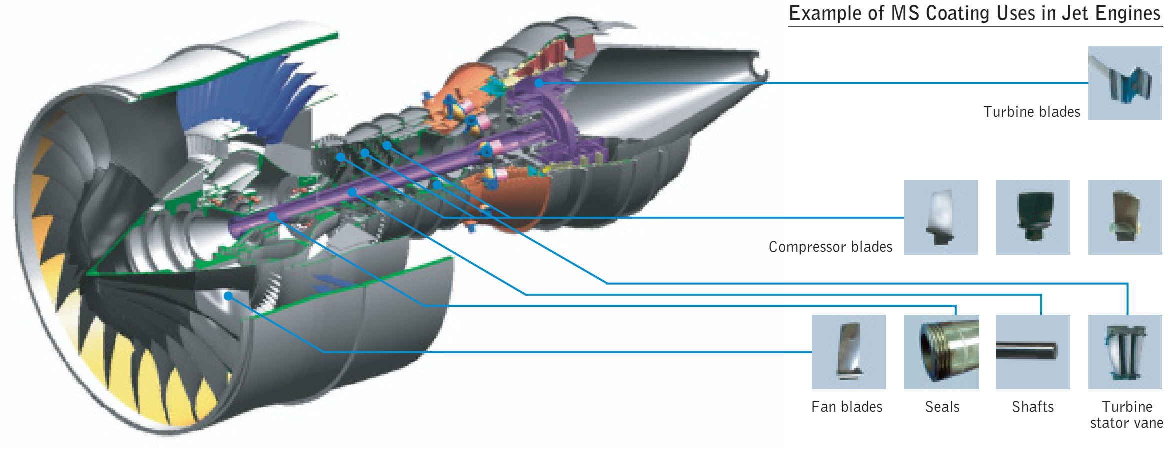
The Mitsubishi Electric Group has a variety of products and businesses that are able to both compete and grow in the global arena. To continue and expand growth into the future, we must push vigorously forward with these strategies and triumph over competition on a worldwide scale.

Growth Strategy



*1 The "VI" in VI Strategy is derived from "VICTORY."
*2 The "AD" in AD Strategy is derived from "ADVANCE."
*3 IPM: Intelligent Power module

Example of MS Coating Uses in Jet Engines



Growth Strategy: VI Strategy

The core theme of the VI Strategy is making strong businesses stronger.

Examples of some of the Mitsubishi Electric Group's strong businesses by segment include the following: in the Energy and Electronic Systems segment, power generation systems and elevators and escalators; in the Industrial Automation Systems segment, factory automation products, industrial machinery, and automotive electric and electronic components; in Information and Communication Systems, satellites and optical communication systems; in the Electronic Devices segment, intelligent power modules; and in the Home Appliances segment, air conditioners and household equipment.

We will fortify growth strategies for individual businesses in these strong businesses. Coupled with enhanced lateral support at the corporate level, we will work to effectively leverage key technologies and know-how and to heighten synergistic effects as we reinforce these businesses.

An example of a business in which the VI Strategy has been especially effective is the Factory Automation Systems business, which supports automated manufacturing and enhanced value in the manufacturing industry. In Factory Automation Systems, Mitsubishi Electric Group products, including programmable logic controllers, human-machine interfaces, AC servos, circuit breakers, electrical-discharge machines, laser processing machines and numerical controllers boast the number one or number two position in the Japanese market. In this business the Mitsubishi Electric Group is one of the world's three largest comprehensive manufacturers of factory automation systems. The business has attained an average annual sales growth rate in the range of 30% over the last five years in the new primary factory automation industry markets of China, Korea and Taiwan.

While significant growth for the Factory Automation Systems business is expected in the markets of China, Korea and Taiwan, there is also a noticeable push among Japanese manufacturers to stave off incursions of cheaper Asian-made products by improving productivity and reducing costs. The Mitsubishi Electric Group intends to strategically expand markets in Asian nations and in Japan, where abundant business opportunities still exist. Concentrating resources on high-share products, we will further bolster competitiveness, as well as promote the creation and nurturing of new businesses with the aim of further growth.

The comprehensive strength of our Factory Automation Systems business is its greatest advantage. While a number of other specialized competitors only provide single products, the Mitsubishi Electric Group offers a wide-ranging lineup as a comprehensive manufacturer of factory automation products, contributing to factory automation on a broad scale.

Our "FA Integrated Solution" combines a production control system that links various factory automation products on a wide range of FA networks with an information management system (including enterprise resouce planning, manufacturing execution system, etc.), allowing real-time capture and utilization of precise data on the front lines of production. The system enables shorter delivery times, cost reductions, quality improvements and other advantages to optimize production and boost efficiency. In addtion to focusing on expanding the "FA Integrated Solution" business, the Mitsubishi Electric Group is also introducing the system in its own plants, contributing to more efficient manufacturing operations.

The MS Coating is a new business that arose from our drive to make strong businesses stronger. MS Coating is a breakthrough discharge surface treatment technology jointly developed in collaboration with Ishikawajima-Harima Heavy Industries Co., Ltd. It enables consistent formation of functional membranes with excellent durability and resistance to abrasion. It also permits significant cost reductions by simplifying the manufacturing process. We expect the technology to be used in the processing of aircraft engine components and other applications.

In the Factory Automation Systems business, strengthening our global manufacturing, sales and service structure is another important issue. The Mitsubishi Electric Group has manufacturing bases in China and Thailand and is working to expand the product lineup and boost capacity to respond to growing demand in the markets of these countries. We have over 100 sales and service bases overseas and have established global factory automation centers in 12 major cities in the core regions of North America, Europe and Asia (as of June 2006). We are striving to construct service and support systems in international operations that are on par with those of our Japan operations, aiming to provide customers with timely and optimal service.

Growth Strategy: AD Strategy

The AD Strategy aims to expand our business opportunities by providing our customers with satisfying solutions, which are leveraged by our strong businesses.

We are making every effort to provide one-stop solutions that fulfill customer needs in environmental/energy-saving, information and physical security, visual communication, and location-based solution services by combining all of our broad-ranging technologies and know-how, centering on strong businesses. In the fiscal year ended March 31, 2006, our solutions businesses founded on the AD Strategy recorded an increase in orders of approximately 20% in major areas of operation, exceeding the average growth of the overall market. We believe this growth was supported by our strength as a comprehensive electronics manufacturer.

New initiatives under the AD Strategy include promoting solutions that support urban and regional development projects. This business is based upon a comprehensive concept of working from the planning and design stages of city, regional and town development projects to propose solutions that meet the varied functional and practical needs of the areas under development.

Urban and regional development projects involve figuring out how to construct measures to satisfy developers' needs, including ecology, security and prosperity. Mitsubishi Electric Group solutions businesses in environmental/energy-saving, information and physical security, visual communication and others cover all of these areas. We are confident that we can provide powerful assistance to developers in their efforts to create appealing towns and urban centers by combining our varied solutions services.

For example, in urban development it is always essential to construct spaces where anybody can safely pass their time. Today, however, there is a need for more advanced security measures to meet crime and disaster prevention needs. Based upon its wealth of experience in building management and visual information systems, communication systems and encryption technology development, the Mitsubishi Electric Group provides total security solutions that cover the needs of buildings, offices, condominiums and houses, as well as broader areas.

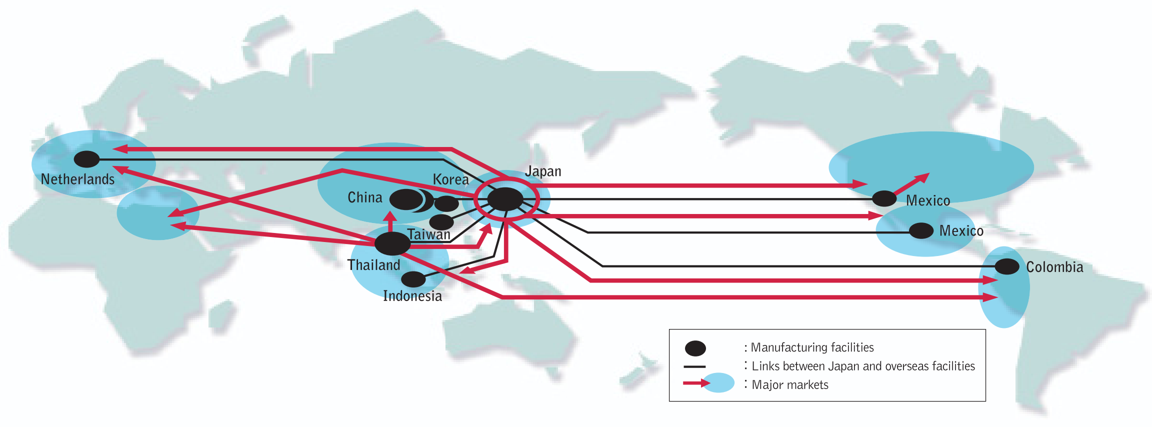
For buildings and offices, the Mitsubishi Electric Group offers comprehensive building security systems that combine a variety of technologies and systems into one package, including: access management through personal identification technologies; reception management that combines IC tag and face recognition functions; fingerprint authentication equipment able to recognize even wet fingerprints; and combined access management and digital CCTV-based security camera systems. We also provide systems that use sophisticated image analysis to automatically detect acts of violence or falls inside of elevators. These systems provide for residents' greater peace-of-mind and safety without sacrificing convenience.

In broader areas, focused control of security cameras, sensors and digital signage linked to an optical IP network provides for greater convenience and safety for entire towns. We have created a specified action monitoring system capable of detecting, from live security camera images, people who are taking actions specified by the system users. Though signage is ordinarily used to attract customers or display information, it can also be utilized to provide evacuation guidance and to display emergency information accurately and rapidly.

The Mitsubishi Electric Group also provides solutions that contribute to festive theatrical events by utilizing visual and networking technologies to guide the flow of people from the train through stations, out to the town, and on to landmarks or venues. This involves linking display equipment set up in trains, on platforms, within and in front of stations, as well as on billboards and in building entrances, with high-volume, high-speed optical IP networks, to provide uniform management of event guides, advertisements and high-resolution video clips. The system sends pertinent information at relevant times, with the aim of drawing a greater number of visitors.

Interactive digital signage (IDS) terminal (Top) that allows downloading of store coupons to mobile handsets.

Global Expansion of the Elevator and Escalator Business



In this system, a combination of the Mitsubishi Electric Group's competitive display products are linked to provide systems tailored to customer needs. Such equipment includes: the Diamond Vision large-screen, full-color display that is utilized at stadiums, horseracing tracks and other arenas worldwide; high-resolution DLP®* display wall; in-train LCD panels; and interactive digital signage (IDS) which enables downloading of store coupons and information to mobile handsets. The network is also supported by our GE-PON broadband optical access system, which has been well received in the market.

The Mitsubishi Electric Group expects to win large-scale orders through its ability to provide high-value added solutions from the planning and design stage of urban development projects. We will continue to expand our lineup of comprehensive solutions in order to provide customers with flexible frameworks to suit their unique needs.

*DLP® is a registered trademark of Texas Instruments Incorporated, U.S.A.

Growth Strategy: Global Strategy

Expanding business in worldwide markets is one of most key factors to the future growth of the Mitsubishi Electric Group.

Through our Global Strategy, we are promoting global integration to construct an optimal business structure for the entire, global Mitsubishi Electric Group. As we expand manufacturing bases around the world, the central thrust of our initiatives is to construct a vigorous manufacturing and sales network through cooperation between the main factories in Japan and international facilities. We will work to strengthen our elevators and escalators, factory automation equipment, automotive equipment, power devices, high-frequency and optical devices, and air-conditioning system businesses, primarily in China and other Asian nations.

In addition, we are bolstering our R&D, marketing and financial support infrastructure for global business operations. We are also working to reinforce our growth strategies in high growth areas such as China, the newly industrializing economies of Asia and ASEAN nations, the Middle East, Russia and other nations and areas.

Improving Financial Standing

The Mitsubishi Electric Group is pressing ahead with efforts to construct a robust financial standing by reforming business structures and improving asset turnover.

We are implementing thorough structural reforms with the aim of enhancing competitiveness and improving profitability in all businesses. In order to increase overall profitability, we are also striving to boost competitiveness in the areas of quality, costs, production technologies, development capabilities, intellectual property and marketing prowess. In addition, the Mitsubishi Electric Group is decreasing inventories primarily through Just In Time activities and expanding its global cash management system in order to improve asset and capital efficiency. These initiatives are aimed at consistently generating a high level of cash flows. We are reducing interest-bearing debt, returning profits to shareholders through dividend increases, and advancing with balanced investments in growth sectors.

In comparison with a peak interest-bearing debt of ¥1,769.4 billion as of March 31, 1998, interest-bearing debt as of March 31, 2006 was reduced to ¥693.2 billion. This represents an improvement in the ratio of interest-bearing debt to assets from 40.6% down to 20.9%. We also increased annual dividends from ¥3 for the fiscal year ended March 31, 2003 to ¥8 for the fiscal year ended March 31, 2006. The Mitsubishi Electric Group also plans to increase capital investment by ¥8.0 billion for the year ending March 31, 2007 to a total of ¥120.0 billion.

Striving for Constant Improvement

Based upon its balanced corporate management policies, the Mitsubishi Electric Group will steadily implement the above management strategies in order to foster unrivalled competitiveness in individual businesses. At the same time, we will forge ahead with reform measures to become a conglomerate of highly competititve electric-electronic businesses with synergetic unity, aiming to construct a robust management structure and to attain sustainable growth.

To accomplish these goals, it is becoming increasingly important that we work to transform ourselves for constant improvement, putting into practice the spirit that is embodied in the Mitsubishi Electric Group's corporate statement, "Changes for the Better." There is little value in that which does not change. The Mitsubishi Electric Group will constantly seek to improve, pressing ahead with sincerity and with a confidence that its efforts will lead to greater corporate value.

From the perspective of emphasizing corporate social responsibility (CSR), the Mitsubishi Electric Group proceeds with corporate activities based upon its Corporate Mission and its Seven Guiding Principles. The Mitsubishi Electric Group is especially thorough in its measures related to compliance, and it works to improve educational programs and strengthen internal control structures. In addition, Mitsubishi Electric is actively undertaking initiatives in the areas of quality management, philanthropy, environmental preservation and improved communication with all stakeholders.

Corporate Mission

The Mitsubishi Electric Group will continually improve its technologies and services by applying creativity to all aspects of its business. By doing so, we enhance the quality of life in our society. To this end, all members of the Group will pursue the following Seven Guiding Principles.

Seven Guiding Principles

Trust, Quality, Technology, Citizenship, Ethics, Environment and Growth

Corporate Ethics and Compliance

Formulating and Familiarizing Employees with the Corporate Ethics and Compliance Statement

Mitsubishi Electric first clarified and formulated its code of corporate ethics in April 1990. The code has since undergone a series of revisions to reflect amendments to legislation and changes in the social environment. In 2001, we released the Corporate Ethics and Compliance Statement, which identifies six basic policies: compliance with the law, respect for human rights, contribution to society, collaboration and harmonization with the community, consideration of environmental issues, and awareness of personal integrity.

This Statement is contained in our booklet titled "Corporate Ethics and Compliance Code of Conduct" that is distributed to every Mitsubishi Electric Group employee. In addition, we aim to spread the policies contained in this statement by having our employees carry cards and put up posters describing the Statement.

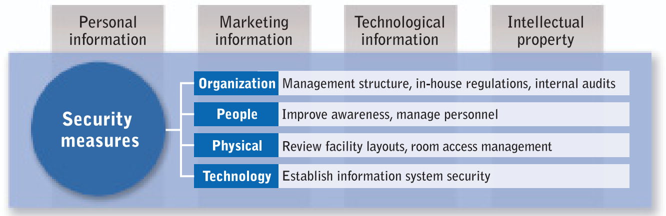
Mitsubishi Electric is currently revising the Corporate Ethics and Compliance Code of Conduct in accordance with amendments to the Antimonopoly Act and the enactment of the Whistleblower Protection Act. We plan to distribute the revised version in March 2007.

Compliance Structure

Chaired by an executive officer responsible for legal affairs, the Corporate Compliance Committee is the primary body for promoting corporate ethics and compliance activities in the Mitsubishi Electric Group worldwide. Legal compliance managers are appointed in each division to direct implementation of educational and instructional activities regarding compliance matters determined by the Committee in Japan. We have also appointed several key personnel for legal compliance who support legal compliance managers. In international operations, Mitsubishi Electric Group companies formulate their own corporate ethics codes based upon the Corporate Ethics and Compliance Code of Conduct, taking into account local laws, culture and customs. In addition, compliance meetings are held in an effort to thoroughly entrench compliance concepts.

Information Security

The Mitsubishi Electric Group announced a personal information protection policy in April 2004 to further reinforce our protection system, and we have revised our personal information protection guidelines. In addition to the guidelines, we have strengthened our information security management standards based on organizational, human, physical and technological perspectives and apply these standards to all types of confidential corporate information, including information related to marketing, technology and intellectual property. We also work to ensure secure management of the information entrusted to us by our corporate clients, not only through compliance with agreements regarding confidentiality, but also through the same standards with which we protect our own confidential information. The Mitsubishi Electric Group announced its Declaration of Confidential Corporate Information Management in February 2005 to reveal its proactive posture in appropriate handling of all sorts of information.



Quality Management Principles and System

The Mitsubishi Electric Group made "Service through Quality" its corporate motto in 1952. This spirit has been faithfully passed on and is reflected today in our four basic quality assurance principles. Based upon these principles, we have established a system for quality assurance and improvement activities throughout the entire Group and formulated quality assurance guidelines. We comply with quality assurance legislation and standards and are working to further develop quality improvement activities. Worldwide manufacturing bases take responsibility for the quality assurance of each product and are implementing concrete improvement measures.

Four Basic Quality Assurance Principles

1. Product quality is our top priority. It comes before price and on-time delivery.
2. Whatever the sacrifice, our commitment to good quality does not waver.
3. Products must be safe to use, have a long usage life, and have consistent performance.
4. Every manager and employee involved in manufacturing a product shares equal responsibility for the product quality.

Philanthropic Activities

Since the Philanthropy Committee was established in 1990, the Mitsubishi Electric Group has undertaken philanthropic activities concentrated in the five areas of social welfare, local contributions, environment preservation, advances in scientific technologies, and support of sports and culture.

SOCIO-ROOTS Fund

Established in 1992, the SOCIO-ROOTS Fund is a matching-gift program in which any donation made by an employee is matched by the Company, thus doubling the goodwill of the gift. The fund receives donations from over 1,000 employees every year. As of March 2006, donations of approximately ¥450 million had been made to a combined total of over 920 groups. In the fiscal year ended March 31, 2006, Mitsubishi Electric Group companies and the Mitsubishi Electric America Foundation made contributions totaling approximately $263,000 to meet needs following hurricane disasters in the U.S.


A minivan is donated to "Tanpopo no kai" (the Dandelion Club), an organization based in Inazawa City, for parents of children with severe and multiple disorders.

Foundations

Founded in 1991, the Mitsubishi Electric America Foundation (MEAF) serves children and youth with disabilities in the U.S. In its first 15 years, MEAF has contributed nearly $8 million and won numerous national awards for its work.

The Mitsubishi Electric Thailand Foundation, also established in 1991, grants scholarship payments to university students and conducts school lunch support programs at elementary schools.


The MEAF Congressional Internship Program enables college students with disabilities to work as interns for U.S. Senators and Representatives. A 2005 intern receives a certificate from the executive director of MEAF.

Environmental Activities

Based on its environmental philosophy that emphasizes protecting and restoring the global environment through all business activities, through the actions of employees, and through present and future technologies, the Mitsubishi Electric Group has worked to reduce environmental burden and implement eco-friendly business practices. Since 1993, Mitsubishi Electric has formulated a series of environmental plans with concrete action targets. The Group will aim to reinforce consolidated environmental management on a global scale and improve environmental performance through the entire supply chain for its 5th Environmental Plan, to be undertaken from the fiscal year ending March 31, 2007. Through these initiatives, we will further strengthen our balanced corporate management.

Endeavors in 2005

Upon the revision of its ISO 14001 certification (to 2004 standards), Mitsubishi Electric rebuilt its administrative structure for promoting reductions in paper, trash and electricity use, and bolstered initiatives in product development, manufacture, sales and other conventional operations. In 2004, we started to host local environmental conferences overseas and firm up our environmental management foundations. Training of key environmental personnel also entered its second year, with 46 such personnel now working actively on the front lines. In reducing the environmental burden caused by products, our eco-products sales ratio rose to 74%. We continued to improve our environmental performance in areas including energy conservation and the reduction of chemical waste. Mitsubishi Electric will further strengthen our recycling and reuse efforts throughout its operations in order to reduce industrial waste.

Challenge Related to Climate Change

By the end of fiscal 2011 (March 31, 2011), Mitsubishi Electric aims to reduce CO_2 emission levels by 25% in comparison with fiscal 1991 levels. In order to meet this goal, we are promoting energy-saving activities at manufacturing plants with the goal of decreasing CO_2 emissions generated by energy consumption during manufacturing activities. We have made efforts to lower CO_2 emissions by 1.5% per year at manufacturing plants and by 1.0% per year at affiliated companies. CO_2 emissions in manufacturing activities during fiscal 2006 were 447 kilotons, a 20% reduction in comparison with fiscal 1991 levels. We are also working to create more energy-efficient products as part of our endeavors to lower environmental impact.

The Minister's Award at the 2005 Awards for Excellent Energy Management in Factories, sponsored by the Ministry of Economy, Trade and Industry
—Power Device Works

The Power Device Works reduced power consumption during fiscal 2005 by 39% in comparison with fiscal 2003 by upgrading to machinery with exceptional energy efficiency. The Power Device Works also sent instructors to seminars on "energy-saving educational promotion models," and conducted factory tours. The award recognized these consistent efforts toward energy-consumption management and improvement.

The Chairman's Award at the 2005 Energy Conservation Awards, sponsored by the Energy Conservation Center
—Room air conditioner MSZ-ZW40TS

Infrared sensors detect heat radiated from the floor, signaling the air conditioner to adjust temperature to a comfortable, uniform level throughout the room. Because it is possible to cool sections of a room as needed, energy consumption is cut by 30%.

Response to EU's RoHS Directive

The Mitsubishi Electric Group discontinued the use of six specified substances* in advance of the enactment of the EU's RoHS Directive. As part of efforts to promote green procurement, we obtain information about harmful substances contained in components and materials, as well as certification guaranteeing that such substances have not been used, as a pledge of reliability. We also conduct independent analysis to confirm whether or not harmful substances have been used in the event that there is a high likelihood that such substances are included. We will continue to strengthen our analysis and traceability systems to ensure that specified substances are not contained in our products.

*Six specified substances: lead, mercury, cadmium, hexavalent chromium, PBB and PBDE.

Communication with Stakeholders

Mitsubishi Electric is expanding communication activities to promote understanding of its stance on CSR as seen through its products and businesses. As awareness of global warming prevention increases with the enactment of the Kyoto Protocol, Mitsubishi Electric is participating in eco-product exhibits throughout Japan and in other nations. To show the ways in which the Mitsubishi Electric Group's vast technologies support the creation of a better society, we exhibited at CEATEC Japan 2005 under the theme of "The next stage of digital AV networks" and are running a series of advertisements around the theme of "Amazed with technology."


Eco-Products 2005


"Amazed with technology" series of advertisements

Mitsubishi Electric's Environmental Sustainability Report provides detailed information on the Company's efforts to preserve the environment.
The Sustainability Report 2006 will be available in October and can be downloaded from the Vision section at the following URL.
http://Global.MitsubishiElectric.com/company/environ/

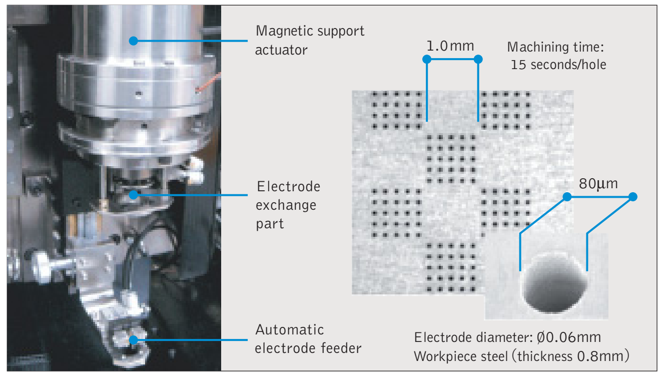
At Mitsubishi Electric, R&D centers that are associated with Corporate Research and Development, including the Advanced Technology R&D Center, Information Technology R&D Center, Industrial Design Center, and laboratories in the United States and Europe, are closely linked with research and development departments affiliated with each business group. Under this solid R&D structure, Mitsubishi Electric concentrates efforts on product development and the development of innovative new technologies that will become the foundation of future businesses.

To make strong businesses stronger, including elevators, industrial automation systems and equipment, and automotive electric and electronic components businesses, Mitsubishi Electric is promoting the integration of business and development strategies. In addition, we are combining technologies related primarily to our strong businesses in an effort to create new solutions businesses, such as environmental/energy-saving solutions and total security solutions.

Nurturing the results of such R&D initiatives as common assets of the entire company, we are constructing an effective development system that will allow these assets to be readily utilized. We are also promoting activities to obtain intellectual property rights linked with business and development strategies, as well as those that can be utilized and standardized on a global scale. Furthermore, Mitsubishi Electric is pressing ahead with joint research in collaboration with leading research institutions in Japan and abroad, participating in national projects and working actively together with industries, government entities, and academic institutions.

Development Results in the Fiscal Year Ended March 31, 2006

High-Speed Precision Electrical-Discharge Machining Modules



Mitsubishi Electric succeeded in developing a prototype of a high-speed precision electrical-discharge machining module with a magnetic support actuator. Precise control of the electrode by use of the magnetic support actuator enables machining of fine holes of less than 100 μm* diameter, which was difficult to carry out by conventional mechanical drilling, with positioning accuracy of 0.2 μm and with approximately double the speed that was previously possible.

*μm (micrometer): One thousandth of a millimeter

SiC-MOSFET* Inverter

Mitsubishi Electric became the first company in the world to succeed in driving a 3.7kW motor, widely used for industrial and other applications, by utilizing an SiC-MOSFET inverter. Silicon carbide (SiC) is a promising material for next-generation power semiconductors because of its high withstand voltage. The inverter modules were fabricated using Mitsubishi-developed SiC-MOSFETs and tested by combining them with the motor. Compared with conventional inverters, the new inverter cuts power loss by 54% while the motor is running.

*MOSFET: Metal Oxide Semiconductor Field Effect Transistor

Laser Projection TVs

Mitsubishi Electric developed the world's first laser projection TV compatible with the new xvYCC* international standard for extended color space for video applications, boasting exceptional color reproduction. By employing red, green and blue semiconductor lasers as light sources, the area of reproducible colors is 1.8 times broader than that of conventional LCD TVs, enabling the display of vivid color images that were impossible to reproduce on previous TVs.

*xvYCC: The international standard for extended color space for video applications, issued as IEC61966-2-4 by the International Electrotechnical Commission.

Key Devices for Optical-Fiber Communication Systems

Mitsubishi Electric has developed six key devices to enable data transmission over optical-fiber communication systems at a rate of 40Gbps*, four times the rate currently possible. Use of these devices allows data to be transmitted a distance four times greater than communication systems that use conventional schemes. This in turn enables the construction of inter-city networks capable of large-volume transmissions using existing optical-fibers.

*bps (bits per second): Number of bits transmitted or received each second (1G = 1 billion)

High-Performance Cryptographic Algorithms

Mitsubishi Electric has developed new cryptographic algorithms that can be customized and installed for use on a broad range of devices. The compact BRUME cryptographic algorithm utilizes approximately half the software size of MISTY*, while the BROUILLARD cryptographic algorithm processes data at approximately 10 times the speed of MISTY. These developments will enable safer communications and information protection in industries that previously faced difficulties in applying cryptographic algorithm technologies due to system processing capacity limitations.

*MISTY: A cryptographic algorithm providing exceptional safety created by Mitsubishi Electric in 1995.

High-Speed Identification System for Massive-Volume Biometrics Database

Mitsubishi Electric developed a high-speed identification system for massive-volume biometrics databases. The system is capable of finding, for example, a subject from among the fingerprints of 100,000 people in approximately one second. At the same size of memory, the Company's newly developed system enables retrieval of approximately 10 times the data that is possible with conventional systems. That in turn enables retrieval of the biometrics data for 100,000 people using one PC. In addition to fingerprint authentication, Mitsubishi Electric will press ahead to develop a wider range of biometrics and other new applications, including face authentication, aiming to commercialize systems in response to market needs.

The Mitsubishi Electric Group is vigorously promoting intellectual property activities worldwide in support of global business development.

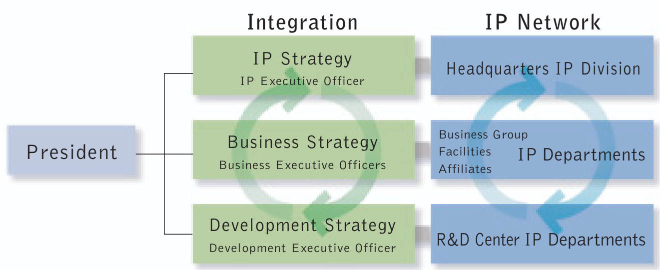
The Mitsubishi Electric Group recognizes its intellectual property ("IP") as a vital management resource for the development of its business and integrates its business and R&D activities with its IP activities. We own approximately 36,000 patents and file about 8,000 applications every year in Japan and overseas for a portfolio of competitive patents around the world.

Structure of the Intellectual Property Division

Our IP promotion activities are managed at our IP division at headquarters that are directly under the president and through individual IP departments at respective facilities and R&D centers. We have also established the position of IP executive officer.

The headquarters IP division formulates strategies for the entire company, promotes IP focus issues, and handles interactions with the patent office. IP departments at facilities and R&D centers strive to execute individual IP strategies within the scope of the overall strategies of the entire company. We are building an IP network and are working to enhance the effectiveness of IP activities.

Link Business, R&D and IP Activities



IP Strategy

The basic philosophy underlying our IP activities emphasizes enhancing IP capabilities in response to the environment and features of the IP creation cycle. These activities help to further reinforce the competitiveness of Mitsubishi Electric's businesses. The IP division and departments promote strategic IP activities through the designation of IP focus themes for businesses to concentrate on and major R&D projects.

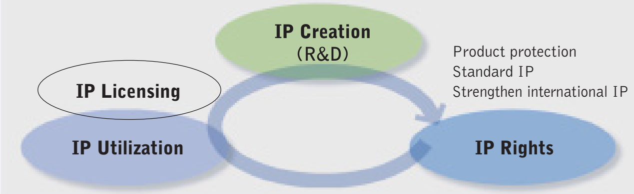
With international standardization becoming an increasingly important factor, we are stepping up our activities to obtain certificated patents for standards, aiming for increasing recognition of Mitsubishi Electric technologies as international standards.

In patents related to MPEG, DVD and 3G mobile handset standards, Mitsubishi Electric has taken the lead in promoting the establishment and management of MPEGLA/DVD6C, as well as Platform WCDMA. These IP activities are contributing to the improvement and expansion of business performance.

In response to further business globalization, the acquisition of overseas IP rights is also an important matter. We have therefore dispatched to the U.S., Europe and China IP representatives who work to strengthen IP capabilities and to accelerate our global IP activities.

Preventing infringement on intellectual property rights by other companies is another important aspect of our efforts. We are taking rigorous measures to eradicate counterfeiting by working closely with relevant industry associations and government agencies. We are also working to reinforce in-house measures, such as amending company regulations, designed to manage confidential IP material and prevent the leaking of it.

IP Creation Cycle and IP Activities



External Invention Prize

2006 National Commendation for Invention held by the Japan Institute of Invention and Innovation (JIII)

The 21st Century Invention Prize: Mitsubishi Ozonizer

Efficiently generates the world's highest concentration ozone

This "high concentration ozone generating equipment" is expected to contribute to the realization of a material cycle oriented society in the 21st century, particularly in operations such as wastewater treatment and semiconductor cleaning processes, which use harmful chemicals.

Mitsubishi Electric's Core Technologies and Patents

SEGMENT	FIELD	CORE TECHNOLOGIES/PATENTS/PRODUCTS
Energy and Electric Systems	Power Systems	Power generation systems, Substation systems, Power distribution systems, Insulation technology, Large-current control systems
	Transportation Systems	Vehicle propulsion systems, Rail traffic control technology, In-car data systems
	Elevators/Escalators	Machineroom-less elevators, Variable speed elevators
	Supervisory Control Systems	Scalable display technology, Individual authentication technology
Industrial Automation Systems	Factory Automation Products and Systems	Factory network (CC-link), Computerized numerical controllers, AC servos, Inverters, Electrical discharge machines, High-power laser processing equipment
	Measurement and Control Systems	Energy diagnosis technology, Power meters, EcoMonitor
	Automotive Electric & Electronic Products and Car Multimedia Systems	Electric power steering, High-efficiency alternators, High-power starters, Onboard ETC equipment, Car navigation systems
Information and Communication Systems	Mobile Handsets and Base Stations	Encryption algorithms (MISTY®); Video compression, searching, conversion, and distribution technologies (MPEG-2,4,7,21)
	Space, Satellite Communication Systems	Satellites, LBS, Positioning augmentation services (PAS), Satellite casing materials, Posture control technology
	Antennas and Radar Devices	Antennas, Microwave and millimeter wave technology, Tracking and signal processing technology
	Information Communications Network Systems	Power line communication systems, Home networking technology, Optical access technology
Electronic Devices	Power Devices	Power transistors, Power modules
	High Frequency and Optical Devices	Semiconductor lasers, MMIC, Optical transmissions modules
	LCDs	Display image processing technology, 3-D LCDs
Home Appliances	Air-Conditioning Systems	High-efficiency non-CFC compressors, High-efficiency heat exchangers
	Solar Power Generation Systems	Solar battery cells, Power conditioners
	Projection TVs	Optical engineering technology, Color management technology
	DVD Recorders and Players	Disc formatting, Visual and audio recording and summarization, MPEG encoding technology

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. 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.

Terminal Radar Information Processing System

The world's first air traffic control display equipment to employ a wide, high-resolution LCD (2048 x 2560 dots). Its exceptional visibility contributes to greater safety.

Diamond Vision

An ultra-high-definition (3mm pixel pitch) indoor LED screen for Deutsche Telekom, one of Europe's largest telecommunications companies. The tolerance for each LED pitch is less than 1mm. The world's largest-class indoor screen (3.3m x 5.8m) with full high definition capability, it provides the ultimate in image quality.

Shizuoka Cancer Center Proton Therapy System

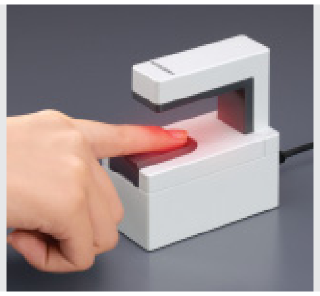
This cutting-edge therapy system uses linear protons and heavy-particle beams for the targeted destruction of affected areas. Easy on patients, this treatment method is expected to help improve quality of life.

Power Plants

Mitsubishi Electric power plant installations are used by power companies and as in-house power generators in various industries. Proven in the field, they are optimal power plants for hydroelectric, thermal and nuclear applications.

Machine-Room-Less Elevator AXIEZ

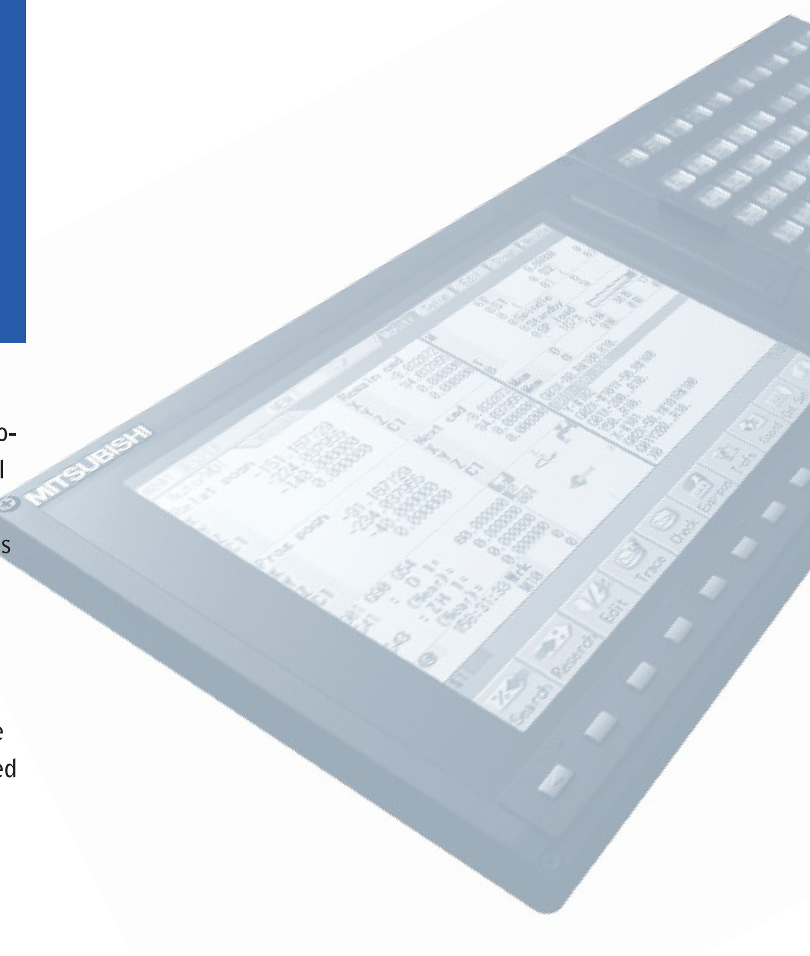
The latest standard type elevator series AXIEZ features improved space savings, riding comfort, and application of universal design, as well as advanced variable-speed control, which significantly reduces waiting and riding time.



Finger Identification Device by Penetrated Light

Mitsubishi Electric developed and introduced a new fingerprint sensor that accurately reads "inner skin fingerprints" regardless of cuts or changes to the surface skin of a finger. It is also a non-contact type, which enhances cleanliness and allows freedom of finger positioning.

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. Operating income totaled ¥96.0 billion, an increase of ¥23.6 billion compared to the previous fiscal year.

Computerized Numerical Controllers

The world's first equipment for effective control at the nanometer level, enabling faster and more precise processing. They contribute to higher productivity in automotive, IT and other industries.

Circuit Breakers

The World Super series circuit breakers features protection of transmission lines and prevention of electrical leakage, enabling a very stable supply of electricity. Designed to both Japanese and international standards for worldwide applications.

AC Servos

Delivering the industry's top-class speed and performance to improve capacity utilization rates and add value to manufacturing facilities. Used in semiconductor manufacturing, materials handling equipment, industrial machinery and other industries.

Programmable Logic Controllers

The MELSEC series of programmable logic controllers supports production lines ranging from simple process control to complete machine control. Japan's top brand, they play a key role in leading-edge, reliable manufacturing facilities.

HDD Car Navigation Systems

Newly developed driving controller allows operation without looking at the screen. Allows easy, safe and comfortable destination access information and hands-free music and mobile phone manipulation.

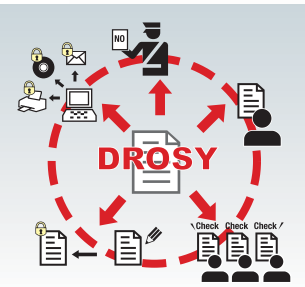
ETC Equipment for Vehicles

ETC equipment with an attractive, stylish appearance and a thin, compact body. It fits naturally into sophisticated auto interiors and contributes to a more pleasant and comfortable driving experience.

INFORMATION AND COMMUNICATION SYSTEMS

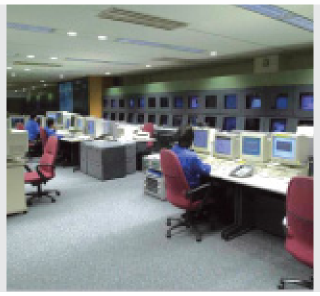
The telecommunications business saw an increase in orders and sales compared to the previous fiscal year as a result of stronger demand for 3G mobile handsets and optical broadband access system products in Japan. The information systems and services business posted a sales increase due to growth in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



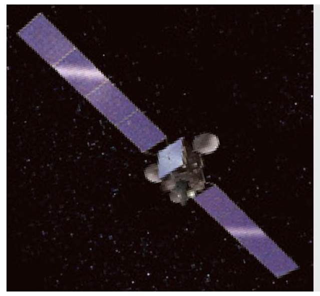
Information Protection Solutions

Advanced solutions for the era of heightened information protection needs through MISTY encryption and other coding technologies. They have proven track records in use at both government and financial institutions.



Integrated Control Center

This Center of Mitsubishi Electric Information Network Corporation operates and monitors customers' systems 24/7/365 and boasts state-of-the-art security services. It helps reduce customer costs and brings them peace of mind.



Superbird 7 Communications Satellite

Employing the Mitsubishi commercial satellite platform DS2000, this is the first commercial communications satellite developed in Japan. We're in charge of the satellite's design, manufacture, testing, and launch, as well as the construction of satellite control facilities and the satellite's in-orbit testing. Delivery is planned for 2008.

AQLOC High-Performance, Bluetooth-Compatible GPS Receivers

A highly accurate GPS receiver compatible with Bluetooth. AQLOC can link wirelessly to a number of devices. Its compact, water-resistant design makes it suitable for use outdoors even during inclement weather. It can be used for routine maintenance, shipping operations, and more.

Optical Broadband Access Systems

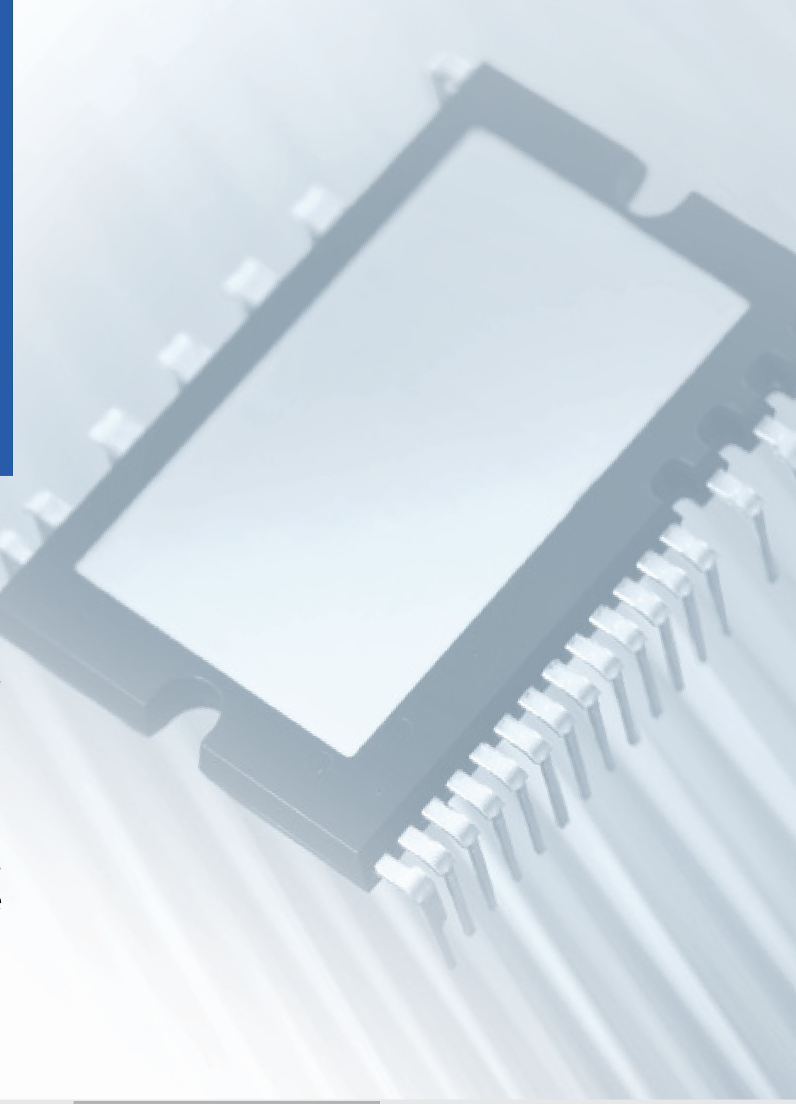
Mitsubishi Electric's Passive Optical Network (PON) systems let communications carriers create economical access networks that satisfy the growing demand for broadband services. As data volume expands with the increasing number of video content services, PON is helping to support the creation of a fully-networked society.

Mobile Handsets

Mitsubishi Electric develops and markets an array of FOMA* handsets, from the slim, wide-screen, slide-open types, to the call-only variety designed for simplicity and peace of mind. Our handsets are helping to spread the popularity of 3G services.

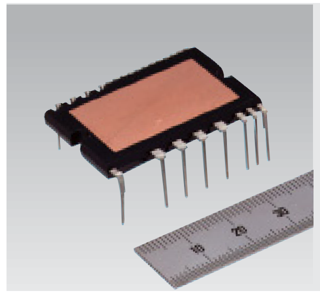
*FOMA is a registered trademark of NTT DoCoMo, Inc.

ELECTRONIC DEVICES



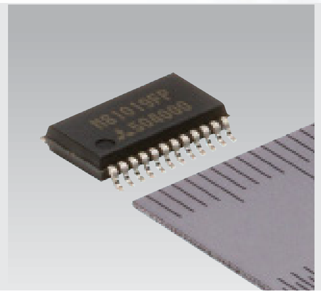
The semiconductor business saw an increase in both orders and sales from the previous fiscal year due to increases in power modules for hybrid cars and domestic industrial machinery, as well as red laser diodes for recordable DVD players. The liquid crystal business saw a decrease in orders and sales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



DIP-IPM Ultra-Small Package Version 4 Series

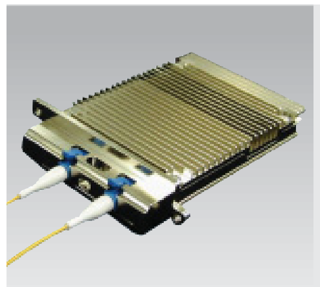
By using high-heat radiation insulating sheets, Mitsubishi Electric has decreased the size of packaging for inverter products to 60% (15A/600V) of conventional size, making it possible to reduce the dimensions of inverter products for home electronics. The packaging is eco-friendly and completely lead-free.



1200V HVIC for Inverter Systems

Mitsubishi Electric-developed HVIC*1 technology drives semiconductor elements for switching on AC400V outlet inverter systems. It boasts the industry's leading voltage resistance, able to withstand 1200 volts. Compliant with RoHS*2 standards, it can also be used with products destined for overseas markets.

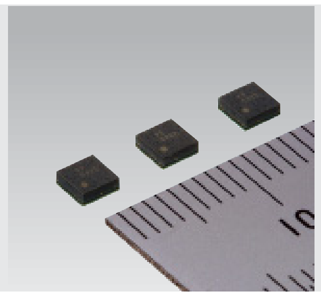
*1 HVIC: High Voltage Integrated Circuit
*2 RoHS: European Union directive on "restriction of the use of six certain hazardous substances in electrical and electronic equipment"



MF-10KSXB Series 10 Gbps Optical Receiver-Transmitters

This compact series is compatible with XFP* electrical connection parameters. Capable of sending 10Gb of data over an impressive 40km distance every second, it is meeting new needs as optical networks continue to expand.

*XFP: A standard for optical receiver-transmitters established by manufacturers of optical communication-related equipment for the purpose of realizing a common format for data transmission standards such as ITU-T, 10Gbps, 10Gbps Ethernet and others.

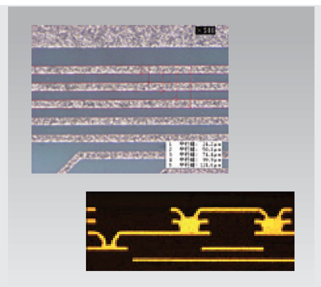


Power Amplifier Module for GaAsHBT Transmission with W-CDMA Format Mobile Handsets

The industry's most compact power amplifier modules for sending data through W-CDMA format multi-band mobile handsets. These modules will help to make mobile handsets more compact and slim.

Transflective 8.4-inch VGA Color LCD Modules

Modules that display brilliant colors even in bright outdoor light by utilizing the transflective LCD format, which combines both transmissive and reflective format properties. They achieve the industry's top-rated contrast ratios of 200:1 (transmissive) and 20:1 (reflective) and are easy to view from almost any angle.

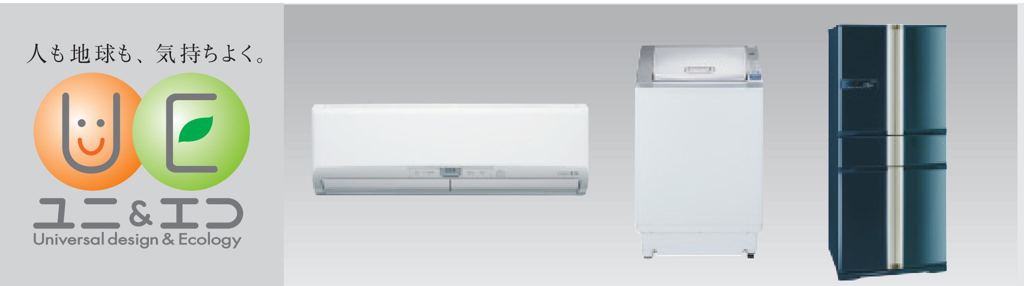


All-Glass Cloth Epoxy Buildup Substrates

Slender, extremely high-density, all-glass cloth epoxy buildup substrates that are optimal for mobile information devices. Four layers are just 0.25mm thick, and eight layers are a mere 0.55mm thick.

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.



Uni & Eco Home Appliance Lineup

Mitsubishi Electric's commitment to realizing a sustainable society is reflected in its "Uni & Eco" products. These products are energy- and resource-saving, incorporate advanced recycling technologies, and have been designed for ease of use by all. ("Uni" stands for universal design and "Eco" stands for ecology.)

All-Electrified Housing Products

Working to achieve co-existence with the environment and adhere to a recycling-oriented society, Mitsubishi Electric strives to create high-quality, long-lasting products for all-electrified housing products. Advances include enhanced safety, convenience and comfort.

Digital AV

We have created eco-friendly digital AV products for markets in Japan and the United States that go beyond the concept of universal design. In the U.S., we are combining our latest large-screen TV technologies with our home AV-network systems.

DLP®Display Wall

Our high-quality image technologies deliver exceptionally sharp color reproduction, with product variations developed to suit almost any user need. These systems are being utilized in Japan and abroad for large screens that display images, data and information.

*DLP® is a registered trademark of Texas Instruments Incorporated, U.S.A.

Basic Corporate Governance Policy

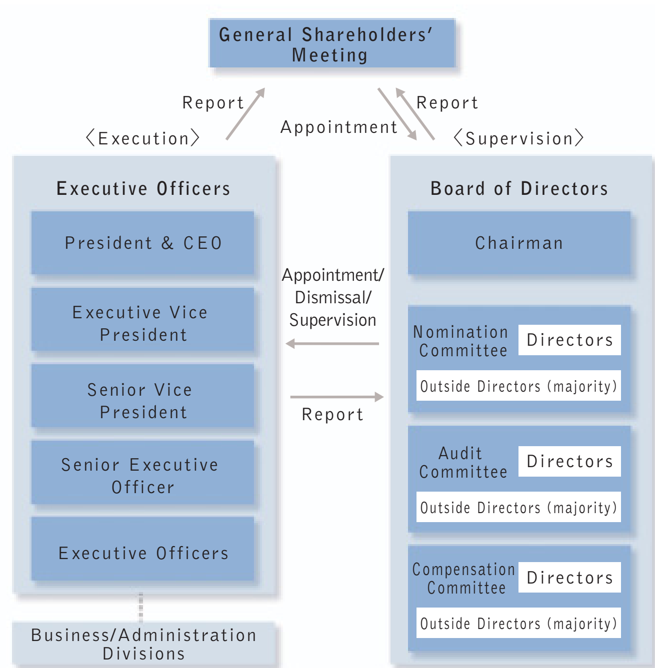
Mitsubishi Electric strives to pursue continuous growth by enhancing flexibility in its operations and by promoting management transparency. At the same time, the Company consistently endeavors to reinforce the supervisory functions of management. Our basic policy consists of the establishment of an efficient corporate governance structure that is responsive to various expectations from diverse stakeholders (including both customers and shareholders, among others) and through this, we aim to boost our corporate value.

Current Status of Implementation of Various Measures Relating to Corporate Governance

Company Organization and Development of Internal Control Systems

In June 2003, Mitsubishi Electric reformed its management structure when it changed its corporate structure to a committee system. The supervisory and executive powers of management were thus separated, with the board of directors handling supervisory decisions and executive officers handling executive decisions.

The present board is comprised of twelve directors (five of whom are outside directors) offering advice and supervision to management from an objective standpoint. The board of directors has three internal bodies: the Nomination, Audit and Compensation Committees. Each body has five members, three of which are outside directors. The Audit Committee has its own dedicated, independent support staff.



A key feature of our management structure is the separation of the Chairman and the CEO, with the Chairman acting as head of the supervisory functions as a member of the board of directors and the President & CEO acting as the head of the executive officers. Neither the Chairman nor the President is a member of the Nomination or Compensation Committee. This clear separation of supervisory and executive powers makes our corporate governance more effective.

To maintain compliance and secure management efficiency, each executive officer possesses responsibility for their individual scope of duties, with operating conditions being audited by internal auditors (Corporate Auditing Div.). The internal auditors and outside auditors report their audit results to the Audit Committee and executive officers in charge.

Development of Risk Management System

The risk management system is constructed so that each executive officer possesses responsibility for his assigned duties. In addition, important management implementations are discussed and decided by all the executive officers in the executive officers' meetings. The synergistic effect of all executive officers participating in management and information creates a multi-dimensional risk management system.

Internal Audit and Inspections by the Audit Committee and Independent Auditors

The Corporate Auditing Div. conducts its internal audits from a fair and impartial standpoint by having its own dedicated staff, in addition to supporting auditors that represent the special interests of relevant departments.

The Audit Committee consists of five directors, of which three are outside directors. In accordance with the policies and assignments agreed to by the committee, inspections are conducted by competent members into the performance of the directors and executive officers, as well as affiliated companies.

The Audit Committee receives reports from the internal auditors (Corporate Auditing Div.) and exchanges information through a series of periodic meetings and discussions on auditing policies. In addition, the Audit Committee has the opportunity to discuss policies and methods of audits with independent auditors, and it will receive reports on the status and results of the audit, along with the mutual exchange of opinions.

KPMG AZSA & Co. has been retained as the independent auditor. KPMG AZSA & Co. appoints partners in charge, and the firm has designated Mr. Yoshihiko Nakamura, Mr. Hiroto Kaneko, and Mr. Ryoji Fujii as the partners in charge of handling the auditing of Mitsubishi Electric. Support staff for handling the auditing tasks will consist of appropriate CPAs and JAs from KPMG AZSA & Co. Mitsubishi Electric will maintain an environment in which fair and impartial audits can be conducted, and that includes providing relevant management information to KPMG AZSA & Co.

DIRECTORS AND EXECUTIVE OFFICERS

(As of June 29, 2006)

Directors

Chairman:
Tamotsu Nomakuchi

Directors:

Setsuhiro Shimomura	President & CEO
Fumitada Shimana	Executive Vice President
Yukihiro Sato	Senior Vice President
Masanori Saito	Senior Executive Officer
Eiichiro Mizuta	
Kazuo Sawamoto	
Hiroyoshi Murayama	Outside Director
Tsuneo Wakai	Outside Director
Shunji Yanai	Outside Director
Osamu Shigeta	Outside Director
Mikio Sasaki	Outside Director

Executive Officers

President & CEO:
Setsuhiro Shimomura

Executive Vice Presidents:

Yoshifumi Ito	In charge of: Export Control; Communication Systems
Fumitada Shimana	In charge of: Strategy; Operations of Associated Companies

Senior Vice Presidents:

Takahiko Kondo	In charge of: Information Systems & Network Service
Yukihiro Sato	In charge of: Accounting; Finance
Kenichi Azuma	In charge of: Living Environment & Digital Media Equipment

Senior Executive Officers:

Yokichi Hirota	In charge of: Electronic Systems
Eisuke Saotome	In charge of: Global Strategic Marketing & Operations
Yoshikazu Wakabayashi	In charge of: Domestic Marketing
Shuichi Sato	In charge of: Energy & Industrial Systems
Masanori Saito	In charge of: General Affairs; Human Resources; Public Relations
Kunio Tomita	In charge of: Purchasing; Advertising
Akira Sugiyama	In charge of: Factory Automation Systems

Executive Officers:

Mitsuo Muneyuki	In charge of: Public Utility Systems
Yasuji Nagayama	In charge of: Semiconductors & Devices
Atsushi Ueda	In charge of: Automotive Equipment
Kazuyuki Nakamura	In charge of: Living Environment & Digital Media Equipment
Ryo Tokunaga	In charge of: Auditing; Government & External Relations; Legal Affairs; Export Control; Intellectual Property
Kazuo Kyuma	In charge of: Research and Development
Makoto Kondo	In charge of: Building Systems
Kenichiro Yamanishi	In charge of: Total Productivity Management & Environmental Programs

ORGANIZATION

(As of June 29, 2006)

- Board of Directors
  Chairman
  - Nomination Committee
  - Audit Committee
  - Compensation Committee
- Audit Committee Office
- Executive Officers' Meeting
  - President & CEO
  - Executive Vice Presidents
  - Senior Vice Presidents
  - Senior Executive Officers
  - Executive Officers

- Corporate Auditing Div.
- Corporate Strategic Planning Div.
- Associated Companies Div.
- Government & External Relations Div.
- Corporate Administration Div.
- Corporate Human Resources Div.
- Corporate Accounting Div.
- Corporate Finance Div.
- Corporate Purchasing Div.
- Public Relations Div.
- Advertising Div.
- Global Strategic Marketing & Operations Div.
  - Regional Corporate Offices
    - Americas (U.S.A)
    - Europe (U.K)
    - Asia (Singapore)
    - China
    - Taiwan
- Legal Div.
- Corporate Export Control Div.
- Corporate Licensing Div.
- Corporate Intellectual Property Div.

- Corporate Marketing Group
  - Business Planning Office
  - Market Planning & Administration Dept.
  - Marketing Research & Business Development Dept.
  - Branch Offices (Hokkaido, Tohoku, Kanetsu, Kanagawa, Hokuriku, Chubu, Kansai, Chugoku, Shikoku, Kyushu)
- Corporate Total Productivity Management & Environmental Programs Group
  - Corporate Productivity Engineering Dept.
  - Corporate Quality Assurance Planning Dept.
  - Corporate Environmental Sustainability Group
  - Corporate Logistics Dept.
  - Information Technology Center
  - Design Systems Engineering Center
  - Manufacturing Engineering Center
- Corporate Research and Development Group
  - Planning & Administration Dept.
  - Advanced Technology R&D Center
  - Information Technology R&D Center
  - Industrial Design Center
- Information Systems & Network Service Group
  - Planning & Administration Dept.
  - Strategic IT Business Planning Dept.
  - Marketing Dept.
- Public Utility Systems Group
  - Planning & Administration Dept.
  - ITS Business Development Group
  - Public-Use Systems Marketing Div.
  - Transportation Systems Div.
  - Overseas Marketing Div.
  - Plant Engineering & Construction Div.
  - Branch Offices
  - Kobe Works, Itami Works, Nagasaki Works
- Energy & Industrial Systems Group
  - Planning & Administration Dept.
  - Nuclear Fusion Development Dept.
  - Nuclear Power Plant Quality Assurance Dept.
  - Power Systems Marketing Div.
  - Overseas Marketing Div.
  - Power Plant Engineering & Construction Center
  - Branch Offices
  - Energy Systems Center, Transmission & Distribution Systems Center, Power Distribution Systems Center
- Building Systems Group
  - Planning & Administration Div.
  - Domestic Marketing Div.
  - Overseas Marketing Div.
  - Branch Offices
  - Inazawa Works
- Electronic Systems Group
  - Planning & Administration Dept.
  - Defense Systems Div.
  - Space Systems Div.
  - IT Space Solutions Div.
  - Branch Offices
  - Communication Systems Center, Kamakura Works
- Communication Systems Group
  - Planning & Administration Dept.
  - Communication Systems Engineering Center
  - Telecommunication Systems Sales & Marketing Div.
  - NTT Projects Div.
  - Branch Offices
  - Communication Networks Center, Mobile Terminal Center
- Living Environment & Digital Media Equipment Group
  - Planning & Administration Dept.
  - Engineering Dept.
  - External Relations Dept.
  - Customer Satisfaction Promotion Dept.
  - Marketing & Operations Strategic Planning Dept.
  - Global Strategy Planning Dept.
  - Air-Conditioning & Refrigeration Systems Div.
  - Lighting, Ventilation & Housing Systems Div.
  - Home Appliances Div.
  - Digital Media Equipment Div.
  - Living Environment Systems Laboratory
  - Branch Offices
  - Nakatsugawa Works, Air-Conditioning & Refrigeration Systems Works, Shizuoka Works, Kyoto Works, Gunma Works, Nagasaki Works
- Factory Automation Systems Group
  - Planning & Administration Dept.
  - Industrial Products Marketing Div.
  - Industrial Automation Marketing Div.
  - Overseas Marketing Div.
  - Branch Offices
  - Nagoya Works, Fukuyama Works
- Automotive Equipment Group
  - Planning & Administration Dept.
  - Automotive Equipment Marketing Div.
  - Automotive Electronics Development Center
  - Branch Offices
  - Himeji Works, Sanda Works
- Semiconductor & Device Group
  - Planning & Administration Div.
  - Semiconductor & Device Marketing Div. A
  - Semiconductor & Device Marketing Div. B
  - LCD Div.
  - Branch Offices
  - Power Device Works, High Frequency & Optical Device Works, Build-up PWB Factory

SUBSIDIARIES AND AFFILIATES

	Manufacturing	Sales/Installation/Services	Comprehensive Sales Companies
Energy and Electric Systems	Tada Electric Co., Ltd. Mitsubishi Electric Power Products, Inc. Mitsubishi Elevator Asia Co., Ltd. Toshiba Mitsubishi-Electric Industrial Systems Corporation Mitsubishi Hitachi Home Elevator Corporation Shanghai Mitsubishi Elevator Co., Ltd.	Mitsubishi Electric Building Techno-Service Co., Ltd. Mitsubishi Electric Plant Engineering Corporation Ryoden Elevator Construction, Ltd. Mitsubishi Electric Control Software Co. Mitsubishi Elevator Korea Co., Ltd. Mitsubishi Elevator Hong Kong Co., Ltd. ETA-Melco Elevator Co. L.L.C.	Chiyoda Mitsubishi Electric Co., Ltd. and other regional comprehensive sales companies (10 companies) Mitsubishi Electric Europe B.V. Mitsubishi Electric Taiwan Co., Ltd. Mitsubishi Electric & Electronics USA, Inc. Mitsubishi Electric (H.K.) Ltd. Mitsubishi Electric Australia Pty. Ltd. Mitsubishi Electric Asia Pte. Ltd. Ryoden Trading Co., Ltd. Kanaden Corp. Mansei Corp.
Industrial Automation Systems	Meiryo Technica Co., Ltd. DB Seiko Co., Ltd. Seturyo Technica Co., Ltd. Mitsubishi Electric Automotive America, Inc. Mitsubishi Electric Automation, Inc. Mitsubishi Electric Thai Auto-Parts Co., Ltd. Mitsubishi Electric Dalian Industrial Products Co., Ltd. Shizuki Electric Co., Inc. Nippon Injector Corp. Shihlin Electric & Engineering Corp.	Ryowa Corp. Meldas System Engineering Corp. Ryoden Koki Engineering Co., Ltd. Mitsubishi Electric Automation (HongKong)Ltd. Mitsubishi Electric Automation Korea Co., Ltd. Setsuyo Astec Corporation	
Information and Communication Systems	Mitsubishi Electric TOKKI Systems Corporation Mitsubishi Precision Co., Ltd. SPC Electronics Corp. Ryoden Shonan Electronics Corporation Mitsubishi Soyea Mobile Communication Equipment Co., Ltd. Miyoshi Electronics Corp. Seiryo Electric Co., Ltd. Oi Electric Co., Ltd.	Diamond Telecommunication Co., Ltd. Mitsubishi Electric Information Systems Corporation Mitsubishi Electric Information Network Corporation Mitsubishi Electric Information Technology Corporation Mitsubishi Electric Business Systems Co., Ltd. Mitsubishi Space Software Co., Ltd. Mitsubishi Electric Micro-Computer Application Software Co., Ltd. Itec Hanshin Co., Ltd.	
Electronic Devices	Melco Display Technology Inc. Mitsubishi Electric Metecs Co., Ltd. SORYO Electronic Devices Corporation Renesas Technology Corp. Optrex Corp Powerex, Inc.	Fukuryo Semiconductor Engineering Corporation	
Home Appliances	Mitsubishi Electric Home Appliance Co., Ltd. Nihon Kentetsu Co., Ltd. Mitsubishi Electric Lighting Corp. Mitsubishi Digital Electronics America, Inc. Mitsubishi Electric Consumer Products (Thailand) Co., Ltd. Mitsubishi Electric (Guangzhou) Compressor Co., Ltd. Siam Compressor Industry Co., Ltd. Shanghai Mitsubishi Electric & Shangling Air-Conditioner and Electric Appliance Co., Ltd. Osram Melco Ltd. China Electric Manufacturing Corp.	Mitsubishi Electric Living Environment Systems Corporation Mitsubishi Electric Life-Network Co., Ltd. Mitsubishi Electric Osram Ltd. Mitsubishi Electric Air Conditioning & Refrigeration Equipment Sales Co., Ltd. Mitsubishi Electric Air Conditioning & Refrigeration Systems Co., Ltd. Digitec Industrial Ltd. Mitsubishi Electric Kang Yong Watana Co., Ltd.	
Others		Mitsubishi Electric Trading Corporation Mitsubishi Electric Logistics Corp. Mitsubishi Electric System & Service Co., Ltd. Mitsubishi Electric Engineering Co., Ltd. Mitsubishi Electric Life Service Corporation The Kodensha Co., Ltd. iPLANET Inc. Mitsubishi Electric Credit Corporation. KITA KOUDENSHA Corporation	

Notes:1. Comprehensive sales companies include several companies that are responsible for selling products from a number of businesses, and therefore are put into their own separate category rather than separating them by business segment.
2. Companies in shaded areas are consolidated subsidiaries, while those in non-shaded areas are equity-method affiliate companies.

FINANCIAL SECTION

CONTENTS

FIVE-YEAR SUMMARY

Mitsubishi Electric Corporation and Subsidiaries

Years ended March 31	2006	2005	2004	2003	2002	2006
					Yen (millions)	U.S. dollars (thousands)
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 A∑21 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.

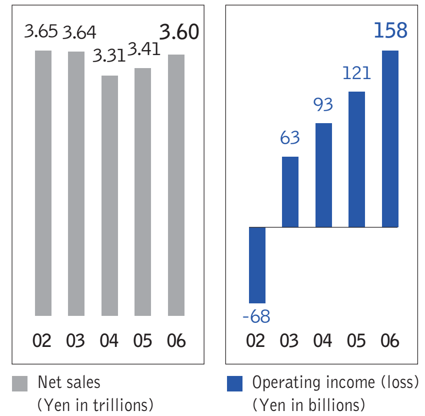
Income Before Income Taxes

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.

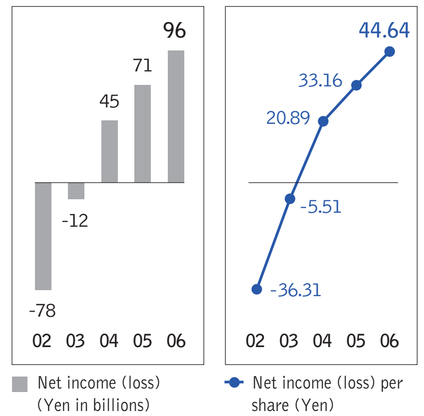
Net Income

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

	Yen (millions)					U.S. dollars (thousands)
Years ended March 31	**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

	Yen (millions)					U.S. dollars (thousands)
Years ended March 31	**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**

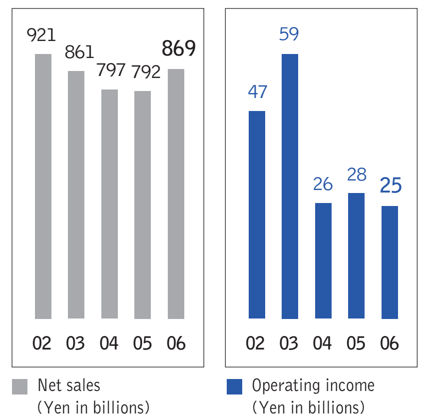
Energy and Electric Systems

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



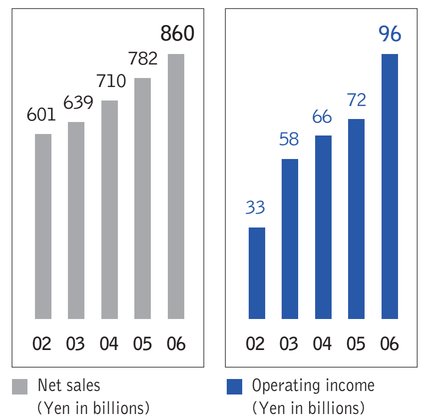
Industrial Automation Systems

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.

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.

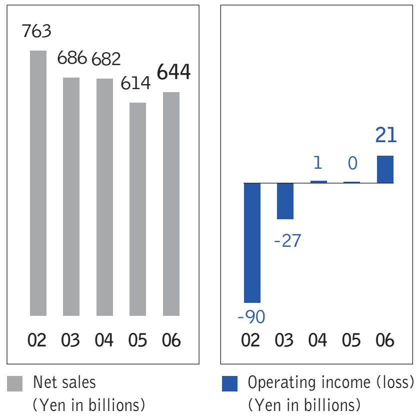
Home Appliances

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.

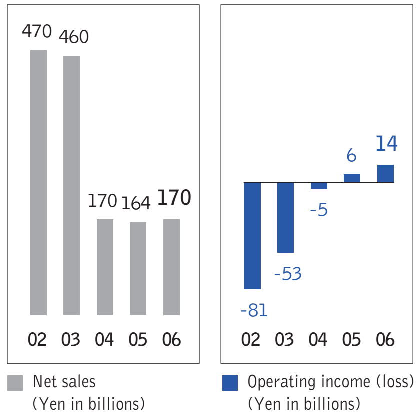
Others

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.

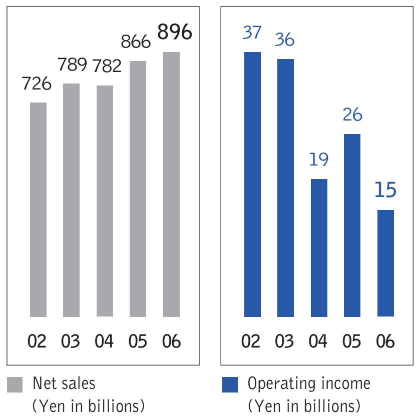
Net sales and Operating income (loss) of Information and Communication Systems



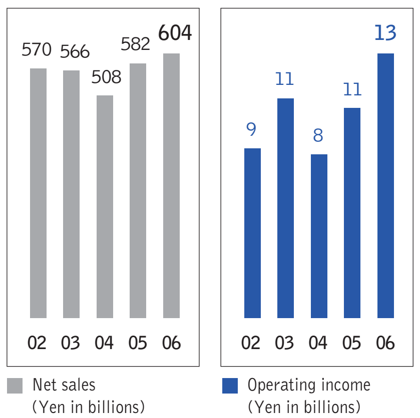
Net sales and Operating income (loss) of Electronic Devices



Net sales and Operating income of Home Appliances



Net sales and Operating income of Others



RESULTS BY GEOGRAPHIC SEGMENT

Net Sales by Geographic Segment

	Yen (millions)					U.S. dollars (thousands)
Years ended March 31	**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

	Yen (millions)					U.S. dollars (thousands)
Years ended March 31	**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	2006	2005	2004	2003	2002	2006
	Yen (billions)					U.S. dollars (millions)
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.

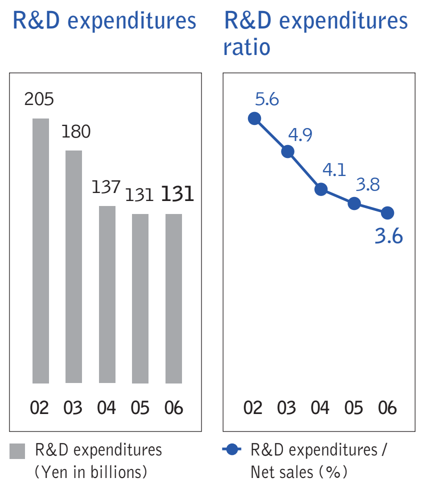
The Mitsubishi Electric Group actively promotes a wide range of research and development (R&D) activities embracing fundamental to advanced application research, development for the commercialization of particular technologies, and R&D for improving productivity. Such R&D efforts involve various facilities 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 MELOOK series digital CCTVs; QuickSBC anti-divulgation 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.

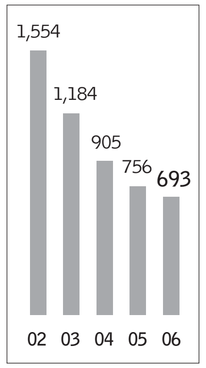
FINANCIAL POSITION

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.

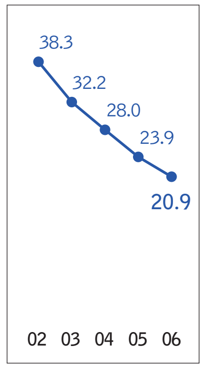
Shareholders' equity increased ¥221.6 billion year on year to ¥942.2 billion, reflecting ¥95.7 billion in net income, a reduction in deductions for minimum pension liability adjustments commensurate with increases in share prices, and an increase in unrealized gains on securities. The ratio of shareholders' 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



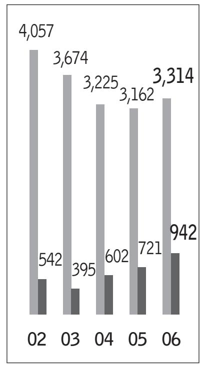
Interest-bearing debt (Yen in billions)

Debt ratio



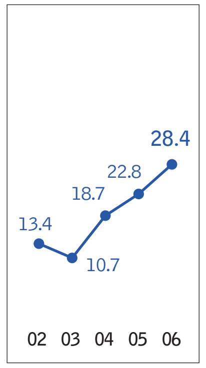
Interest-bearing debt / Total assets (%)

Total assets / Shareholders' equity



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

Shareholders' equity ratio



Shareholders' equity ratio (%)

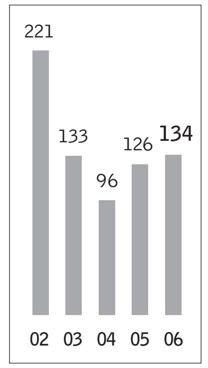
CAPITAL EXPENDITURES

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.

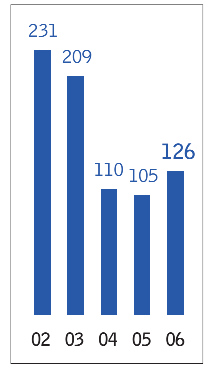
Capital expenditure is essentially derived from cash on hand and funds from operations. During the fiscal year under review, production capacity was not materially affected by the sale, disposal, damage or loss by natural disaster of fixed assets.

Capital expenditures



Capital expenditures (Yen in billions)

Depreciation



Depreciation (Yen in billions)

CASH FLOWS

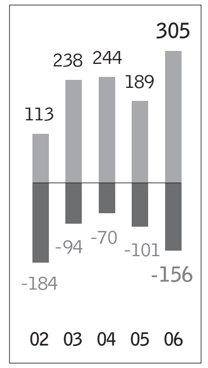
In the fiscal year under review, net cash provided by operating activities amounted to ¥304.8 billion. Net cash used in investing activities was ¥156.2 billion, and as a result, free cash flows totaled ¥148.6 billion, an increase of ¥60.8 billion from the previous fiscal year. Net cash used in financing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

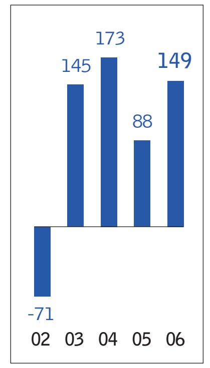
Net cash used in investing activities increased ¥55.1 billion to ¥156.2 billion, reflecting capital expenditures mainly in industrial automation and automotive equipment, as well as payment for purchasing of associated assets and liabilities relating to joint venture dissolution of the merger of the 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) 2006	2005	U.S. dollars (thousands) (note 2) 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) 2006	2005	U.S. dollars (thousands) (note 2) 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 INCOME

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
Revenues:				
Net sales	¥ 3,604,185	¥ 3,410,685	¥ 3,309,651	$30,805,000
Interest and dividends	9,492	7,437	8,868	81,128
Gains on securities contributed to employee retirement benefit trust (notes 3 and 21)	—	—	9,378	—
Gain on transfer of the substitutional portion of Employee Pension Funds (note 10)	17,767	2,718	—	151,855
Other (notes 3, 10, 13 and 19)	18,721	26,235	43,935	160,009
Total revenues	3,650,165	3,447,075	3,371,832	31,197,992
Costs and expenses:				
Cost of sales (notes 10 and 20)	2,694,985	2,559,499	2,508,519	23,034,060
Selling, general and administrative (notes 10, 19 and 20)	630,438	612,430	583,098	5,388,359
Research and development	121,044	118,114	125,317	1,034,564
Interest	9,648	10,868	14,823	82,462
Loss on transfer of the substitutional portion of Employee Pension Funds (note 10)	—	—	9,384	—
Other (notes 3, 13, 16 and 19)	41,724	43,848	45,907	356,615
Total costs and expenses	3,497,839	3,344,759	3,287,048	29,896,060
Income before income taxes	152,326	102,316	84,784	1,301,932
Income taxes (note 9):				
Current	46,905	31,169	25,479	400,897
Deferred	22,796	17,001	20,119	194,838
	69,701	48,170	45,598	595,735
Income from consolidated operations	82,625	54,146	39,186	706,197
Equity in earnings of affiliated companies (note 6)	13,067	17,029	5,653	111,683
Net income	¥ 95,692	¥ 71,175	¥ 44,839	$ 817,880

Net income per share (note 14):

	Yen			U.S. dollars (note 2)
Basic	¥ 44.64	¥ 33.16	¥ 20.89	$ 0.382
Diluted	44.63	33.16	20.74	0.381

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

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

Yen (millions)

	Common stock	Capital surplus	Legal reserve	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total
Balance at March 31, 2003	¥ 175,820	¥ 210,671	¥ 51,395	¥ 299,456	¥ (342,687)	¥ (68)	¥ 394,587
Comprehensive income (loss):							
Net income				44,839			44,839
Other comprehensive income (loss), net of tax (note 13):							
Foreign currency translation adjustments					(15,762)		(15,762)
Minimum pension liability adjustments (note 10)					153,702		153,702
Unrealized gains (losses) on securities (note 3)					30,910		30,910
							213,689
Transfer to legal reserve			488	(488)			—
Cash dividends				(6,440)			(6,440)
Purchase of treasury stock						(310)	(310)
Reissuance of treasury stock		1				5	6
Balance at March 31, 2004	¥ 175,820	¥ 210,672	¥ 51,883	¥ 337,367	¥ (173,837)	¥ (373)	¥ 601,532
Comprehensive income (loss):							
Net income				71,175			71,175
Other comprehensive income (loss), net of tax (note 13):							
Foreign currency translation adjustments					5,726		5,726
Minimum pension liability adjustments (note 10)					54,186		54,186
Unrealized gains (losses) on securities (note 3)					903		903
							131,990
Transfer to legal reserve			713	(713)			—
Cash dividends				(12,877)			(12,877)
Purchase of treasury stock						(58)	(58)
Reissuance of treasury stock		15				35	50
Balance at March 31, 2005	¥175,820	¥210,687	¥52,596	¥394,952	¥(113,022)	¥ (396)	¥720,637
Comprehensive income (loss):							
Net income				95,692			95,692
Other comprehensive income (loss), net of tax (note 13):							
Foreign currency translation adjustments					20,148		20,148
Minimum pension liability adjustments (note 10)					79,963		79,963
Unrealized gains (losses) on securities (note 3)					40,612		40,612
Unrealized gains (losses) on derivative instruments					17		17
							236,432
Transfer to legal reserve			1,918	(1,918)			—
Cash dividends				(15,000)			(15,000)
Purchase of treasury stock						(4,583)	(4,583)
Reissuance of treasury stock		251				4,465	4,716
Balance at March 31, 2006	¥ 175,820	¥ 210,938	¥ 54,514	¥ 473,726	¥ 27,718	¥ (514)	¥ 942,202

U.S. dollars (thousands) (note 2)

	Common stock	Capital surplus	Legal reserve	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total
Balance at March 31, 2005	$1,502,735	$1,800,744	$449,539	$3,375,658	$(966,000)	$ (3,384)	$6,159,292
Comprehensive income (loss):							
Net income				817,880			817,880
Other comprehensive income (loss), net of tax (note 13):							
Foreign currency translation adjustments					172,205		172,205
Minimum pension liability adjustments (note 10)					683,445		683,445
Unrealized gains (losses) on securities (note 3)					347,111		347,111
Unrealized gains (losses) on derivative instruments					145		145
							2,020,786
Transfer to legal reserve			16,393	(16,393)			—
Cash dividends				(128,205)			(128,205)
Purchase of treasury stock						(39,171)	(39,171)
Reissuance of treasury stock		2,145				38,162	40,307
Balance at March 31, 2006	$ 1,502,735	$ 1,802,889	$ 465,932	$ 4,048,940	$ 236,906	$ (4,393)	$8,053,009

See accompanying notes to consolidated financial statements.

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.

Mitsubishi Electric Corporation and Subsidiaries

(1) BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Description of Business

Mitsubishi Electric Corporation (the "Company") is a multinational concern which develops, manufactures 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 ($55,265 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
	¥ 7,996	¥ 38	¥ 43	¥ 7,991
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
	¥ 149,173	¥ 130,624	¥ 3,034	¥ 276,763

				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
	¥ 23,561	¥ 174	¥ 16	¥ 23,719
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
	¥129,694	¥63,507	¥1,258	¥191,943

				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**
	$ 68,342	**$ 325**	**$ 368**	**$ 68,299**
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**
	$1,274,983	**$1,116,445**	**$ 25,932**	**$2,365,496**

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
	¥ 157,169	¥ 284,754	$1,343,325	$ 2,433,795

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
	¥ 1,460	¥ 40	¥ 97	¥ 3	¥ 1,557	¥ 43
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
	¥42,088	¥ 2,283	¥10,248	¥ 751	¥52,336	¥ 3,034

						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
	$ 12,479	$ 342	$ 829	$ 26	$ 13,308	$ 368
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
	$359,726	$19,513	$87,590	$ 6,419	$447,316	$25,932

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) 2006	2005	U.S. dollars (thousands) 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)
	¥843,600	¥789,463	$7,210,256

(5) INVENTORIES

Inventories are comprised of the following:

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

(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) 2006	2005	U.S. dollars (thousands) 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	¥ 2,043,643	¥ 2,086,582	$17,467,034
Current liabilities	¥ 1,052,611	¥ 1,066,601	$ 8,996,675
Long-term debt	360,622	407,200	3,082,239
Total liabilities	1,413,233	1,473,801	12,078,914
Shareholders' equity	630,410	612,781	5,388,120
Total liabilities and shareholders' equity	¥ 2,043,643	¥ 2,086,582	$17,467,034

	Yen (millions) 2006	2005	2004	U.S. dollars (thousands) 2006
Results of Operations				
Sales	¥ 2,033,109	¥ 2,424,823	¥ 2,314,136	$17,377,000
Net income	31,168	45,389	15,365	266,393

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 amounted 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) 2006	2005	U.S. dollars (thousands) 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) 2006	2005	U.S. dollars (thousands) 2006
Bank borrowings	¥93,958	¥ 93,789	$803,060
Commercial paper	—	40,000	—
	¥93,958	¥ 133,789	$803,060

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) 2006	2005	U.S. dollars (thousands) 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) 2006	2005	U.S. dollars (thousands) 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) 2006	2005	2004	U.S. dollars (thousands) 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) 2006	2005	2004	U.S. dollars (thousands) 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:

	2006	2005
Asset Category		
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%
	100.0%	100.0%

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:

	Shares	
	2006	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

	Before-tax amount	Tax (expense) or benefit	Net-of-tax amount
			Yen (millions)
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)	¥99,184	¥(38,369)	¥60,815

	Before-tax amount	Tax (expense) or benefit	Net-of-tax amount
			Yen (millions)
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)	¥310,097	¥(141,247)	¥168,850

	Before-tax amount	Tax (expense) or benefit	Net-of-tax amount
			U.S. dollars (thousands)
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)	**$1,973,590**	**$ (770,684)**	**$1,202,906**

(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	**¥95,692**	¥71,175	¥45,298	**$ 817,880**

	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	**2,143,885,765**	2,146,353,780	2,184,162,506

	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, 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.

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, 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:

	Yen (millions)			U.S. dollars (thousands)
	2006	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:

	Yen (millions)				U.S. dollars (thousands)	
	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.

KPMG

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.

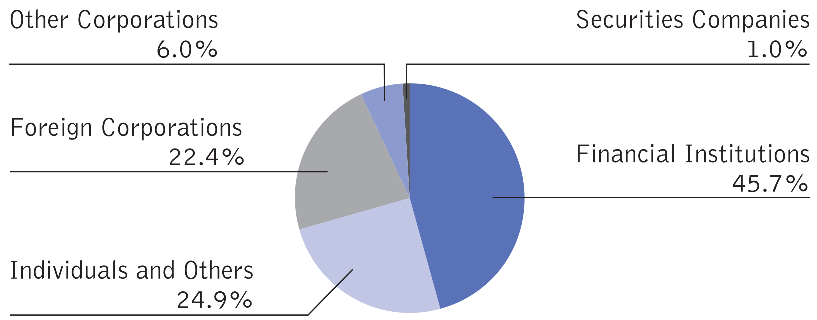
KPMG AZSA & Co.

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

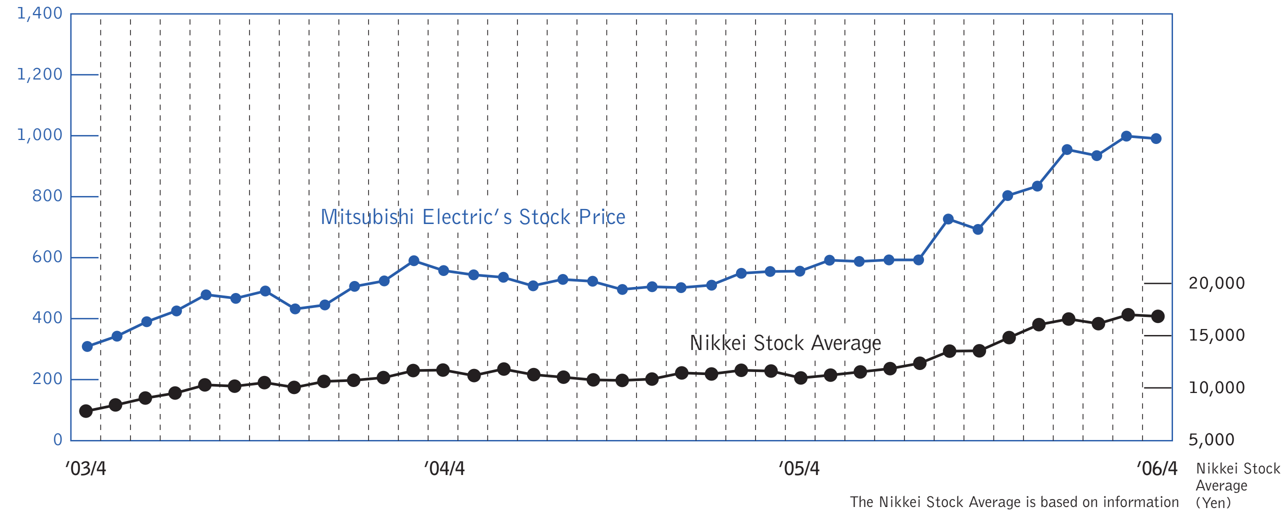
Major Shareholders

	Number of Shares (thousands)	Percentage of Total
The Master Trust Bank of Japan, Ltd. (Trust Account)	168,057	7.8%
Japan Trustee Services Bank, Ltd. (Trust Account)	133,393	6.2%
Meiji Yasuda Life Insurance Company	84,892	4.0%
Nippon Life Insurance Company	70,437	3.3%
Mitsubishi Electric Group Employees' Shareholding Union	63,015	2.9%
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	61,370	2.9%
State Street Bank and Trust Company 505103	53,331	2.5%
The Dai-ichi Mutual Life Insurance Company	37,360	1.7%
Japan Trustee Services Bank, Ltd. (Trust Account 4)	34,829	1.6%
Trust & Custody Services Bank, Ltd. (Trust Account B)	26,405	1.2%

Distribution of Shareholders



Stock Price (Yen)



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Annual Meeting

The annual meeting of shareholders of the Corporation is normally held in June each year. In addition, the Corporation may hold a special meeting of shareholders as necessary, giving at least two weeks advance notice to shareholders.

Stock Exchange Listings

Japan: Tokyo, Osaka
Europe: London, Euronext (Amsterdam), Frankfurt

MITSUBISHI ELECTRIC CORPORATION

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