Annual Report

For the year ended March 31,2002

2002

Changes for the Better

MITSUBISHI ELECTRIC

Welcome to Mitsubishi Electric

To Our Shareholders

In fiscal 2002, ended 31 March, 2002, Mitsubishi Electric faced a difficult business year. The operating environment was defined by the global economic slow down, shrinking capital expenditure especially aggravated by the IT recession and sluggish consumption.

To counter these unfavorable market conditions, Mitsubishi Electric took various measures to improve business performance. We gained tighter control over assets and fixed costs by restricting capital expenditure for more focused investment on material items, and reduced cost and expenses. We also promoted the improvement of productivity and quality assurance. By such efforts, we strove to improve operating results. However, such measures were not enough to overcome the severe business environment and the consolidated results in the year under review were somewhat disappointing. Net sales were ¥3.65 trillion, a 12% decline from the previous fiscal year and loss before income tax was ¥155.1 billion, with a resulting net loss of ¥78.0 billion.

The operating environment surrounding Mitsubishi Electric still remains unclear and we are inclined to assume that, for some time, the stagnant economic situation will continue without enough strength toward sustainable recovery.

To take the Group forward in this unfavorable situation, Mitsubishi Electric has developed various managerial measures for implementing structural reform and improving business performance based on the three concepts of “Growth”, “Profitability & Efficiency” and “Soundness”. By virtue of these measures, we will devote ourselves to the quick recovery of our business and to reinforce our managerial foundation.

In particular, we will commit ourselves to improved profitability in businesses like semiconductors and mobile handsets by thoroughly implementing the policy of “Focus & Concentration” and extensively carrying out structural reforms at business units. We will carefully elaborate and study business alliance projects with outside partners in greater

detail. With regard to our core businesses, including Energy & Electric Systems, Industrial Automation Systems and Home Appliances, we will extensively work on optimizing their business structure to reinforce global competitiveness and profitability. We will continue our efforts to strengthen the R&D staff at laboratories and are committed to creating greater added-value. Further, we will pursue our newly introduced "IP-Centric Operations" corporate policy. The concept underlying this policy is to encourage the company-wide usage of Intellectual Property ("IP"). The term "IP" here has a wider sense embracing any and all know-how acquired from business and management activities, in addition to those implied in the typical use of the terminology, such as patents, utility models, copyrights and design data.

In addition, to improve profitability in each business, we will strengthen operational reform measures such as fixed cost reductions, asset turnover improvements, and manufacturing cost reductions. With these policies, we will build on our efforts to rapidly establish a robust business structure on which the Group can sustain itself in this ever changing and volatile business environment and endeavor to make Mitsubishi Electric Corporation attractive to investors.

Yours sincerely,

T. Nomakuchi

Tamotsu Nomakuchi
President & CEO

Board Members (As of April, 2002)

Chairman
Ichiro Taniguchi

President & CEO
Tamotsu Nomakuchi

Senior Executive Vice President
Toshio Suzuki
Group President, Public Utility Systems

Senior Executive Vice President
Masaaki Nangaku
In charge of Auditing,
Government & External Relations, Legal Affairs, Export Control, Intellectual Property

Senior Executive Vice President
Takehiko Mannami
General Manager,
Corporate Strategy & Management Office
Also in charge of Purchasing

Executive Vice President
Koichi Nagasawa
In charge of IT-related businesses
Group President, Semiconductors

Corporate Senior Vice President
Michio Nakanishi
In charge of IT-related businesses

Corporate Senior Vice President
Fumimasa Kambe
Vice President, Marketing, General Manager,
Kansai Branch Office

Corporate Senior Vice President
Satoshi Usami
In charge of Human Resources,
General Affairs, Advertising

Corporate Senior Vice President
Takeo Iinuma
In charge of Corporate Information
Deputy General Manager, Corporate Strategy & Management Office, General Manager,
Global Strategic Marketing & Operations Dept.

Corporate Senior Vice President
Yoshifumi Itoh
Group President, Communication Systems

Corporate Vice President
Minoru Makihara
Chairman of the Board of Directors,
Mitsubishi Corporation

Corporate Vice President
Atsuhiko Ogura
Group President, Living Environment &
Digital Media Equipment

Corporate Vice President
Akira Matsuda
In charge of IT-related businesses
Group President, Information Systems &
Network Service

Corporate Vice President
Sueo Okabe
Group President, Building Systems

Corporate Vice President
Hitoshi Ogata
Vice President, Research & Development
Also in charge of Total Productivity Management & Environmental Programs

Corporate Vice President
Setsuhiro Shimomura
Group President, Automotive Equipment

Corporate Vice President
Yokichi Hirota
Group President, Electronic Systems

Corporate Vice President
Fumitada Shimana
Group President, Factory Automation Systems

Corporate Vice President
Yukihiro Sato
General Manager, Corporate Accounting Dept.
Also in charge of Finance

C O N T E N T S

Forward-Looking Statement

This Annual Report contains certain forward-looking statements relating to Mitsubishi Electric's future plans and targets, and related operating investment, product planning and production targets. We caution that there can be no assurance that such targets and plans will actually be achieved. Achieving them will depend, among other things, on Mitsubishi Electric's ability to develop superior, cost-competitive products responsive to consumer demand, and the growth and other market dynamics of the electronics sector within the larger international economy.

Bringing together the best minds and the best technologies.

Global Research and Development

Research and development at Mitsubishi Electric spans a global network, connecting research laboratories in Japan, the United States and Europe. We build close partnerships through regular exchanges—both face to face and over the Internet—while drawing on the strengths of each country's distinctive culture and technologies. For example, while developing MPEG video encoding technology we held periodic meetings to share the latest information from various sources, and also exchanged technological insights via email and telephone.

Our R&D system creates globally advanced technologies by bringing together the best thinking around the globe.

The MPEG International Standard

Mitsubishi Electric has made many technological contributions as a major player in the development of the MPEG international standard. We have created standardized technologies for MPEG-2, which allows for the compression, multiplexing, storage and transmission of digital broadcast images, and MPEG-4, which is used in mobile handsets and PDAs. The newest standard is MPEG-7, which allows sensitive searches based on color, shape, motion and sound.

By contributing to the understanding, processing and transmitting of a variety of multimedia data, and by making that data easily accessible, we are laying the groundwork for the integration of advanced technology in your everyday life.

From MISTY to Quantum Cryptography

Mitsubishi Electric has a distinguished record of achievement in the field of encryption. One notable example is the adoption of KASUMI, based on our MISTY encryption algorithm, as the international standard for 3G mobile handsets.

We have also conducted successful experiments with communication systems utilizing quantum cryptography, a method that represents the future of encryption as it is considered unbreakable. Development of this technology holds great promise for fiber optic communications and other fields.

Color Management Technology

Natural Color Matrix™ is the world's first color conversion algorithm that is compatible with the international standard sRGB. This algorithm is being used in products ranging from very large high-resolution public projection systems to LCD projectors and monitors.

Intelligent Power Modules (IPM)

Mitsubishi Electric has developed the world's first small IPM utilizing transfer mold*1. By using single-in-line*2 configurations in inverter structures, it enables products using small-capacity inverters, such as air conditioners, to be more compact, more reliable and better-performing.

*1. Technology for compression and formation of thermosetting resins used for packaging.
*2. A configuration which places the motor's high voltage terminals and the microcomputer's low voltage terminals in a zigzag pattern in a single line, thus reducing the packaging surface area.

Halogen-free Build Up Circuit Boards

The materials used for circuit boards contain halogen and emit substances similar to dioxin after disposal. In order to reduce environmental impact, Mitsubishi Electric was the first in the industry to launch commercial production of halogen-free circuit boards.

Four-layer Multi-chip Packages

Semiconductor memory is expected to meet a number of seemingly contrary performance demands: large capacity, advanced functionality, miniaturization, and a reduction in the number of parts. Drawing on our unique assembly, design, and microprocessing technologies, we have succeeded in meeting these demands by developing large-capacity, small-sized μMCP memory in a single package containing four chips.

Hybrid Electric Vehicle (HEV) Power Units

Mitsubishi Electric leads the world in the commercial production of key parts for HEVs, such as intelligent power modules (IPM) and pre-drive units (PDU). We have succeeded in developing next-generation, on-board inverter units that combine IPMs and PDUs in a single unit. These products have recently gained attention for their effectiveness in protecting the environment.

Space Solar Power Generation System (SOLARBIRD®)

This system will convert sunlight into microwaves to supply electricity to the earth 24 hours a day. Dozens of power generation satellites flying in formation will transmit electrical power from space, enabling a supply of clean energy with no CO_2 emissions.

Participants in MPEG video encoding technology development
Mitsubishi Electric Information Technology Centre Europe B.V. (Europe)
Miroslaw Bober
Mitsubishi Electric Research Laboratories, Inc.(USA)
Ajay Divakaran
Information Technology R&D Center (Japan)
Kohtaro Asai

Technology Drives Changes

Improving environmental efficiency.

Viewing the Environment with MET

Our environmental activies cover a wide range of areas and encompass the entire Mitsubishi Electric Group. These activities are based on an ambitious Environmental Plan aiming at nothing less than a "sustainable society," that is, a society in which environmental impact is controlled to the greatest possible extent and limited resources are effectively recycled. The key concept here is MET.

M: Material — Using materials effectively
E: Energy — Using energy efficiently
T: Toxicity — Elimination or reduction of toxic substances

For example, when planning or reviewing company facilities we consider not only production processes, but also procurement and use of materials, recycling after use and product disposal. We are committed to reducing environmental impact throughout the entire life cycle of our products, and to making products that have minimal impact on the environment.

Factor X: Revealing a Product's Environmental Efficiency

This index shows the "total improvement" achieved in reducing a product's environmental impact. Factor X* represents the improvement ratio of environmental efficiency between old and new products. For example, when the same level of service is achieved while reducing environmental impact to half that of the previous product, environmental efficiency has been increased two-fold and that is expressed as Factor 2.

Mitsubishi Electric's "Factor X" is based on the MET concept and is calculated on effective use of materials (M), efficient use of energy (E), and elimination or reduction of toxic substances (T).

Introduced in 2001, this unique index has received a good deal of attention for its ability to actually quantify "social contribution" in manufacturing.

*Based on Tokyo University Professor Ryoichi Yamamoto's SPEEED research group.

A Model of Efficiency

The Fukuyama Works has developed and introduced an energy conservation support system that transforms invisible energy into a visible form. This makes it possible to more efficiently manage the energy consumption rates at production facilities, and to monitor the energy consumption of any given location in the plant in real time. Remarkable energy savings have been achieved using this data.

This is one example of Mitsubishi Electric's strong commitment not only to the conservation of electrical energy, but also to total conservation of natural resources.

The Ozone Application

Mitsubishi Electric has developed the world's first environment-friendly photoresist removal equipment utilizing high concentrations of ozone. This eliminates the use of photoresist removal liquid, which is expensive and harmful to the environment. It thus lowers running costs and at the same time reduces impact on the environment.

Technologies for CFC Alternatives

The use of CFCs was abolished before 1995. In 1998, Mitsubishi Electric began to shift from hydrochlorofluorocarbons (HCFCs) to hydrofluorocarbons (HFCs), which are not harmful to the ozone layer. This shift is scheduled for completion in major products before 2004, with other products to follow. We are also developing technologies for other alternative refrigerants.

Higashihama Recycle Center

This center recycles over one million units of used household appliances and office equipment. The center achieves a high recycling ratio due to efficient manual dismantling and the latest crushing and sorting technologies. Utilizing feedback from the plant in the design of new products, the center is also contributing by evaluating new products' environmental suitability and verifying product recycling rates. Through the development of new recycling technologies, we are achieving success in removing metals and vinyl chloride residues from plastic allowing for their conversion to blast furnace reductant.

GCT Inverter MELVEC 3000-C

This new-generation inverter uses leading-edge power electronics and power devices. By adopting the newly developed GCT thyristor, we have been able to reduce size and raise efficiency while taking advantage of a large rated capacity of 12 MVA.

This technology is exerting great influence through its use in energy conserving, variable-speed drive systems for rolling equipment in steel mills and high-capacity pump compressors in energy facilities.

Changes Make a Better World


Changes fo
Bringing greater comfort to daily life.
Maximizing the efficiency of businesses.
Keeping things running on a society-wide scale.
Business

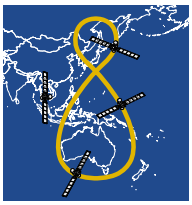

Society
r the Better
Individuals

IT networks are connecting the world.

From submarine fiber-optic cables to earth stations to satellites, Mitsubishi Electric technologies and know-how are helping build better IT networks. Networks capable of bringing high-speed, high-capacity connections anywhere, anytime.

Quasi-Geostationary Satellites

Multiple satellites orbiting in a figure 8 pattern alternately cover the ground 24 hours a day. The satellites will observe from a high angle of elevation, providing uninterrupted transmissions to high-rise buildings in cities and mountainous regions with unfavorable geographical conditions, making this concept suitable for mobile communications and broadcasting services.



DS2000 Standard Satellite / Assembly and Testing Facilities

Since the 1960s, Mitsubishi Electric has had a hand in the majority of Japan's space technology development. Fully exploiting this hands-on experience, we were the first in Japan to construct satellite assembly and testing facilities featuring an integrated production system for the entire process–from development and design to manufacturing and testing of satellites. Already used for satellites such as the DS2000, this integrated system is achieving marked reductions in production time and cost.

Space chamber

Compact antenna test range

DS2000 Standard Satellite

Optical Submarine Cable Systems

WDM Metro-ring Optical Transmission System

Transmission capacity has been dramatically expanded thanks to WDM (Wavelength Division Multiplexing). In cities, a ring of WDM-based fiber-optic cable provides efficient and reliable city-to-city networks. This leading-edge system is indispensable to the construction of high-capacity urban networks.

WDM metro-ring optical transmission system

Optical Submarine Cable Systems

These systems connect continents and securely link cities, utilizing wavelength division technology for ultra high-speed, high-capacity and broadband transmission. Technical integration in this area allows us to provide complete networks that include both optical submarine cable systems and city access networks.

Optical submarine cable systems

High-performance Parallel Information Retrieval System

Based on the parallel processing technology of a large-capacity storage system consisting of 16 PC servers, this system can perform the industry's fastest full text search: approximately 1,000 years worth of newspapers can be searched by free keyword in one second.

Expandable to accommodate up to 256 PC servers of data storage, this system can also be used for still and moving images, which contain enormous amounts of data.

Optoelectronics

The optoelectronic products we are currently developing include a high-capacity optical switch used in the optical cross connect system, which transmits signals as light without converting them into electric signals, as well as components used in 40Gbps high-capacity optical transmitters that represent the next generation in transmission capacity.

10Gbps ethernet transceiver compliant with Xenpak

Subaru Large-scale Optical Infrared Telescope

This major project uses a telescope with a diameter of 8.2m to observe celestial objects up to 15 billion light years away. Subaru is supported and precisely controlled by 261 actuators.

VERA (VLBI Exploration of Radio Astronomy) Telescopes

VLBI system telescopes are 100 times more powerful than telescopes utilizing standard technology, powerful enough to discern a small coin on the moon's surface. These telescopes are being used to create three-dimensional maps of the galaxy and to investigate the history of the galaxy and the distribution of dark matter (unknown substances that comprise the bulk of mass in the universe).

Providing peace of mind for network communities.

Our goal is to develop products that not only result in profits for the company, but benefit society as well. One way we can do so is by improving security and promoting peace of mind. We are very much aware of this in our R&D activities.

Security has always been an important factor in e-commerce, but now that we are entering the broadband era, information security has become even more critical. Mitsubishi Electric provides a wide range of information security options encompassing both software and hardware products, based on the MISTY global standard encryption technology.

We are currently in the process of developing a revolutionary new technology known as quantum encryption. By exploiting the properties of light, this technology makes it possible to know when information is accessed without authorization. When this technology is perfected, we believe it will represent the ultimate in data encryption.

Since joining Mitsubishi Electric, I've been given the freedom to perform my work using my own personal approach, and that's exactly the environment I want to create for the people working under me now. Without a free environment that allows employees to go their own way, truly groundbreaking ideas can never really grow and develop.

Kotaro Katsuyama
Manager
Information Security Technology Department
Information Technology R&D Center

Infrastructure is keeping good things flowing.

Electricity, water, traffic and weather information. These are among the many good things that we tend to take for granted. But behind them all is complex infrastructure, and behind much of this infrastructure is Mitsubishi Electric.

Environmental Road Pricing

In the summer of 2002, the Yokohama-Haneda and Tokyo Bay Shore routes of the Metropolitan Expressway Corporation will begin environmental road pricing utilizing the ETC system for smooth traffic flow. The new system will provide distribution of traffic volume, improved guidance for large-sized vehicles and control of exhaust gas and noise for people who live in areas along the roadways. Mitsubishi Electric is contributing to the improvement of smooth traffic environments through advanced ETC technologies.

Traffic Monitoring and Control Systems

Traffic control systems provide accurate, simultaneous traffic information to drivers for the smooth and safe flow of traffic on expressways and other roadways. Large DLP™* multiscreen displays at the centralized control center show magnified images of road diagrams, road maps and other information, assuring superior visibility and operability.

Chugoku Regional Bureau, Japan Highway Public Corporation

Water Supply and Waste Water Plant Monitoring and Control Systems

Monitoring systems with DLP™* displays provide clear images even in bright rooms. The high-intensity, high-resolution and wide viewing angle make it possible to simultaneously display all information from sources such as plant monitor screens, ITV images and CRT screens. Increased visibility and operability support stable plant operation and water supply.

Meotoishi Purification Plant, Fukuoka Waterworks Bureau

Power Generation Plants

Based on a wealth of engineering experience and technological know-how, we help optimize power generation plants using hydraulic power, thermal power, nuclear power and even wind power. This expertise is being used to supplement the power generation facilities of power companies for in-house power generation in a variety of manufacturing fields.

Chiba Thermal Power Station No.1 Line, Tokyo Electric Power Co.

* DLP™ is a registered trademark of Texas Instruments Incorporated.

Disaster Prevention Systems

Monitoring systems utilizing DLP™* MultiVision monitor rivers and roads during natural disasters. They keep track of damage from winds, floods, earthquakes, etc., and link various disaster management organizations in comprehensive disaster risk management studies. These user-friendly systems are designed to be operated by anyone in an emergency, allowing quick response times.

Kanto Regional Construction Bureau, Ministry of Land, Infrastructure and Transport

Air Traffic Control and Surveillance System

This system crosschecks surveillance radar information with flight plan data from various information systems. It displays analog data together with alphanumeric flight information, such as aircraft identification, altitude and speed, on the same air traffic control display. This results in a reduced amount of radio contact with the aircraft and creates an environment in which air traffic controllers can concentrate even further on air safety.

Air Traffic Control and Surveillance System

Electrical Components for Trains

Mitsubishi Electric provides electrical components for a wide variety of trains worldwide. To cite one example, we are contributing to the modernization of commuter transportation for New York's Long Island Railroad, which links central Manhattan with the suburbs of Long Island. We supply highly efficient, highly reliable train propulsion equipment featuring variable-voltage variable-frequency inverter controls with intelligent power modules.

The working world is getting networked.

Shortening response times, speeding up R&D, optimizing efficiency. Business today is powered by networks-linking man to machine, machine to factory, factory to office. Mitsubishi Electric makes these networks work.

CC-Link

CC-link is a network capable of using a single line to control the many machines used in factories. It not only replaces the hundreds of lines previously needed, but also enables users to transfer data between devices or information used in controlling these devices. In this way, the network achieves highly precise control and dramatically improves operating efficiency.

As the leading company in the CC-Link Partners Association (CLPA), Mitsubishi Electric is actively promoting the adoption of this network system in Asia and throughout the world.

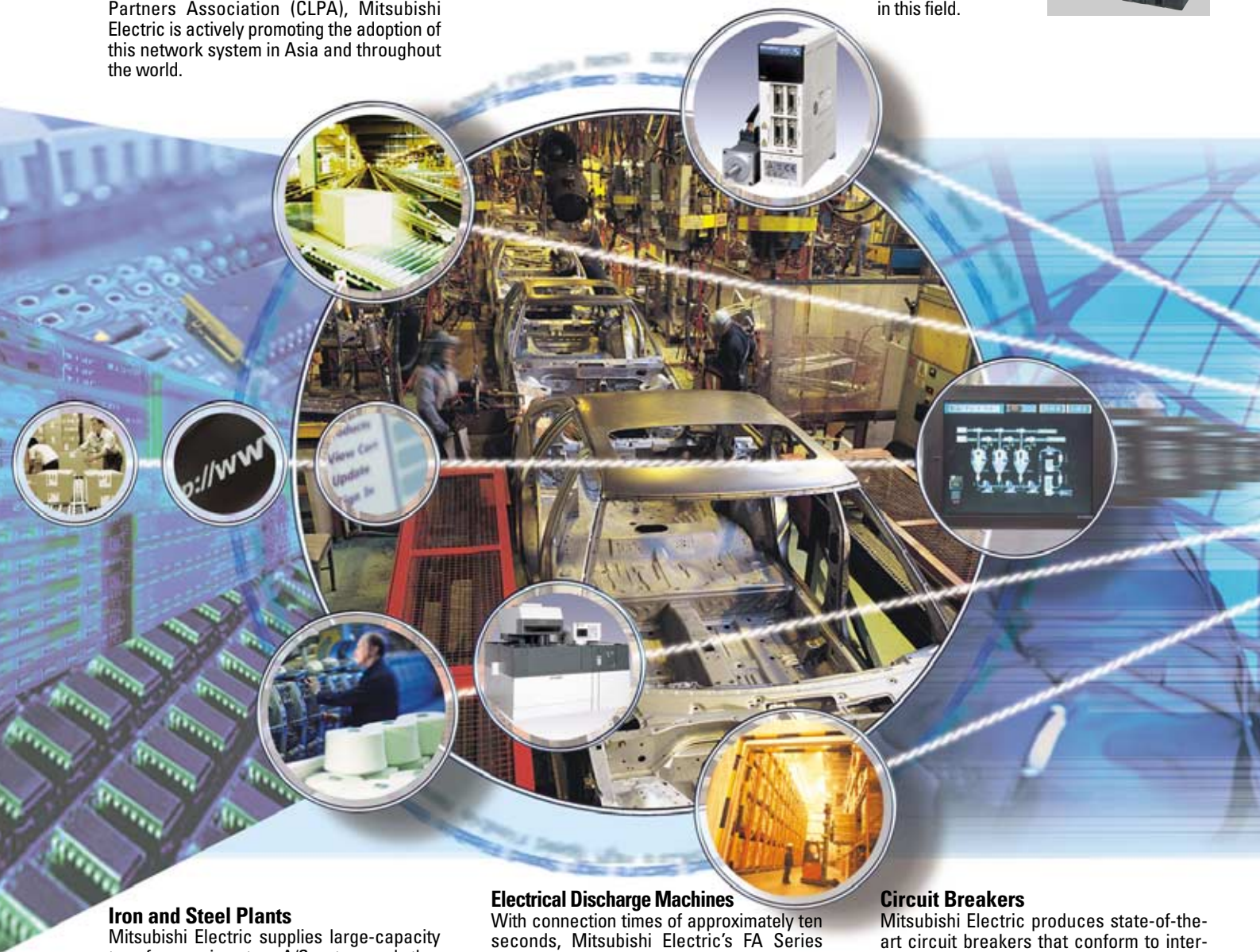
AC Servos

In addition to offering faster response than any other AC servo in the industry, Mitsubishi Electric has spared no effort in its pursuit of ease of use. In active use in a wide variety of applications, these servos act as drive units that maximize the potential of industrial equipment, thereby contributing to dramatically improved production cycle times.

Programmable Logic Controllers

PLCs support core machine and information control in production facilities. Our many product groups- including the MELSEC-Q series, which boasts high performance and an extensive lineup- contribute greatly to the construction of state-of-the-art production facilities.

Mitsubishi Electric is recognized as the top Japanese player in this field.



Iron and Steel Plants

Mitsubishi Electric supplies large-capacity transformers, inverters, A/C motors, and other devices as drive systems for hot-rolling mills. Among these products is the MELVEC-3000-C, the world's largest-volume single-engine GCT inverter, which achieves the world's highest level of electrical conversion efficiency.

Kawasaki Steel Corp., Mizushima Works Hot-Rolling Mill

Electrical Discharge Machines

With connection times of approximately ten seconds, Mitsubishi Electric's FA Series Wire-cut Electrical Discharge Machines have achieved the world's fastest wire connection. Employing the latest control technologies, these units reduce processing time by 40% compared to earlier models.

Mitsubishi Electric continues to pioneer the development of electrical discharge machines, providing high-performance products to production facilities throughout the world.

Circuit Breakers

Mitsubishi Electric produces state-of-the-art circuit breakers that conform to international standards (JIS, IEC, and UL/CSA). Easy-to-use product designs allow superior durability and breaking characteristics.

In addition to contributing to the production of environmentally friendly products, these circuit breakers support even greater systematization and stability in electrical supply systems by enabling links among various types of networks.

Electronic Signature Solutions
MistyGuard signed PDF system offers high-level security and authentication functions for a variety of applications scenarios related to electronic signatures. This software enables the secure electronic exchange of formal documents via networks.

Enterprise Resource Planning (ERP) Template
MELEBUS ERP template provides total business solutions utilizing the global standards ERP, SAP®* and R/3®* in the construction of backbone systems for the manufacturing industry.

*SAP and R/3 are registered trademarks or trademarks of SAP AG in Germany and other countries.

Data Warehouse Solutions
DWH Solutions provide comprehensive support and back-up for data warehouses, from design and construction through to operation and maintenance. Mitsubishi Electric offers a range of systems designed to create a more comfortable business environment, including the "DIAPRISM" database processor, which boasts the world's highest level of performance, and ultra-high-speed analysis systems that make use of a "data-integration hub."

Solution Server
The Entrance solution server offers the flexible expandability of an Internet system along with the high performance and high reliability that customers demand to run backbone operations with confidence.

Diverse solutions for accelerating the development of e-business open the door to the construction of new business models.

A tradition of providing the latest products with the latest technologies.

I think this tradition influences the entire spectrum of product development, but from my own perspective as a designer, I always try to maintain a footing in existing technologies while incorporating new technologies. I think I've been very fortunate because I've been in the same workplace ever since I first entered Mitsubishi Electric, and I've always found it to be an extremely flexible work environment.

The laser pumping system we recently developed is more efficient than previous systems, and in terms of cost has turned out to be reasonable for customers. The most difficult part of this project was striking a balance between customer requirements and the limitations of the technology. Even if it's technically feasible, there are numerous problems to overcome before we arrive at the final product. Overcoming these hurdles was a trial, requiring numerous rounds of discussion. Even so, it was a real eye-opener to look at things from the customer's perspective. The project involved laser processing machines, which are highly specialized products.

In addition to ensuring customer satisfaction, though, my goal is to develop products that are eco-friendly, in terms of high efficiency, so that we can contribute to the environment as well.

Toshiki Koshimae
Assistant Manager
Resonator Design Section Laser Systems Dept.
Nagoya Works

Buildings are getting smarter.

Smart is in the details, from escalators to security systems. Smart is in the way the details tie together, in a seamlessly operated, easily maintained unit. Smart is in the way Mitsubishi Electric makes work environments.

Ultra High-speed Elevators

The world's fastest elevator, with a top speed of 750 meters per minute, was installed in Japan's Landmark Tower Yokohama by Mitsubishi Electric. Current developments in this area have made it possible to reach speeds of 1,000 meters per minute or more. Vibration control devices, high capacity driving control systems and other advanced technologies ensure passenger comfort.

Machine-room-less Elevators

By eliminating the machine room at the top of the building, these elevators allow more flexible design options. Slim gearless traction machines utilizing Mitsubishi Electric's original advanced PM(permanent magnet) motor technologies achieve greater space savings and ensure a smooth, quiet ride.

Elevator Group Control System

Artificial intelligence realizes more efficient elevator operations through innovative forecasting of elevator movement. The adoption of hall operating panels enables the passenger to specify the destination floor before boarding, substantially reducing waiting time.

Observation Elevators

High-speed Inclination Section for High Rise Escalators

To resolve the conflicting issues of landing safety and reduced travel time for high rise escalators, Mitsubishi Electric is developing escalators boasting 1.5 times greater speed on inclined sections than landing sections. This innovative technology has been proven, for the first time in the world, through test operation with a 1/5-scale model.

Remote Monitoring Center

Networking with nearly 300 service bases, our remote monitoring center in Japan monitors and controls building facilities, providing information for customers and emergency dispatch and failure recovery measures 24 hours a day.

Mitsubishi Electric Building Techno-Service Co.,Ltd.

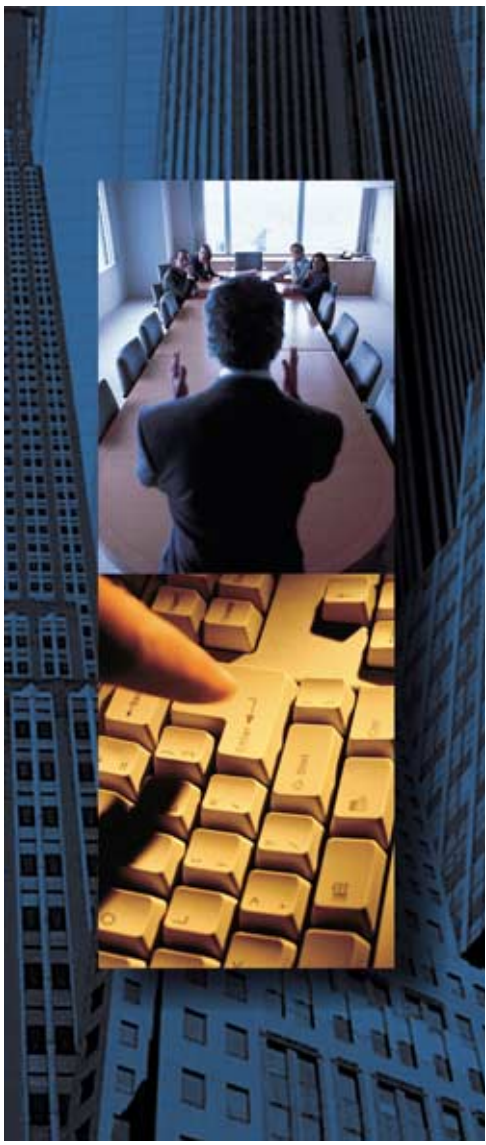
Building Air Conditioning Systems

Mitsubishi Electric's "VRF" air conditioners use R407C refrigerant, which has zero ozone depletion potential and offers the world's best energy-saving performance. We also use a minimum of packing material and refrigerant, and adopt a precise temperature control system that is equally effective at achieving energy savings and comfort. Such technologies both protect the ozone layer and effectively use electricity, contributing significantly to reductions in CO_2 emissions.

Compact and Clean-clad Switchgear

The 72/84kV C-GIS, which boasts the largest market share in Japan, is now even smaller and lighter than before. By adopting a new miniature VCB and simplified construction, we have substantially reduced the volumes of SF_6 gas used. The 72/84kV C-GIS is a highly reliable, environment-friendly system.

High-power transformer room
in Harumi Triton Square, Japan



Fingerprint Verification Systems

Fingerprint verification systems ensure reliable, high-level security. These systems identify the user with greater accuracy and improve convenience by eliminating the need to carry cards or other forms of identification. To improve security even further, we are developing technologies combining various biometric data, including fingerprints, faces, palm prints, retina prints, voice prints and signatures.

Diamond Vision

Diamond Vision, the world's first large-scale, high-definition video display, accommodates both satellite and terrestrial HDTV broadcasts. High-luminance, full-color LEDs allow high resolution and excellent image quality.

Shinjuku Alta Vision
in the heart of Tokyo

Technology is keeping pace with life.

The pace of life is speeding up, and people are increasingly on the go. Mitsubishi Electric technologies keep pace, with transportation infrastructure easing the ride and mobile communications bringing the world to you.

In-vehicle Multimedia Concept

This concept model is designed to create an entirely new, vehicle-centered flow of information and entertainment. Obtaining news and traffic information, receiving and sending e-mail or just searching a restaurant for dinner, Mitsubishi Electric researches the seamless flow of information between your home, office and car.


Concept model


Front seat


Rear seat

Connexion by Boeing℠

We are moving forward with development of a revolutionary in-flight Internet system in cooperation with Boeing Company, to enable real-time access to a wide range of information, including the Internet, e-mail, news, and stream media content, including broadcasting.

We are developing joint business in a wide range of other fields as well, to deliver global communication services with even higher connection speeds.

Mobile Handsets

In response to the diversifying needs of mobile handsets users, Mitsubishi Electric promotes global develop-ment of products that feature more advanced functions and higher reliability. One example is videophones offering compliance with new 3G services.

Low-temperature Polysilicon TFT for Mobile Handsets

This reflective LCD module offers excellent visibility even outside. Accommodating multi-bit DRAMs into each pixel, it achieves low power consumption of 4mW in still image mode. It also features an extremely narrow picture frame, measuring only 3mm on both sides of the screen.

Car Navigation Systems with Voice Command Recognition

These non-intrusive car navigation systems allow users to safely search for areas or specific addresses using superior voice command recognition technologies.

Drivers can look forward to even faster and more convenient telecommunication functions through links with mobile phones, Electric Toll Collection System (ETC) and other technologies.

Non-stop Electric Toll Collection System (ETC)

Mitsubishi Electric's wireless and semiconductor technologies are put to use not only in freeway tollgate facilities, but also in on-board units for ETC systems.

This system contributes to safer, smoother and more comfortable highway transportation.

On-board unit

Car Navigation Systems with Voice Command Recognition

Intelligent CMOS Image Sensor

Used broadly in a wide range of mobile terminals, this chip resolves issues of power consumption, image detection and signal processing that have plagued conventional CCD cameras. It also features high image performance, exceeding 100,000 pixels.

On-board Information Display System

This information display system provides information on train routes and stopovers, as well as weather information, advertising and other content via a high-resolution LCD display.

East Japan Railway Co., Yamanote Line

The IT revolution is coming home.

Mitsubishi Electric is making factories, offices and buildings smarter, so why not homes? From networked appliances to advanced security systems, home sweet home will never be the same.

New Concept Home Appliances

Mitsubishi Electric has conducted research on new home appliances with original features, tailored to the home environment. This research underpins the creation of new concept home appliances that enable functional integration among people, appliances and living space.

Home Networking

ECHONET is a network that links a variety of home appliances, including air conditioners, refrigerators and lighting, through a single integrated system. This revolutionary technology combines home appliances, energy control, security systems and lifestyle information systems into a single centralized network.

HAVi provides interactive network connections of AV equipment, enabling users to view virtually any desired image from any location by linking TVs and DVDs to home networks or to the Internet.

New Concept Home Appliances

Home Appliances

An industry leader in room air conditioners, Mitsubishi Electric also produces a broad range of other products, including refrigerators, lighting fixtures and hot water supply facilities.

Photovoltaic Power Generation System

This system makes full use of the sun's energy with a high standard of power generation efficiency. Excess energy can be sold, so there is no waste.

This is a highly efficient system that is environment-friendly.

* DLP™ is a registered trademark of Texas Instruments Incorporated.

3D Sound Systems

By mounting several speakers in optimum position around the user's ears, this system recreates sound in three dimensions, achieving a complete sense of direction, distance and realism that is nearly impossible to differentiate from the original sound.

This system is expected to be used in event spaces, theaters and many other venues.

Compact Wearable Display

A compact wearable display will enable users to view images anytime, anywhere, even while engaged in other activities. Users will have a wide field of vision while wearing the unit, so they can enjoy still or moving images safely.

This compact wearable display is expected to be used for a wide range of applications, including sporting events to give users a view of the expressions of the athletes while following the overall action on the field, or in work situations to provide access to updated information while carrying out regular duties.

DLP™ Digital High-definition Projection TV

The large-screen DLP™* TV features high picture quality with a minimum of color and brightness variations and an energy-saving design that keeps energy consumption on the level of a 32-inch TV despite its 65-inch size. When used as a PC screen, it achieves a high degree of clarity while eliminating the "image burning" effect seen with CRTs and plasma screens.

A new kind of convenience for everyday life.

Interface design is the point of contact between human and machines. That's why I always focus on ease of use for the customer, and try to design products that are easy to understand, and attractive. Since joining Mitsubishi Electric, I've worked on a variety of designs, ranging from large-scale products, like control screens for nuclear power plants, to office computers and smaller products, such as mobile handsets.

Recently, rather than focusing simply on design, we've been doing a lot more work where the process begins with a study of the concepts and applications. I have to say it's not easy, but when we come up with a new product that nobody's ever seen before, it all seems worthwhile.

My goal for the future is to try to design an entirely new product – something that will present a real challenge. I'm particularly interested in products that anyone can use, in public places. It'd be nice to design things that are useful to large numbers of people, even if it's only in small ways.

Yuka Yamazaki
Interface Design Dept.
Industrial Design Center

Contributing to the communities where we live and work.

Mitsubishi Electric makes significant contributions to communities around the world. Naturally, we focus a good deal on advancing science and technology, but we also support sports, culture and social welfare in general. One of our particular concerns, for example, is support for the disabled. We do it not just because it's corporate policy. We do it because it's the right thing to do.

Mitsubishi Electric America Foundation

Established in 1991, the Foundation supports programs for disabled youth throughout the U.S. via its Matching Grants and Gifts programs, which match contributions from the company's many affiliates and individual employees. The Foundation is particularly noted for its efforts on behalf of the visually disabled. Mitsubishi Electric America was the first affiliate of a Japanese company to receive the Helen Keller Achievement Award.

SOCIO-ROOTS Fund

Through this Fund, Mitsubishi Electric matches on an equal basis donations made by individual employees. The Fund also contributes double the amount raised by Mitsubishi Electric offices or works through such local events like charity bazaars.

Mitsubishi Electric Gunma Volunteer (MGV) Club

Established in April 1998, the MGV Club promotes volunteer activities that benefit the surrounding community. The Club provides information on and actively participates in volunteer projects in which anyone can take part including cleaning up waterways and rivers, pruning trees along municipal roadways and other worthwhile events.

Mitsubishi Electric Thai Foundation

This Foundation was established in December 1991 with an initial endowment of 20 million Thai bahts. It provides scholarships to 45 students from Thailand's engineering universities. The Foundation also coordinates donations and volunteer activities for a lunch program aimed at elementary schools that are unable to provide adequate lunches for students.

Basketball Clinics

Mitsubishi Electric's men's and women's basketball squads are among the top corporate teams in Japan, taking part in the Japan League, the All Japan Basketball Tournament and other national competitions. Both squads regularly send team members and coaches to conduct basketball clinics for the mentally disabled and for elementary and junior high school students across Japan.

Global networks are creating a new era of global competition.

Mitsubishi Electric has bases for R&D, production, sales and other operations in over 110 locations throughout the world. Taking advantage of this growing international network, we are expanding our global operations. And as a true "global citizen," we are committed to working with local communities all the way.


Mitsubishi Electric Power Products Inc.


Mitsubishi Electric Automation, Inc.


Mitsubishi Electric & Electronics USA, Inc.


Mitsubishi Electric Europe B.V. Corporate Office


Mitsubishi Elevator Europe B.V.


Mitsubishi Electric Automotive Czech s.r.o


Mitsubishi Semiconductor Europe, GmbH


Mitsubishi Elevator Asia Co.,Ltd.


Mitsubishi Electric Consumer Products (Thailand) Co.,Ltd.


Shanghai Mitsubishi Elevator Co.,Ltd.


Mitsubishi Stone Semiconductor Co.,Ltd.


Shanghai Mitsubishi Electric & Shangling Air-Conditioner and Electric Appliance Co.,Ltd.

Financial Section

CONTENTS

Major Products by Segment

Energy and Electric Systems

Turbine generators, water-wheel generators, nuclear-power equipment, electric motors, transformers, power electronics equipment, gas circuit breakers, gas insulated switchgears, switchgears, supervisory control and protection systems, transportation equipment, elevators and escalators, others

Industrial Automation Systems

Programmable controllers, inverters, servo motors, factory automation systems, electric motors, hoists, electro-magnetic circuit breakers, no-fuse breakers, earth leakage breakers, distribution transformers, electric meters, industrial sewing machines, computerized numerical controllers, electrical-discharge and laser-processing machines, industrial robots, car audio, car navigation, electrical automotive
equipment, engine management systems, clutches, others

Information and Communication Systems

Wireless communication equipment, mobile handsets, wire communication equipment, satellite communication equipment, satellites, radar equipment, antennas, defense equipment, ultrasonic inspection meters, medical electronic equipment, broadcasting equipment, data transmission equipment, mainframe computers, servers, office computers, personal and mobile computers, peripheral devices, others

Electronic Devices

Memory ICs (DRAMs, SRAMs, non-volatile memory), logic ICs (MCUs, system LSIs, ASICs), display monitors, CRTs, plasma displays, LCD devices, printed-circuit boards, others

Home Appliances

Color televisions, projection televisions, video projectors, VCRs, room air conditioners, package air conditioners, refrigerators, fan heaters, electric fans, washing machines, ventilators, photovoltaic power generating systems, electric water heaters, fluorescent lamps, lighting fixtures, compressors, freezers, humidifiers, dehumidifiers, air purifiers, air conditioning systems, commercial refrigeration units, vacuum cleaners, microwaves, others

Others

Finance, distribution, real estate, advertising, material procurement and other services, materials, others

Five-Year Summary

Mitsubishi Electric Corporation and Subsidiaries

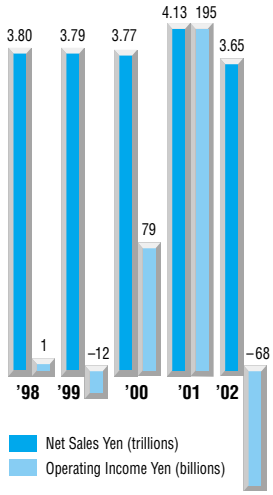
Years ended March 31 (in millions of yen, except per share amounts)

	2002	2001	2000	1999	1998
Summary of Operations					
Net sales	¥ 3,648,986	¥ 4,129,493	¥ 3,774,230	¥ 3,794,063	¥ 3,801,344
Cost of sales	2,842,658	3,062,392	2,823,741	2,914,938	2,894,947
Selling, general, administrative and Other expenses	874,355	871,711	871,225	891,561	905,302
Operating costs	3,717,013	3,934,103	3,694,966	3,806,499	3,800,249
Operating income (loss)	(68,027)	195,390	79,264	(12,436)	1,095
Income (loss) before income taxes	(155,142)	210,442	40,264	(113,826)	(52,543)
Net income (loss)	¥ (77,970)	¥ 124,786	¥ 24,833	¥ (40,633)	¥ (99,242)
Financial Ratios					
Return on sales (%)	(2.14)	3.02	0.66	(1.07)	(2.61)
Return on equity (%)	(12.78)	18.22	3.80	(5.99)	(11.91)
Return on assets (%)	(1.89)	3.05	0.60	(0.94)	(2.31)
Net income (loss) per share (in yen)					
Basic	¥ (36.31)	¥ 58.12	¥ 11.57	¥ (18.92)	¥ (46.22)
Diluted	¥ –	¥ 56.55	¥ –	¥ –	¥ –
Statistical Information					
Current assets	¥ 2,157,889	¥ 2,353,374	¥ 2,143,873	¥ 2,227,050	¥ 2,440,073
Current liabilities	1,960,863	2,179,466	1,835,502	1,925,833	2,234,842
Working capital	197,026	173,908	308,371	301,217	205,231
Shareholders' equity	541,710	678,173	691,751	615,911	740,626
Cash dividends paid	12,883	13,956	11,809	–	19,323
Total assets	4,057,404	4,181,629	4,003,294	4,265,350	4,354,863
Capital expenditures	221,092	296,996	190,289	261,178	326,116
Depreciation	¥ 230,518	¥ 235,031	¥ 215,969	¥ 230,600	¥ 237,546
Employees (at the end of the year)	116,192	116,715	116,588	116,479	115,206

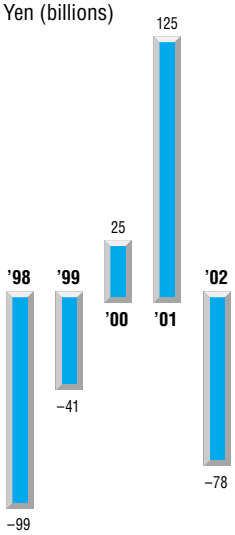
Notes: 1. Mitsubishi Electric adopted SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities" beginning with the fiscal year ended March 31, 2001, and has restated its consolidated financial statements from prior years.

2. The diluted net income per share figures for 1998, 1999, 2000, and 2002, when calculated, resulted in antidiluted figures and thus have not been included in the above.

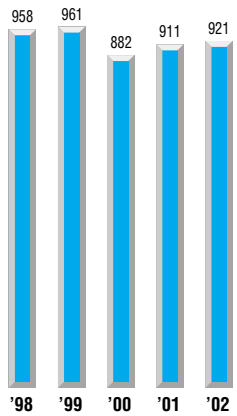
Net Sales/ Operating Income



Net Income
Yen (billions)



Net Sales of Energy and Electric Systems
Yen (billions)



Brief Overview of Operations

During the period under review, Mitsubishi Electric faced an extremely difficult business environment. In the context of the simultaneous global economic slowdown, Japan saw significant declines in corporate manufacturing and capital investment while consumer spending was weak. In addition, the sharp and significant drop in IT-related demand led to an increase in inventories, which was accompanied by major production adjustments, causing prices to fall sharply.

Under these circumstances, Mitsubishi Electric implemented management improvement activities such as "EA21 Program," a plan to efficiently utilize assets and minimize fixed costs, the "Sigma 21 Program," a plan to promote a thorough reduction in procurement costs, and "Diamond Quality 2000," a medium-term plan to strengthen productivity by revising information systems and to focus on improvement of product quality. Via these and other activities, the Company made efforts to improve business results by reducing capital expenditure, implementing emergency expense reductions, efficiently utilizing assets, minimizing fixed costs, enhancing product quality and increasing productivity.

In particular, with its semiconductor business, Mitsubishi Electric suspended and integrated production lines, made significant personnel cuts and reduced capital investment. With its mobile handsets business, the Company stepped up procurement cost reductions and other expense reduction measures while restructuring its manufacturing operations.

Meanwhile, in the year under review, Mitsubishi Electric strengthened the profitability of its core business areas: energy and electric systems, industrial automation systems and home appliances.

However, the final results on a consolidated basis are as follows: net sales, in comparison with the previous fiscal year, decreased by ¥480.5 billion by 12% and resulted in ¥3.65 trillion (US$27.4 billion). Operating income decreased by ¥263.4 billion from the previous fiscal year and resulted in a loss of ¥68.0 billion (US$0.5 billion). Income before income taxes came to a loss of ¥155.1 billion (US$1.2 billion), and net income amounted to a loss of ¥78.0 billion (US$0.6 billion).

Results by Business Segment

■ ENERGY AND ELECTRIC SYSTEMS

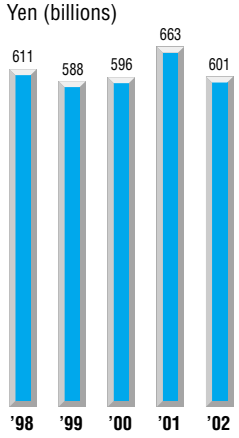
In the Energy and Electric Systems segment, compared to the previous fiscal year, sales increased by 1% to ¥920.7 billion and operating income increased 17% to ¥46.6 billion.

Due to a decrease in capital expenditures of power companies in Japan, orders for power equipment were lower than the previous year but thanks to growth in international businesses sales increased. Reflecting the severe demand environment, sales and orders for industrial machinery were lower than the previous year. For transportation equipment, orders were lower year-on-year but owing to business growth outside Japan, sales were higher compared to the same period last year. Orders and sales in the public works sector were higher than last year due to expansion in government-related information communications systems.

In building systems there was a decrease in orders and sales year-on-year, attributable to slackening demand and price deterioration in the Japanese market, reduced demand in the Middle East (one of the main international markets) and a delayed market recovery in the ASEAN region.

Even with price deterioration, operating income for the segment increased thanks to improvements in cost cutting measures.

Net Sales of Industrial Automation Systems
Yen (billions)



■ INDUSTRIAL AUTOMATION SYSTEMS

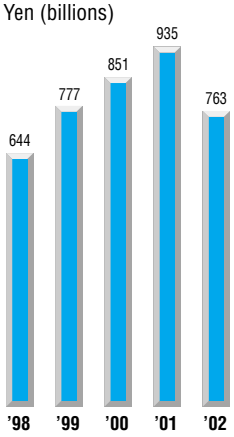
The Industrial Automation Systems segment experienced a 9% decrease in sales to ¥600.6 billion and operating income fell by 39% to ¥33.2 billion compared to the last fiscal year.

Compared to the previous fiscal year, both orders and sales declined for industrial equipment products as factory automation related products (such as programmable controllers and servo motors) experienced slackening demand in Japan owing to a sharp drop in capital investment for IT-related equipment and reduced demand in international markets (mainly the US and Asia). Furthermore, due to lower Japanese demand for production facility, building and construction related projects, orders and sales for both electric motors and power supply controllers were lower compared to the last fiscal year. In industrial mechatronics products, orders and sales were lower than the previous period as demand for machine tools (mainly IT-related) decreased both in Japan and abroad.

Orders and sales for automotive equipment were lower than last year due to decreased production among major automobile production customers and lower prices.

Operating income for the segment decreased year-on-year owing to lower sales, price deterioration and other factors.

Net Sales of Information and Communication Systems
Yen (billions)



■ INFORMATION AND COMMUNICATION SYSTEMS

In the Information and Communication Systems segment, sales fell 18% to ¥762.6 billion compared to the same period last year and an operating loss of ¥90.2 billion was recorded.

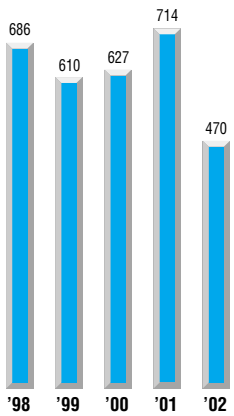
Both orders and sales for the communications business decreased year-on-year amidst the worldwide decline in demand for mobile handsets and communication companies' restricted investment in infrastructure.

For the information and systems and services business, network services (mainly Internet-related) expanded but systems sales geared to small and middle-sized businesses decreased, bringing sales levels lower compared to the same period last year.

Due to an absence of large-scale projects compared to the last fiscal year, both orders and sales decreased for the space business. For defense-related equipment, sales remained at the same level as last year but orders were lower owing to temporary intermittence in long term large-scale projects.

Operating income went into the red for the segment mainly due to worsening profitability conditions in the overseas mobile handset business.

Net Sales of Electronic Devices
Yen (billions)



■ ELECTRONIC DEVICES

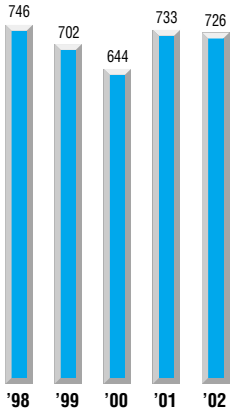
The Electronic Devices segment recorded sales of ¥470.2 billion in the period under review, a 34% decrease year-on-year and there was an operating loss of ¥80.6 billion.

For semiconductor operations, both sales and orders were lower than the previous year. This is attributable to reduced demand for major products such as SRAM and flash memory packages for the Japanese mobile handset market, fiber optic network devices geared mainly to the North American market, advanced system LSIs for servers, and optoelectronics.

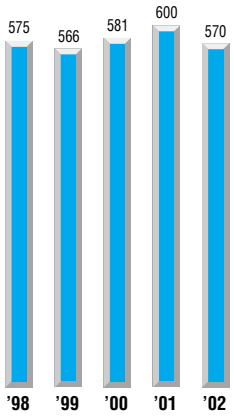
In the liquid crystal display business, orders and sales fell compared to the previous fiscal year due to the increased production of Taiwanese and Korean makers, which caused excess supply and market price deterioration.

The segment fell into the red due to the greatly reduced profitability of semiconductor operations.

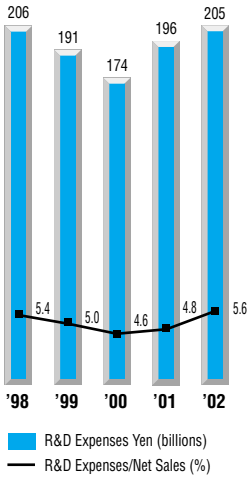
Net Sales of Home Appliances
Yen (billions)



Net Sales of Others
Yen (billions)



R&D Expenses and Investment in Property, Plant and Equipment



■ HOME APPLIANCES

In the Home Appliances segment, compared to the same period last year, sales decreased by 1% to ¥726.2 billion and operating income was by 30% increase to ¥37.2 billion.

Thanks to growth in television sales and home air conditioners (due to hot weather in Japan), home appliances and audio-visual sales were higher than in the last fiscal year. Residential equipment sales decreased compared to the previous fiscal year mainly because of sluggish demand in Japan for facility-related equipment (mostly ventilation fans). The cooling and heating equipment business for professional use met lower sales than last year due to inactive Japanese market demand and sluggish sales for cooling and heating equipment. The visual information business met lower sales compared to the same period last fiscal year due to a lack of growth in projectors and other visual-related products. Outside Japan, sales were higher year-on-year as air conditioning systems (mainly in Southeast Asia) and large projection TVs in the US enjoyed growth.

Owing to strong sales overseas and other factors, operating income for the segment increased compared to the previous fiscal year.

■ OTHERS

In the Others segment, compared to the same period last year, sales decreased 5% to ¥569.8 billion and operating income decreased 10% to ¥8.6 billion.

Sales for real estate and system maintenance related businesses of affiliates increased year-on-year but subsidiaries involved in distribution, material procurement, information communication services and advertising met a decrease in revenues.

Operating income fell for the business segment owing mainly to reduced revenue at affiliates.

Research and Development

The corporate group of Mitsubishi Electric actively promotes a wide range of research and development ("R&D") activities embracing fundamental research up to advanced application research, development toward 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 USA and Europe, factories and consolidated affiliates. Also, we are conducting varied and advanced R&D activities in cooperation with various independent scientific institutions like universities or laboratories both in Japan and overseas. In the year under review, the total consolidated expenditure invested in R&D activities amounted to ¥204.6 billion (US$1.5 billion), including cost elements spent on quality improvement which are transferred to manufacturing costs from the item of R&D cost.

R&D cost expended by the segment are as shown below. Certain R&D items involve fundamental research and/or development of background-technologies for use among multiple product lines. It may be impossible to attribute such R&D items to specific segment or specific businesses. Such R&D items are accounted to and classified as "Common & Others."

Energy and Electric Systems: ¥24.5 billion
Industrial Automation Systems: ¥22.3 billion
Information and Communication Systems: ¥65.3 billion
Electronic Devices: ¥50.2 billion
Home Appliances: ¥19.6 billion
Common & Others: ¥22.7 billion

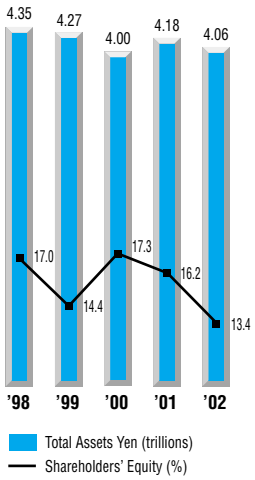
Financial Position

Total assets have decreased from the previous fiscal year by ¥124.2 billion and have come to be ¥4.06 trillion (US$30.5 billion). Current assets have decreased by ¥195.5 billion and have become ¥2.16 trillion (US$16.2 billion). Principal causes for the said changes include reduction in trade receivables (both notes and accounts) resulting out of reduced sales and reduction in inventories. Long- term receivables and investments decreased by ¥58.7 billion to ¥487.4 billion (US$3.7 billion). This declension is mainly attributable to curtailed investment in securities and others, due to sagging share prices in Japanese stock market. Given a restraint on capital expenditure with various businesses, among others semiconductors, property, plant and equipment decreased by ¥40.8 billion to ¥894.0 billion (US$6.7 billion). Other assets increased, consonant mainly with an increase in deferred tax assets, by ¥170.8 billion to ¥518.1 billion (US$3.9 billion).

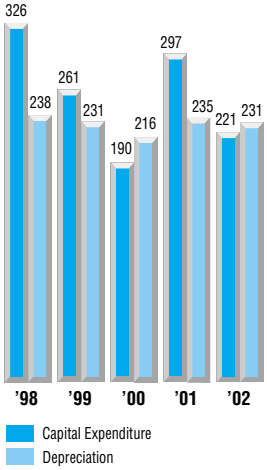
Total interest-bearing debt increased by ¥150.4 billion to ¥1.55 trillion (US$11.7 billion) and its resulting ratio to total assets raised by 4.7 points to 38.3%. The decrease of trade payables by ¥227.7 billion to ¥667.1 billion (US$5.0 billion) corresponds mainly to declension of the production by the Parent Company and delimitation of capital expenditure. Minimum pension liability adjustments have been one of major factors leading to an increase of retirement and severance benefits by ¥115.3 billion to ¥748.8 billion (US$5.6 billion).

Compared to the previous fiscal year, total shareholders' equity decreased by ¥136.5 billion to ¥541.7 billion (US$4.1 billion). Its resulting ratio of shareholders' equity to total assets decreased 2.8 points to 13.4%. While this change is partially attributable to the net loss generated, an increase in accumulated other comprehensive loss due to variations in minimum pension liability adjustments and unrealized gains on securities has also contributed thereto.

Total Assets/ Shareholders' Equity Ratio



Capital Expenditures/ Depreciation
Yen (billions)

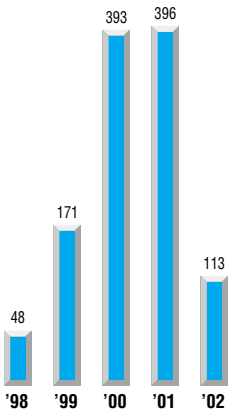


Capital Expenditure

Regarding the year under review, there has been a drastic and material decrease in IT related demand. In response to such tough operating environment, while Mitsubishi Electric makes extensive efforts to focus and concentrate its resources to such business fields as Information & Communication Systems and Electronic Devices, Mitsubishi Electric will continue to reinforce the fundamentals for its management and operations through effective investments with objectives of creating higher value product/service, streamlining production processes and improving product quality.

On a consolidated basis, total capital expenditure made by Mitsubishi Electric in the year under review amounted to ¥221.1 billion (US$1.7 billion).

Net Cash Provided by Operating Activities
Yen (billions)



Cash Flow

In the latest fiscal year, in consolidated term, affected by stagnant results, the net cash earned from operating activities remained as low as ¥113.4 billion (US$852.9 million). While the net cash used in investment activities was restrained to ¥184.2 billion (US$1,384.6 million), final free cash flow resulted in negative balance of ¥70.7 billion (US$531.8 million).

On the other hand, as a result of such factors like increase of net cash flow from financial activities up to ¥123.0 billion (US$925.1 million), the year-end balance of cash and bank deposit have increased by ¥60.5 billion from the previous fiscal year and became ¥454.9 billion (US$3,420.2 million).

As for the cash flow earned from operating activities, although it reflects our efforts of curtailing low-key assets and accelerating collection of account receivable, the loss generated as a result of decrease in sales revenue offset such efforts and it decreased by ¥282.6 billion resulting in ¥113.4 billion (US$852.9 million) in contrast with the previous fiscal year.

The cash flow earned from investment activities was reduced by ¥76.0 billion and resulted in ¥184.2 billion (US$1,384.6 million). This is mainly attributable to decrease in new acquisition of fixed assets as a result of selective implementation of capital expenditure. The cash flow earned from financial activities, while it presented a negative figure of ¥77.1 billion in the previous fiscal year, in the latest fiscal year it returned to positive balance of ¥123.0 billion (US$925.1 million).

This increase is an outcome of carrying out various measures for raising fund as commercial paper, corporate bond and long-term borrowing.

Additional Information

Net Sales by Product Segment

Years ended March 31,	Yen (millions) 2002	2001	2000	1999	1998	U.S. dollars (thousands) 2002
Energy and Electric Systems	¥ 920,667	910,520	882,376	960,609	958,493	$ 6,922,308
Industrial Automation Systems	600,589	662,963	596,285	587,553	610,512	4,515,707
Information and Communication Systems	762,586	934,900	851,141	776,747	643,642	5,733,729
Electronic Devices	470,225	714,391	626,714	609,559	685,832	3,535,527
Home Appliances	726,151	733,039	644,399	702,291	745,565	5,459,782
Others	569,799	599,760	581,094	565,709	574,776	4,284,203
Sub-Total	4,050,017	4,555,573	4,182,009	4,202,468	4,218,820	30,451,256
Eliminations	(401,031)	(426,080)	(407,779)	(408,405)	(417,476)	(3,015,271)
Consolidated Total	¥3,648,986	4,129,493	3,774,230	3,794,063	3,801,344	$27,435,985

Operating Income (loss) by Product Segment

Years ended March 31,	Yen (millions) 2002	2001	2000	1999	1998	U.S. dollars (thousands) 2002
Energy and Electric Systems	¥ 46,580	39,903	39,172	57,038	61,035	$ 350,225
Industrial Automation Systems	33,165	54,615	29,500	42,525	52,983	249,361
Information and Communication Systems	(90,246)	(13,040)	18,912	(6,123)	(8,141)	(678,541)
Electronic Devices	(80,560)	95,166	(7,001)	(91,835)	(71,691)	(605,714)
Home Appliances	37,170	28,518	5,803	(6,360)	(20,993)	279,474
Others	8,563	9,469	7,148	9,434	11,337	64,383
Sub-Total	(45,328)	214,631	93,534	4,679	24,530	(340,812)
Eliminations	(22,699)	(19,241)	(14,270)	(17,115)	(23,435)	(170,669)
Consolidated Total	¥ (68,027)	195,390	79,264	(12,436)	1,095	$ (511,481)

Geographical Breakdown of Sales

A geographical breakdown of net sales for Mitsubishi Electric Corporation and its subsidiaries for the years ended March 31, 2002, 2001, and 2000, is set out in the following table:

Years ended March 31,	Yen (millions) 2002			2001	2000	U.S. dollars (thousands) 2002
Japan	¥2,690,355	73.7%	–	¥3,038,600	2,819,893	$20,228,233
North America	324,259	8.9%	33.8%	397,525	342,738	2,438,038
Asia (except Japan)	342,313	9.4%	35.7%	353,052	320,524	2,573,782
Europe	218,996	6.0%	22.9%	268,634	230,623	1,646,586
Others (South and Central America, Oceania and Africa)	73,063	2.0%	7.6%	71,682	60,452	549,346
Total overseas sales	958,631	26.3%	100.0%	1,090,893	954,337	7,207,752
Total sales	¥3,648,986	100.0%	–	¥4,129,493	3,774,230	$27,435,985

Net Sales and Operating Income (loss) by Location Segment

Year ended March 31, 2002	Yen (millions) Domestic Companies	North America	Asia	Europe	Others	Eliminations	Consolidated
Net Sales	¥3,232,688	327,648	305,957	232,260	13,625	(463,192)	3,648,986
Operating income (loss)	¥ (36,980)	(18,086)	17,544	(46,852)	364	15,983	(68,027)

Year ended March 31, 2002	U.S. dollars (thousands)						
Net Sales	$24,305,925	2,463,519	2,300,429	1,746,316	102,443	(3,482,647)	27,435,985
Operating income (loss)	$ (278,045)	(135,985)	131,910	(352,271)	2,737	120,173	(511,481)

Consolidated Balance Sheets

Mitsubishi Electric Corporation and Subsidiaries
March 31, 2002 and 2001

ASSETS	Yen (millions) 2002	Yen (millions) 2001	U.S.dollars (thousands) (note 2) 2002
Current assets:			
Cash and cash equivalents	¥ 454,890	394,375	$ 3,420,225
Short-term investments (note 3)	13,793	18,047	103,707
Trade receivables (note 4)	818,817	976,379	6,156,519
Inventories (note 5)	643,642	714,529	4,839,413
Prepaid expenses and other current assets (note 9)	226,747	250,044	1,704,865
Total current assets	2,157,889	2,353,374	16,224,729
Long-term receivables and investments:			
Long-term trade receivables	40,150	43,154	301,880
Investments in securities and other (note 3)	342,781	403,503	2,577,301
Investments in and advances to affiliated companies (note 6)	104,502	99,493	785,729
	487,433	546,150	3,664,910
Property, plant and equipment (note 7):			
Land	108,592	101,958	816,481
Buildings	608,694	586,314	4,576,646
Machinery and equipment	2,378,325	2,347,227	17,882,143
Construction in progress	35,676	60,368	268,241
	3,131,287	3,095,867	23,543,511
Less accumulated depreciation	2,237,322	2,161,108	16,821,970
Net property, plant and equipment	893,965	934,759	6,721,541
Other assets (note 9)	518,117	347,346	3,895,617
	¥ 4,057,404	4,181,629	$ 30,506,797

See accompanying notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Yen (millions) 2002	Yen (millions) 2001	U.S.dollars (thousands) (note 2) 2002
Current liabilities:			
Bank loans (note 7)	¥ 507,794	482,043	$ 3,818,000
Current portion of long-term debt (note 7)	306,071	291,037	2,301,286
Trade payables (note 8)	667,078	894,792	5,015,624
Accrued expenses	307,832	326,989	2,314,526
Accrued income taxes (note 9)	31,503	42,710	236,865
Other current liabilities	140,585	141,895	1,057,030
Total current liabilities	1,960,863	2,179,466	14,743,331
Long-term debt (note 7)	740,180	630,544	5,565,263
Retirement and severance benefits (note 10)	748,779	633,514	5,629,917
Other liabilities (note 9)	10,639	10,706	79,993
Total liabilities	3,460,461	3,454,230	26,018,504
Minority interests	55,233	49,226	415,286
Shareholders' equity (notes 3, 7 and 11):			
Common stock:			
Authorized 8,000,000,000 shares; issued 2,147,201,551 shares in 2002 and 2,147,201,551 shares in 2001	175,820	175,820	1,321,955
Capital surplus	210,644	210,644	1,583,789
Legal reserve	51,054	49,561	383,865
Retained earnings	311,622	403,968	2,343,021
Accumulated other comprehensive loss (notes 3, 9, 10 and 13)	(207,420)	(161,820)	(1,559,548)
Treasury stock, at cost 21,639 shares in 2002	(10)	–	(75)
Total shareholders' equity	541,710	678,173	4,073,007
Commitments and contingent liabilities (note 16)			
	¥ 4,057,404	4,181,629	$ 30,506,797

Consolidated Statements of Income

Mitsubishi Electric Corporation and Subsidiaries
Years ended March 31, 2002, 2001 and 2000

	Yen (millions)			U.S.dollars (thousands) (note 2)
	2002	2001	2000	2002
Net sales	¥3,648,986	4,129,493	3,774,230	$ 27,435,985
Operating costs and expenses:				
Cost of sales (note 10)	2,842,658	3,062,392	2,823,741	21,373,368
Selling, general and administrative (note 10)	680,178	685,063	704,573	5,114,120
Research and development	194,177	186,648	166,652	1,459,978
	3,717,013	3,934,103	3,694,966	27,947,466
Operating income (loss)	(68,027)	195,390	79,264	(511,481)
Other income:				
Interest and dividends	14,246	19,404	18,299	107,113
Gains on securities contributed to employee retirement benefit trust (note 3)	–	66,914	–	–
Other (notes 3, 15 and 18)	34,399	35,663	43,354	258,639
	48,645	121,981	61,653	365,752
Other expenses:				
Interest	28,799	29,858	35,055	216,534
Other (notes 3, 15 and 18)	106,961	77,071	65,598	804,218
	135,760	106,929	100,653	1,020,752
Income (loss) before income taxes	(155,142)	210,442	40,264	(1,166,481)
Income taxes (note 9):				
Current	41,471	52,764	34,171	311,812
Deferred	(115,715)	39,226	(13,882)	(870,037)
	(74,244)	91,990	20,289	(558,225)
Income (loss) from consolidated operations	(80,898)	118,452	19,975	(608,256)
Equity in earnings of affiliated companies	2,928	6,334	4,858	22,015
Net income (loss)	¥ (77,970)	124,786	24,833	$ (586,241)
Net income (loss) per share (notes 1 (k) and 14):		Yen		U.S.dollars (note 2)
Basic	¥ (36.31)	58.12	11.57	$ (0.273)
Diluted	–	56.55	–	–

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Mitsubishi Electric Corporation and Subsidiaries
Years ended March 31, 2002, 2001 and 2000

	Yen (millions)						
	Common stock	Capital surplus	Legal reserve	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total
Balance at April 1, 1999	¥ 175,813	210,637	44,526	285,149	(100,214)	–	615,911
Conversion of convertible bonds	7	6					13
Comprehensive income (loss):							
Net income				24,833			24,833
Other comprehensive income (loss), net of tax (note 13):							
Foreign currency translation adjustments					(7,408)		(7,408)
Minimum pension liability adjustments (note 10)					50,209		50,209
Unrealized gains (losses) on securities, net of reclassification adjustments (note 3)					20,002		20,002
							87,636
Transfer to legal reserve			2,272	(2,272)			–
Cash dividends				(11,809)			(11,809)
Balance at March 31, 2000	175,820	210,643	46,798	295,901	(37,411)	–	691,751
Conversion of convertible bonds	0	1					1
Comprehensive income (loss):							
Net income				124,786			124,786
Other comprehensive income (loss), net of tax (note 13):							
Foreign currency translation adjustments					7,887		7,887
Minimum pension liability adjustments (note 10)					(74,768)		(74,768)
Unrealized gains (losses) on securities, net of reclassification adjustments (note 3)					(57,528)		(57,528)
							377
Transfer to legal reserve			2,763	(2,763)			–
Cash dividends				(13,956)			(13,956)
Balance at March 31, 2001	175,820	210,644	49,561	403,968	(161,820)	–	678,173
Comprehensive income (loss):							
Net loss				(77,970)			(77,970)
Other comprehensive income (loss), net of tax (note 13):							
Foreign currency translation adjustments					16,411		16,411
Minimum pension liability adjustments (note 10)					(45,881)		(45,881)
Unrealized gains (losses) on securities, net of reclassification adjustments (note 3)					(16,130)		(16,130)
							(123,570)
Transfer to legal reserve			1,493	(1,493)			–
Cash dividends				(12,883)			(12,883)
Purchase of treasury stock						(10)	(10)
Balance at March 31, 2002	¥ 175,820	210,644	51,054	311,622	(207,420)	(10)	541,710

	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, 2001	$1,321,955	1,583,789	372,639	3,037,353	(1,216,691)	–	5,099,045
Comprehensive income (loss):							
Net loss				(586,241)			(586,241)
Other comprehensive income (loss), net of tax (note 13):							
Foreign currency translation adjustments					123,391		123,391
Minimum pension liability adjustments (note 10)					(344,970)		(344,970)
Unrealized gains (losses) on securities, net of reclassification adjustments (note 3)					(121,278)		(121,278)
							(929,098)
Transfer to legal reserve			11,226	(11,226)			–
Cash dividends				(96,865)			(96,865)
Purchase of treasury stock						(75)	(75)
Balance at March 31, 2002	$1,321,955	1,583,789	383,865	2,343,021	(1,559,548)	(75)	4,073,007

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Mitsubishi Electric Corporation and Subsidiaries
Years ended March 31, 2002, 2001 and 2000

	Yen (millions)			U.S.dollars (thousands) (note 2)
	2002	2001	2000	2002
Cash flows from operating activities:				
Net income (loss)	¥ (77,970)	124,786	24,833	$ (586,241)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation	230,518	235,031	215,969	1,733,218
Deferred income taxes	(115,715)	39,226	(13,882)	(870,037)
Decrease (increase) in trade receivables	170,543	(40,106)	42,304	1,282,278
Decrease (increase) in inventories	83,135	(110,456)	2,444	625,075
Decrease in prepaid expenses and other assets	18,434	2,400	1,707	138,602
Increase (decrease) in trade payables	(226,930)	109,756	56,405	(1,706,241)
Increase (decrease) in other liabilities	(3,214)	71,826	61,551	(24,165)
Other, net	34,628	(36,465)	1,467	260,361
Net cash provided by operating activities	113,429	395,998	392,798	852,850
Cash flows from investing activities:				
Capital expenditure	(221,092)	(296,996)	(190,289)	(1,662,346)
Proceeds from sale of property, plant and equipment	16,344	16,237	14,366	122,887
Purchase of short-term investments and investment securities	(54,998)	(61,372)	(65,407)	(413,519)
Proceeds from sale of short-term investments and investment securities	75,760	76,993	69,379	569,624
Other, net	(169)	5,019	4,076	(1,270)
Net cash used in investing activities	(184,155)	(260,119)	(167,875)	(1,384,624)
Cash flows from financing activities:				
Proceeds from long-term debt	439,388	152,939	79,846	3,303,669
Repayment of long-term debt	(320,417)	(247,938)	(100,762)	(2,409,150)
Increase (decrease) in bank loans, net	16,955	31,874	(220,800)	127,481
Dividends paid	(12,883)	(13,956)	(11,809)	(96,865)
Net cash provided by (used in) financing activities	123,043	(77,081)	(253,525)	925,135
Effect of exchange rate changes on cash and cash equivalents	8,198	9,248	(13,052)	61,639
Net increase (decrease) in cash and cash equivalents	60,515	68,046	(41,654)	455,000
Cash and cash equivalents at beginning of year	394,375	326,329	367,983	2,965,225
Cash and cash equivalents at end of year	¥ 454,890	394,375	326,329	$ 3,420,225

See accompanying notes to consolidated financial statements.

(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) Information and Communication Systems, (2) Energy and Electric Systems, (3) Home Appliances (4) Electric Devices, (5) Industrial Automation Systems and (6) Others. Net sales by these categories for the year ended March 31, 2002 were derived from: Information and Communication Systems - 19%, Energy and Electric Systems - 23%, Home Appliances - 18%, Electric Devices - 11%, Industrial Automation Systems - 15% and Others - 14%.

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, 2002 are geographically broken down as follows: Japan - 74%, North America - 9%, Asia (except Japan) - 9%, Europe - 6% and Others - 2%.

Manufacturing operations are conducted principally at 27 sites (Parent's only) located in Japan and at overseas sites located in the United States, United Kingdom, Germany, France, Singapore, Thailand, Malaysia, China and other countries.

(b) Basis of Presentation

The Company and its domestic subsidiaries maintain their books of account in conformity with financial accounting standards of Japan, and its foreign subsidiaries in conformity with those of 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 them 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. Certain subsidiaries, which are not significant individually or in the aggregate, are not consolidated and are carried at cost. Investments in affiliated companies owned 20% to 50% are, with minor exceptions, stated at their underlying equity value.

The excess of cost over underlying equity at the acquisition dates of investments in subsidiaries and affiliated companies, if significant in amount, is amortized over 40 years.

(d) Cash Equivalents

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

(e) 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.

(f) Inventories

Work in process is stated at the lower of cost or estimated realizable value with cost being determined by accumulated production costs for contract items and by average production cost 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.

(g) 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.

(h) 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 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 these 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.

(i) Retirement and Severance 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. A portion of the plans are not funded. However, provision has been made in the accompanying consolidated balance sheets for the estimated liability under the plans.

Directors are not covered by the programs described above. Benefits paid to directors are charged to income as paid, since amounts vary with circumstances, and it is not practicable to compute the liability for future payments.

(j) 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 is demonstrated by the Company with only certain inconsequential or perfunctory work left to be performed by the customer.

(k) Net Income (loss) Per Share

Basic net income per share has been computed by dividing net income (loss) 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 stocks assumed to be purchased from the proceeds using the average market price of the Company's common stock).

(l) 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 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).

Gains and losses resulting from foreign currency transactions are charged to income and included in "other income-other" and "other expenses - other".

(m) Derivatives

The Company applies SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of SFAS No. 133". Both standards establish accounting and reporting standards for derivative instruments and for hedging activities and requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income (loss), depending on whether a derivative is designated as a hedge of a change in fair values or cash flows. For derivatives designated as fair value hedges, changes in fair value of the hedged item and the derivative are recognized currently in earnings. For derivatives designated as cash flow hedges, fair value changes of the effective portion of the hedging instruments are recognized in other comprehensive income (loss) on the balance sheet until the hedged item is recognized in earnings. The ineffective portion of all hedges are recognized in earnings immediately.

(n) Use of Estimates

The preparation of 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(o) Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

The Company's long-lived assets and certain identifiable intangibles 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 future net cash flows (undiscounted and without interest charges) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell.

(p) Stock-based Compensation

The Company accounts for its stock option plan in accordance with Accounting Principles Board Opinion (APB Opinion) No. 25, "Accounting for Stock Issued to Employees." Under APB Opinion No. 25, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeded 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 plan. 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.

(q) 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, 2002.

(r) Future Application of New Accounting Standards

In June 2001, the Financial Accounting Board issued SFAS No. 141, "Business Combinations", and SFAS 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 intangible assets that are required to be recognized and reported separately from goodwill and those acquired intangible assets that are required to be included in goodwill. SFAS No. 142 will require that goodwill no longer be amortized, but instead be tested for impairment at least annually. SFAS No. 142 will also require recognized intangible assets to be amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Any recognized intangible asset determined to have an indefinite useful life will not be amortized, but instead will be tested for impairment until its life is determined to no longer be indefinite.

The Company adopted the provisions of SFAS No. 141 and 142 on April 1, 2002, with the exception of the immediate requirement to use the purchase method of accounting for all future business combinations completed after June 30, 2001. However, any goodwill and any intangible asset determined to have an indefinite useful life that is acquired in a business combination completed after June 30, 2001 will not be amortized. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 continued to be amortized through March 31, 2002.

SFAS No. 141 requires the Company to evaluate its existing intangible assets and goodwill and to make any necessary reclassifications in order to conform to the new separation requirements at the date of adoption. Upon adoption of SFAS No. 142, the Company is required to reassess the useful lives and residual values of all intangible assets and make any necessary amortization period adjustments.

In connection with the transitional impairment evaluation, SFAS No. 142 will require the Company to perform an assessment of whether there is an indication that goodwill is impaired as of April 1, 2002. To accomplish this, the Company must (1) identify its reporting units, (2) determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets to those reporting units, and (3) determine the fair value of each reporting unit. This first step of the transitional assessment is required to be completed by September 30, 2002. If the carrying value of any reporting unit exceeds its fair value, then detailed fair values for each of the assigned assets (excluding goodwill) and liabilities will be determined to calculate the amount of goodwill impairment, if any. This second step is required to be completed as soon as possible, but no later than March 31, 2003. Any transitional impairment loss resulting from the adoption will be recognized as the effect of a change in accounting principle in the Company's consolidated statement of income. The adoption of SFAS No. 141 did not have a material effect on the Company's consolidated financial position and results of operations. Management does not anticipate that the adoption of SFAS No. 142 will have a material effect on the Company's consolidated financial position and results of operations.

In June 2001, the Financial Accounting Standards Board issued 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, 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. The Company is required to adopt the provisions of SFAS No. 143 on April 1, 2003. Currently, the effect on the Company's consolidated financial position and results of operations of adopting SFAS No. 143 has not been determined.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 144, which supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and the accounting and reporting provisions of APB Opinion No. 30 ("Opinion No. 30"), "Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", for the disposal of a segment of a business (as previously defined in that Opinion). SFAS No. 144 retained the fundamental provisions in SFAS No. 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, which also resolved significant implementation issues associated with SFAS No. 121. For example, SFAS No. 144 provides guidance on how a long-lived asset that is used as part of a group should be evaluated for impairment, establishes criteria for when a long-lived asset is held for sale, and prescribes the accounting for a long-lived asset that will be disposed of other than by sale. SFAS No. 144 retains the basic provisions of Opinion 30 on how to present discontinued operations in the income statement but broadens that presentation to include a component of an entity (rather than a segment of a business). Unlike SFAS No. 121, an impairment assessment under SFAS No. 144 will never result in a write-down of goodwill. Rather, goodwill is evaluated for impairment under SFAS No. 142. The Company adopted the provision of SFAS No. 144 on April 1, 2002. The adoption of SFAS No. 144 did 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 ¥133=U.S.$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market at the end of March 2002. 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, unrealized holding losses and fair value for such securities by major security type at March 31, 2002 and 2001 are as follows:

	Yen (millions)			
	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
2002:				
Current:				
Available-for-sale:				
Japanese and foreign government debt securities	¥ 2,174	94	–	2,268
Corporate debt securities	3,395	100	1	3,494
Bank debt securities	461	1	–	462
Fund trusts	7,569	–	–	7,569
	¥ 13,599	195	1	13,793
Noncurrent:				
Available-for-sale:				
Japanese and foreign government debt securities	¥ 10,131	735	–	10,866
Corporate debt securities	59,145	2,441	36	61,550
Bank debt securities	4,911	31	14	4,928
Fund trusts	561	–	19	542
Equity securities	180,862	45,125	23,499	202,488
	¥ 255,610	48,332	23,568	280,374

	Yen (millions)			
	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
2001:				
Current:				
Available-for-sale:				
Japanese and foreign government debt securities	¥ 62	–	–	62
Corporate debt securities	3,835	19	16	3,838
Bank debt securities	4,688	39	–	4,727
Fund trusts	9,415	5	–	9,420
	¥ 18,000	63	16	18,047
Noncurrent:				
Available-for-sale:				
Japanese and foreign government debt securities	¥ 12,245	1,326	–	13,571
Corporate debt securities	73,157	3,558	–	76,715
Bank debt securities	5,376	56	2	5,430
Fund trusts	831	2	91	742
Equity securities	191,960	61,555	7,989	245,526
	¥ 283,569	66,497	8,082	341,984

	U.S. dollars (thousands)			
	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
2002:				
Current:				
Available-for-sale:				
Japanese and foreign government debt securities	$ 16,346	707	–	17,053
Corporate debt securities	25,526	752	8	26,270
Bank debt securities	3,466	8	–	3,474
Fund trusts	56,910	–	–	56,910
	$ 102,248	1,467	8	103,707
Noncurrent:				
Available-for-sale:				
Japanese and foreign government debt securities	$ 76,173	5,526	–	81,699
Corporate debt securities	444,699	18,354	271	462,782
Bank debt securities	36,925	233	105	37,053
Fund trusts	4,218	–	143	4,075
Equity securities	1,359,865	339,285	176,684	1,522,466
	$ 1,921,880	363,398	177,203	2,108,075

Net unrealized gains on available-for-sale securities, net of taxes and minority interests, decreased by ¥16,130 million ($121,278 thousand) in the year ended March 31, 2002, decreased by ¥57,528 million in the year ended March 31, 2001 and increased by ¥20,002 million in the year ended March 31, 2000.

Maturities of marketable securities classified as available-for-sale at March 31, 2002 were as follows:

	Yen (millions)		U.S. dollars (thousands)	
	Cost	Fair value	Cost	Fair value
Due within one year	¥ 13,599	13,793	$ 102,248	103,707
Due after one year through five years	64,376	67,514	484,030	507,624
Due after five years	10,372	10,372	77,985	77,985
Equity securities	180,862	202,488	1,359,865	1,522,466
	¥ 269,209	294,167	$ 2,024,128	2,211,782

Proceeds from the sale of available-for-sale securities and gross realized gains and gross realized losses on those sales in the year ended March 31, 2002, 2001 and 2000 were as follows:

	Yen (millions)			U.S. dollars (thousands)
	2002	2001	2000	2002
Proceeds	¥ 73,779	76,522	68,107	$ 554,729
Gross realized gains	1,267	812	21,526	9,526
Gross realized losses	393	1,673	946	2,955

In June and July 2000, 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. The fair value of these securities at the time of contribution was ¥119,968 million. Upon contribution of these available-for-sale securities, the net unrealized gains amounting to ¥66,914 million were realized and accounted for as "gains on securities contributed to employee retirement benefit trust" in the consolidated statements of income.

(4) Trade Receivables

Trade receivables are summarized as follows:

	Yen (millions)		U.S. dollars (thousands)
	2002	2001	2002
Notes	¥ 67,319	81,492	$ 506,158
Accounts	765,547	908,648	5,755,992
Allowance for doubtful receivables	(14,049)	(13,761)	(105,631)
	¥ 818,817	976,379	$ 6,156,519

(5) Inventories

Inventories are comprised of the following:

	Yen (millions)		U.S. dollars (thousands)
	2002	2001	2002
Work in process	¥ 409,514	448,496	$ 3,079,052
Less accumulated billings on long-term contracts	45,975	57,422	345,677
	363,539	391,074	2,733,375
Raw materials	81,124	108,391	609,955
Finished products	198,979	215,064	1,496,083
	¥ 643,642	714,529	$ 4,839,413

(6) Investments in Affiliated Companies

At March 31, 2002 and 2001, investments in affiliated companies included the shares of 13 and 12 publicly quoted affiliates summarized as follows:

	Yen (millions)		U.S. dollars (thousands)
	2002	2001	2002
Investments at equity	¥ 40,477	38,239	$ 304,338
Quoted market value	27,266	31,403	205,008

(7) Bank Loans and Long-term Debt

Bank loans consisted of the following:

	Yen (millions)		U.S. dollars (thousands)
	2002	2001	2002
Bank borrowings	¥ 407,794	457,043	$ 3,066,120
Commercial paper	100,000	25,000	751,880
	¥ 507,794	482,043	$ 3,818,000

The weighted average interest rates on bank loans outstanding as of March 31, 2002 and 2001 are 0.61% and 0.88%, respectively.

At March 31, 2002, the Company had unused committed lines of credit amounting to ¥50,000 million ($375,940 thousand) and can borrow up to six months from the banks with whom the Company has committed line contracts.

Long-term debt consisted of the following:

	Yen (millions)		U.S. dollars (thousands)
	2002	2001	2002
Loans, principally from banks and insurance companies, maturing in installments through 2025; bearing interest ranging from 0.20% to 7.52% in 2002 and 2001:			
Secured	¥ 11,556	14,544	$ 86,887
Unsecured	450,990	356,647	3,390,902
2.5% Japanese yen bonds due 2002	–	30,000	–
2.575% Japanese yen bonds due 2001	–	70,000	–
2.825% Japanese yen bonds due 2002	30,000	30,000	225,564
1.7% Japanese yen bonds due 2002	–	10,000	–
1.9% Japanese yen bonds due 2003	20,000	20,000	150,376
2.2% Japanese yen bonds due 2004	10,000	10,000	75,188
2.0% Japanese yen bonds due 2003	50,000	50,000	375,940
2.7% Japanese yen bonds due 2008	30,000	30,000	225,564
1.9% Japanese yen bonds due 2004	30,000	30,000	225,564
2.075% Japanese yen bonds due 2005	20,000	20,000	150,376
1.26% Japanese yen bonds due 2001	–	15,000	–
1.62% Japanese yen bonds due 2003	20,000	20,000	150,376
1.86% Japanese yen bonds due 2005	15,000	15,000	112,782
1.22% Japanese yen bonds due 2001	–	20,000	–
1.96% Japanese yen bonds due 2004	10,000	10,000	75,188
0.63% Japanese yen bonds due 2006	15,000	–	112,782
1.03% Japanese yen bonds due 2008	10,000	–	75,188
0.83% Japanese yen bonds due 2006	100,000	–	751,880
1.22% Japanese yen bonds due 2008	25,000	–	187,970
1.76% Japanese yen bonds due 2011	25,000	–	187,970
2% Japanese yen convertible debentures due 2003	77,249	77,249	580,819
Medium-term notes issued by subsidiaries, due 2001-2009, bearing interest ranging from 1.78% to 2.44% in 2002 and 5.24% to 6.07% in 2001	96,006	92,591	721,850
Other notes and bonds issued by subsidiaries, due 2002, bearing interest 1.10% - 4.20%	450	550	3,383
	1,046,251	921,581	7,866,549
Less amount due within one year	306,071	291,037	2,301,286
	¥ 740,180	630,544	$ 5,565,263

The aggregate annual maturities of long-term debt outstanding at March 31, 2002 were as follows:

Year ending March 31	Yen (millions)	U.S. dollars (thousands)
2003	¥ 306,071	$ 2,301,286
2004	192,163	1,444,834
2005	117,191	881,135
2006	101,407	762,459
2007	149,935	1,127,331
Thereafter	179,484	1,349,504
Total	¥ 1,046,251	$ 7,866,549

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 ¥6,458 million ($48,556 thousand) are pledged as security for long-term loans from banks and insurance companies.

The 2% Japanese yen convertible debentures due September 30, 2003 are currently redeemable, in whole or in part, at the option of the Company, at redemption prices which range from 100% to 105% of the principal amount. Under the terms of the indenture, (1) the conversion price of ¥1,024 ($7.70) per share is subject to adjustment under certain circumstances and (2) a pledge of certain of the Company's property is required as collateral in cases where collateral is required for newly issued convertible debentures.

At March 31, 2002 the convertible debts described above are convertible into approximately 75,438 thousand shares of common stock.

(8) Trade Payables

Trade payables are summarized as follows:

	Yen (millions)		U.S. dollars (thousands)
	2002	2001	2002
Notes	¥ 84,781	191,656	$ 637,451
Accounts	582,297	703,136	4,378,173
	¥ 667,078	894,792	$ 5,015,624

(9) Income Taxes

The Company is subject to a number of taxes based on income, which in the aggregate resulted in a normal tax rate of approximately 42% in the years ended March 31, 2002 and 2001, and 2000.

Total income taxes (benefit) were allocated as follows:

	Yen (millions)			U.S. dollars (thousands)
	2002	2001	2000	2002
Income (loss) before income taxes	¥ (74,244)	91,990	20,289	$ (558,225)
Shareholders' equity - accumulated other comprehensive income (loss):				
Foreign currency translation adjustments	2,579	(1,273)	1,191	19,391
Minimum pension liability adjustments	(33,224)	(54,142)	36,358	(249,805)
Unrealized gains (losses) on securities	(13,716)	(49,715)	14,945	(103,128)
	¥ (118,605)	(13,140)	72,783	$ (891,767)

Deferred tax assets and liabilities at March 31, 2002 are accounted for at a normal tax rate of approximately 42%.

The actual tax rate for the years ended March 31, 2002, 2001 and 2000 is reconciled with the Japanese statutory rate in the following table:

	2002	2001	2000
Japanese normal income tax rate	42.0%	42.0%	42.0%
Change in valuation allowance provided for operating losses of subsidiaries	(10.8)	7.0	(15.3)
Expenses permanently not deductible for tax purposes	(2.4)	2.0	14.0
Tax deductible expenses eliminated	16.2	(8.7)	–
Other	2.9	1.4	9.7
Actual income tax rate	47.9%	43.7%	50.4%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2002 and 2001 are as follows:

	Yen (millions)		*U.S. dollars (thousands)*
	2002	2001	2002
Deferred tax assets:			
Retirement and severance benefits	¥ 152,905	136,455	$ 1,149,662
Accrued expenses	118,682	81,639	892,346
Property, plant and equipment	44,691	41,625	336,023
Inventories	37,876	53,379	284,782
Minimum pension liability adjustments	173,053	139,829	1,301,150
Other	164,129	78,606	1,234,052
Total gross deferred tax assets	691,336	531,533	5,198,015
Valuation allowance	(76,690)	(59,899)	(576,617)
Net deferred tax assets	614,646	471,634	4,621,398
Deferred tax liabilities:			
Securities contributed to employee retirement benefit trust	28,104	28,104	211,308
Property, plant and equipment	14,480	16,945	108,872
Net unrealized gains on securities	10,824	24,540	81,383
Other	5,218	9,263	39,233
Total gross deferred tax liabilities	58,626	78,852	440,796
Net deferred tax assets	¥ 556,020	392,782	$ 4,180,602

The valuation allowance for deferred tax assets as of April 1, 2000 was ¥45,165 million. The net change in the total valuation allowance for the years ended March 31, 2002 and 2001 was an increase of ¥16,791 million ($126,248 thousand) and an increase of ¥14,734 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. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences, net of the existing valuation allowances at March 31, 2002.

At March 31, 2002, the Company and certain subsidiaries had net operating loss carryforwards for income tax purposes of ¥277,208 million ($2,084,271 thousand) which were available to offset future taxable income, if any. Most of these net operating loss carryforwards will expire in the years ending March 31, 2004, 2006 and 2007.

Net deferred income tax assets and liabilities at March 31, 2002 and 2001 are reflected in the accompanying consolidated balance sheets under the following captions:

	Yen (millions)		U.S. dollars (thousands)
	2002	2001	2002
Prepaid expenses and other current assets	¥ 112,019	123,477	$ 842,248
Other assets	444,264	269,493	3,340,331
Other liabilities	(263)	(188)	(1,977)
	¥ 556,020	392,782	$ 4,180,602

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

(10) Retirement and Severance Benefits

The Company has non-contributory and contributory employee retirement and severance 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, which include a substitutional portion of the Governmental Welfare Pension Insurance, employees are entitled to annuity payments at a certain age. The assets of funded plans are combined in accordance with the regulations and administered by a board of trustees comprised equally of employer and employees (Employee Pension Fund). The plan assets of the Employee Pension Fund cannot be specifically allocated to the individual participants nor to the substitutional and corporate portions.

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, 2002, 2001 and 2000 consisted of the following components:

	Yen (millions)			U.S. dollars (thousands)
	2002	2001	2000	2002
Service costs	¥ 42,555	48,137	50,393	$ 319,963
Interest cost on projected benefit obligation	51,441	48,562	51,090	386,774
Expected return on plan assets	(26,068)	(27,860)	(22,553)	(196,000)
Net amortization and deferral	22,272	14,248	30,259	167,459
	90,200	83,087	109,189	678,196
Employee contributions	(6,582)	(6,619)	(7,932)	(49,489)
Net periodic retirement and severance costs charged to consolidated income	¥ 83,618	76,468	101,257	$ 628,707

The amount of cost recognized for the defined contribution plans for the years ended March 31, 2002, 2001 and 2000 was not significant and is included in net periodic retirement and severance costs above.

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)
	2002	2001	2002
Change in benefit obligations:			
Benefit obligations at beginning of year	¥ 1,469,844	1,387,497	$ 11,051,459
Service cost	35,973	41,518	270,474
Interest cost	51,441	48,562	386,774
Plan participants' contributions	6,582	6,619	49,489
Amendments	(21,411)	–	(160,985)
Actuarial loss	35,820	43,891	269,323
Benefits paid	(59,249)	(58,243)	(445,481)
Benefit obligations at end of year	1,519,000	1,469,844	11,421,053
Change in plan assets:			
Fair value of plan assets at beginning of year	750,096	696,497	5,639,819
Actual return on plan assets	(74,330)	(82,843)	(558,872)
Employer contributions	30,179	34,468	226,910
Contribution to employee retirement benefit trust	–	119,968	–
Plan participants' contributions	6,582	6,619	49,489
Benefits paid	(23,984)	(24,613)	(180,331)
Fair value of plan assets at end of year	688,543	750,096	5,177,015
Funded status	830,457	719,748	6,244,038
Unrecognized valuation differences	(578,785)	(485,875)	(4,351,767)
Unrecognized net transition obligation being recognized over 15 years	(3,094)	(4,127)	(23,263)
Unrecognized prior service benefit being recognized over 14 years	88,170	70,842	662,932
Net amount recognized	336,748	300,588	2,531,940
Adjustments to recognize minimum pension liability:			
Amount included in accumulated other comprehensive income (loss), gross of tax	412,031	332,926	3,097,977
Accrued pension and severance cost recognized in the consolidated balance sheets	748,779	633,514	5,629,917
Actuarial present value of accumulated benefit obligations at end of year	1,437,322	1,383,610	10,806,932
Actuarial assumptions:			
Discount rate	3.5%	3.5%	
Assumed rate of increase in future compensation levels	3.7-4.1%	3.7-4.1%	
Expected long-term rate of return on plan assets	4.0%	4.0%	

(11) Shareholders' Equity

Changes in common stock were as follows:

	Shares	
	2002	2001
Number of common shares:		
Balance at beginning of year	2,147,201,551	2,147,200,575
Conversion of convertible debentures	–	976
Balance at end of year	2,147,201,551	2,147,201,551

Conversions into common stock of convertible debt 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 provided 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 such reserve equals 25% of their respective common stock. It was amended effective on October 1, 2001 and now provides that an amount equal to at least 10% of appropriations paid in cash be appropriated as a legal reserve until an aggregated amount of additional paid-in capital and the legal reserve equals 25% of common stock. 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 financial 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 shown in the Company's books of account amounted to ¥50,681 million ($381,060 thousand) at March 31, 2002.

Cash dividends and appropriations to the legal reserve charged to retained earnings during the years ended March 31, 2002, 2001 and 2000 represent dividends paid out during the years and the related appropriations to the legal reserve.

(12) Stock Option Plans

In June 2001, the Company granted stock options to certain directors and upper class employees. Under the stock option plan options to purchase common stock were granted at prices not less than market value at date of grant, are exercisable from two years after the date of grant and expire four years after the date of grant. Under APB Opinion No. 25, the Company recognized no compensation expense related to employee stock options, as no options were granted at a price below the market price on the date of grant.

A summary of the stock option plan activity for the year ended March 31, 2002 is shown as follows:

	Number of Shares	Exercise price
Outstanding at March 31, 2001	–	–
Granted	645,000	¥ 584
Exercised	–	–
Outstanding at March 31, 2002	645,000	¥ 584

The remaining contractual life is 5.25 years, and no exercisable stock options were outstanding as of March 31, 2002. The pro forma effect of applying SFAS No. 123 on net income and net income (loss) per share for the year March 31, 2002 was not material.

(13) Other Comprehensive Income (Loss)

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

	Yen (millions)			U.S. dollars (thousands)
	2002	2001	2000	2002
Foreign currency translation adjustments:				
Balance at beginning of year	¥ (13,338)	(21,225)	(13,817)	$ (100,285)
Adjustments for the year	16,411	7,887	(7,408)	123,391
Balance at end of year	3,073	(13,338)	(21,225)	23,106
Minimum pension liability adjustments:				
Balance at beginning of year	(175,662)	(100,894)	(151,103)	(1,320,767)
Adjustments for the year	(45,881)	(74,768)	50,209	(344,970)
Balance at end of year	(221,543)	(175,662)	(100,894)	(1,665,737)
Unrealized gains (losses) on securities:				
Balance at beginning of year	27,180	84,708	64,706	204,361
Adjustments for the year	(16,130)	(57,528)	20,002	(121,278)
Balance at end of year	11,050	27,180	84,708	83,083
Total accumulated other comprehensive income (loss):				
Balance at beginning of year	(161,820)	(37,411)	(100,214)	(1,216,691)
Adjustments for the year	(45,600)	(124,409)	62,803	(342,857)
Balance at end of year	¥ (207,420)	(161,820)	(37,411)	$ (1,559,548)

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
2002:			
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities held at end of year	¥ 15,271	(2,579)	12,692
Reclassification adjustments for the portion of gains and losses realized upon sale or liquidation of investments in foreign entities	3,719	–	3,719
Net change in foreign currency translation adjustments during the year	18,990	(2,579)	16,411
Minimum pension liability adjustments	(79,105)	33,224	(45,881)
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the year	(41,116)	16,651	(24,465)
Less reclassification adjustments for gains (losses) included in net income	11,270	(2,935)	8,335
Net change in unrealized gains (losses) on securities	(29,846)	13,716	(16,130)
Other comprehensive income (loss)	¥ (89,961)	44,361	(45,600)

	Yen (millions)		
	Before-tax amount	Tax (expense) or benefit	Net-of-tax amount
2001:			
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities held at end of year	¥ 13,623	1,273	14,896
Reclassification adjustments for the portion of gains and losses realized upon sale or liquidation of investments in foreign entities	(7,009)	–	(7,009)
Net change in foreign currency translation adjustments during the year	6,614	1,273	7,887
Minimum pension liability adjustments	(128,910)	54,142	(74,768)
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the year	(41,479)	22,094	(19,385)
Less reclassification adjustments for gains (losses) included in net income	(65,764)	27,621	(38,143)
Net change in unrealized gains (losses) on securities	(107,243)	49,715	(57,528)
Other comprehensive income (loss)	¥ (229,539)	105,130	(124,409)
2000:			
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities held at end of year	¥ (5,180)	(1,191)	(6,371)
Reclassification adjustments for the portion of gains and losses realized upon sale or liquidation of investments in foreign entities	(1,037)	–	(1,037)
Net change in foreign currency translation adjustments during the year	(6,217)	(1,191)	(7,408)
Minimum pension liability adjustments	86,567	(36,358)	50,209
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the year	34,947	(14,945)	20,002
Less reclassification adjustments for gains (losses) included in net income	–	–	–
Net change in unrealized gains (losses) on securities	34,947	(14,945)	20,002
Other comprehensive income (loss)	¥ 115,297	(52,494)	62,803

	U.S. dollars (thousands)		
	Before-tax amount	Tax (expense) or benefit	Net-of-tax amount
2002:			
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities held at end of year	$ 114,820	(19,391)	95,429
Reclassification adjustments for the portion of gains and losses realized upon sale or liquidation of investments in foreign entities	27,962	–	27,962
Net change in foreign currency translation adjustments during the year	142,782	(19,391)	123,391
Minimum pension liability adjustments	(594,775)	249,805	(344,970)
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the year	(309,143)	125,196	(183,947)
Less reclassification adjustments for gains (losses) included in net income	84,737	(22,068)	62,669
Net change in unrealized gains (losses) on securities	(224,406)	103,128	(121,278)
Other comprehensive income (loss)	$ (676,399)	333,542	(342,857)

(14) Net Income (Loss) per Share

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

	Yen (millions)			U.S. dollars (thousands)
	2002	2001	2000	2002
Net income (loss) available to common stockholders	¥ (77,970)	124,786	24,833	$ (586,241)
Effect of dilutive securities:				
2% Japanese yen convertible debentures due 2003	896	896	896	6,737
2 7/8% U.S. dollar convertible bonds due 2000	–	–	4	–
Diluted net income (loss)	¥ (77,074)	125,682	25,733	$ (579,504)

	Number of shares		
	2002	2001	2000
Average common shares outstanding	2,147,195,715	2,147,200,950	2,147,172,804
Dilutive effect of:			
2% Japanese yen convertible debentures due 2003	75,438,477	75,438,477	75,439,453
2 7/8% U.S. dollar convertible bonds due 2000	–	–	27,771
Diluted common shares outstanding	2,222,634,192	2,222,639,427	2,222,640,028

	Yen			U.S. dollars
	2002	2001	2000	2002
Net income (loss) per share:				
Basic	¥ (36.31)	58.12	11.57	$ (0.273)
Diluted	–	56.55	–	–

(15) Derivative Instruments and Hedging Activities

Foreign Exchange Risk Management and Interest Rate Risk Management

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

Contract amounts of foreign exchange contracts and foreign currency swaps and notional principal amounts of interest rate swaps at March 31, 2002 are set forth below:

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.

Foreign exchange contracts

	Yen (millions)			
	U.S. dollars	Euro	Others	Total
Forwards to sell foreign currencies	¥ 74,949	¥ –	¥ 2,017	¥ 76,966
Forwards to buy foreign currencies	3,426	57,586	2,018	63,030

	U.S. dollars (thousands)			
	U.S. dollars	Euro	Others	Total
Forwards to sell foreign currencies	$ 563,526	$ –	$ 15,165	$ 578,691
Forwards to buy foreign currencies	25,759	432,977	15,173	473,909

Foreign currency swaps

	Expected maturity date	Contract amount	
		Yen (millions)	*U.S. dollars (thousands)*
Swaps to sell U.S. dollar and buy Japanese yen	April 2002 to March 2003	¥ 26,450	$ 198,872
Swaps to sell Euro and buy Japanese yen	April 2002 to April 2004	65,300	490,977

Interest rate swaps

	Expected maturity date	Notional principal amount	
		Yen (millions)	*U.S. dollars (thousands)*
Swaps from a fixed to a variable rate	April 2002 to December 2008	¥ 12,308	$ 92,541
Swaps from a variable to a fixed rate	June 2002 to December 2008	23,416	176,060

Treatment of Foreign Exchange Contracts
The Company and certain of its subsidiaries account for foreign exchange contracts on a mark-to-market basis, with the changes in value recognized in earnings which offsets the profit and loss impact of recognized assets and liabilities and certain firm sale and purchase commitments denominated in foreign currencies (principally U.S. dollars and Euro).

Treatment of Foreign Currency Swaps
Certain subsidiaries account for foreign currency swaps on a mark-to-market basis, with the changes in value recognized in earnings which offsets the profit and loss impact of recognized assets and liabilities and related foreign currency swaps.

Information with Respect to Fair Value 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 fixed to a variable rate and designate them as fair value hedges. Also, certain subsidiaries have entered into cross-currency swaps to hedge currency exposure and designate them as fair value hedges.

For the years ended March 31, 2002 and 2001, the net effect of ¥231 million ($1,737 thousand) and, ¥1,495 million, respectively on the ineffective portion was recognized in "other expense - other" and "other income-other" in the consolidated statements of income.

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, 2002, the fair value changes of the effective portion were immaterial and has not been reflected in other comprehensive income (loss).

(16) Commitments and Contingent Liabilities

Rental expense for the years ended March 31, 2002, 2001 and 2000 aggregated ¥40,478 million ($304,346 thousand), ¥42,798 million and ¥43,387 million, respectively. Substantially all such rental expense is related to cancelable operating leases for office space, warehouses, employee facilities and computer equipment. Such leases are customarily renewed.

At March 31, 2002, commitments outstanding for the purchase of property, plant and equipment approximated ¥8,491 million ($63,842 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, 2002, the companies were contingently liable on trade notes discounted in the amount of ¥3,283 million ($24,684 thousand). Notes discounted are accounted for as sales. The aggregate amounts of proceeds from notes discounted for the years ended March 31, 2002, 2001 and 2000 are not available; however, based on its financing policy, the Company believes that the balance of such contingent liabilities should not have significantly fluctuated during the year ended March 31, 2002.

Contingent liabilities for guarantees of loans to employees and affiliated and other companies amounted to approximately ¥198,961 million ($1,495,947 thousand) at March 31, 2002.

As of March 31, 2002, 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 statements.

(17) 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, 2002 and 2001 are summarized as follows:

	Yen (millions)				*U.S. dollars (thousands)*	
	2002		2001		2002	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Nonderivatives:						
Assets:						
Marketable securities	¥ 294,167	294,167	360,031	360,031	$2,211,782	2,211,782
Long-term trade receivables	40,150	39,660	43,154	41,778	301,880	298,195
Liabilities:						
Long-term debt, including current portion	(1,046,251)	(1,044,295)	(921,581)	(922,940)	(7,866,549)	(7,851,842)
Derivatives relating to:						
Trade receivables (credit)	(3,817)	(3,817)	(7,515)	(7,515)	(28,699)	(28,699)
Long-term debt, including current portion (credit):						
Foreign exchange contracts	1,698	1,698	580	580	12,767	12,767
Foreign currency swaps	(1,918)	(1,918)	475	475	(14,421)	(14,421)
Interest rate swaps	28	28	446	446	211	211

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.

(18) Supplementary Income and Expense Information

	Yen (millions)			U.S. dollars (thousands)
	2002	2001	2000	2002
Exchange gains (losses)	¥ 5,590	12,022	(27,304)	$ 42,030
Restructuring charge	(45,131)	–	–	(339,331)

(19) Supplementary Cash Flow Information

	Yen (millions)			U.S. dollars (thousands)
	2002	2001	2000	2002
Cash paid during the year for:				
Interest	¥ 28,550	35,872	42,010	$ 214,662
Income taxes	51,930	37,129	36,135	390,451
Noncash financing activities:				
Convertible debentures converted into common stock and capital surplus	–	1	13	–

KPMG

Independent Auditors' Report

The Board of Directors
Mitsubishi Electric Corporation and Subsidiaries:

We have audited the accompanying consolidated balance sheets (expressed in yen) of Mitsubishi Electric Corporation and subsidiaries as of March 31, 2002 and 2001, 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, 2002. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 has not presented segment information in the accompanying consolidated financial statements. The presentation of segment information concerning operations in different industries and export sales is required by accounting principles generally accepted in the United States of America for a complete presentation of the consolidated financial statements.

In our opinion, except for the omission of segment information, as discussed in the third paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mitsubishi Electric Corporation and subsidiaries at March 31, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

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 of the notes to the consolidated financial statements.

KPMG

Tokyo, Japan
April 24, 2002

Share Information

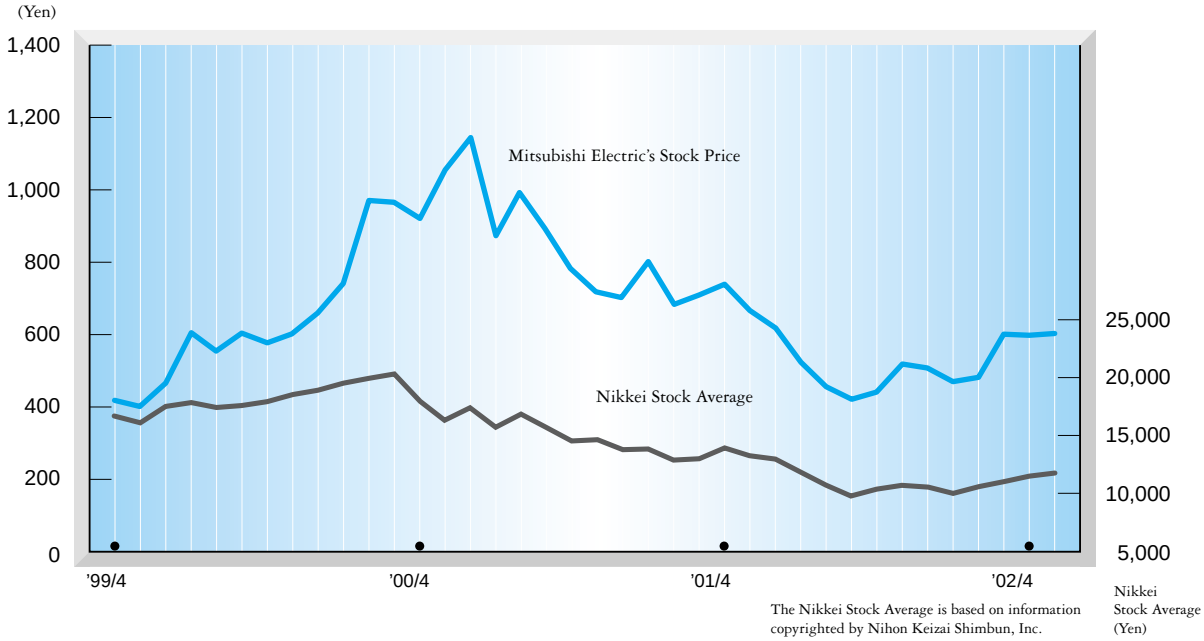
Major Shareholders

	Number of Shares (thousands)	*Percentage of Total*
Japan Trustee Services Bank, Ltd.–Trust Account	95,323	4.44%
Meiji Life Insurance Company	89,064	4.15%
Mitsubishi Electric Group Employees' Shareholding Union	78,714	3.67%
Nippon Life Insurance Company	78,069	3.64%
The Bank of Toyo-Mitsubishi, Ltd.	75,698	3.53%
The Mitsubishi Trust and Banking Corporation–Trust Account	64,595	3.01%
The Mitsubishi Trust and Banking Corporation	43,901	2.04%
UFJ Trust Bank Limited–Trust Account	38,864	1.81%
The Dai-ichi Mutual Life Insurane Company	37,360	1.74%
State Street Bank and Trust Company	34,599	1.61%

Distribution of Shareholders

Financial Institutions	48.8%
Individuals and Others	29.8%
Foreign Corporations	13.8%
Other Corporations	7.3%
Securities Companies	0.3%

Stock Price



Annual Meeting

The annual meeting of shareholders of the Corporation is normally held in June each year in Tokyo, Japan. 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, Nagoya, Fukuoka and Sapporo

Europe: London, Paris, Amsterdam, Frankfurt and Luxembourg

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