

# Financial Section

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# Consolidated Balance Sheets

Hitachi, Ltd. and Subsidiaries  
March 31, 2005 and 2004

Assets	Millions of yen		Thousands of U.S. dollars (note 3)
	2005	2004	2005
Cash and cash equivalents . . . . .	¥ 708,715	¥ 764,396	\$ 6,623,505
Short-term investments (note 4) . . . . .	146,568	177,949	1,369,794
Trade receivables, net of allowance for doubtful receivables and unearned income of ¥40,579 million (\$379,243 thousand) for 2005 and ¥43,287 million for 2004:			
Notes (note 8) . . . . .	132,572	142,802	1,238,991
Accounts (notes 5 and 8) . . . . .	2,065,194	2,043,727	19,300,879
Inventories (note 6) . . . . .	1,198,955	1,123,406	11,205,187
Prepaid expenses and other current assets (note 10) . . . . .	560,072	515,909	5,234,318
Investments in leases (notes 7 and 8) . . . . .	526,759	451,753	4,922,981
Investments and advances, including affiliated companies (note 4) . . . . .	894,851	908,962	8,363,093
Property, plant and equipment (notes 7 and 11):			
Land . . . . .	436,308	419,846	4,077,645
Buildings . . . . .	1,740,057	1,690,096	16,262,215
Machinery and equipment . . . . .	5,222,157	4,899,239	48,805,205
Construction in progress . . . . .	57,291	49,011	535,430
	<b>7,455,813</b>	<b>7,058,192</b>	<b>69,680,495</b>
Less accumulated depreciation . . . . .	<b>5,097,882</b>	<b>4,825,330</b>	<b>47,643,757</b>
Net property, plant and equipment . . . . .	<b>2,357,931</b>	<b>2,232,862</b>	<b>22,036,738</b>
Other assets (notes 9 and 10) . . . . .	<b>1,144,630</b>	<b>1,228,556</b>	<b>10,697,477</b>
	<b>¥9,736,247</b>	<b>¥9,590,322</b>	<b>\$90,992,963</b>

See accompanying notes to consolidated financial statements.

<b>Liabilities and Stockholders' Equity</b>	Millions of yen		Thousands of U.S. dollars (note 3)
	2005	2004	2005
Short-term debt (note 11) . . . . .	¥ 676,611	¥ 623,816	\$ 6,323,467
Current portion of long-term debt (notes 7 and 11) . . . . .	506,863	559,647	4,737,037
Trade payables:			
Notes . . . . .	62,855	67,581	587,430
Accounts . . . . .	1,246,401	1,220,033	11,648,608
Accrued expenses . . . . .	843,022	797,935	7,878,710
Income taxes (note 10) . . . . .	61,789	78,438	577,467
Advances received . . . . .	247,586	216,544	2,313,888
Other current liabilities (note 10) . . . . .	419,419	347,060	3,919,804
Long-term debt (notes 7 and 11) . . . . .	1,319,032	1,314,102	12,327,402
Retirement and severance benefits (note 12) . . . . .	1,033,005	1,273,509	9,654,252
Other liabilities (note 10) . . . . .	90,781	124,710	848,421
Total liabilities . . . . .	<b>6,507,364</b>	<b>6,623,375</b>	<b>60,816,486</b>
Minority interests . . . . .	921,052	798,816	8,607,963
Stockholders' equity:			
Common stock (notes 11 and 13) . . . . .	282,033	282,032	2,635,822
Capital surplus (note 13) . . . . .	565,360	551,690	5,283,738
Legal reserve (note 14) . . . . .	110,214	109,163	1,030,038
Retained earnings (note 14) . . . . .	1,668,984	1,651,272	15,597,981
Accumulated other comprehensive loss (note 16) . . . . .	(301,524)	(393,864)	(2,817,981)
Treasury stock, at cost (note 15) . . . . .	(17,236)	(32,162)	(161,084)
Total stockholders' equity . . . . .	<b>2,307,831</b>	<b>2,168,131</b>	<b>21,568,514</b>
Commitments and contingencies (note 17)			
	<b>¥9,736,247</b>	<b>¥9,590,322</b>	<b>\$90,992,963</b>

# Consolidated Statements of Operations

Hitachi, Ltd. and Subsidiaries

Years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (note 3)
	2005	2004	2003	2005
<b>Revenues:</b>				
Product sales (note 5) . . . . .	<b>¥8,055,179</b>	¥7,652,205	¥7,235,069	<b>\$75,282,047</b>
Financial and other services . . . . .	<b>971,864</b>	980,245	956,683	<b>9,082,841</b>
Total revenues . . . . .	<b>9,027,043</b>	8,632,450	8,191,752	<b>84,364,888</b>
<b>Cost of sales:</b>				
Product sales . . . . .	<b>(6,258,922)</b>	(5,966,578)	(5,617,932)	<b>(58,494,598)</b>
Financial and other services . . . . .	<b>(702,348)</b>	(743,576)	(622,561)	<b>(6,564,000)</b>
Total cost of sales . . . . .	<b>(6,961,270)</b>	(6,710,154)	(6,240,493)	<b>(65,058,598)</b>
Selling, general and administrative expenses . . . . .	<b>(1,786,718)</b>	(1,737,433)	(1,798,292)	<b>(16,698,299)</b>
Impairment losses for long-lived assets (note 18) . . . . .	<b>(26,797)</b>	(26,085)	(8,474)	<b>(250,439)</b>
Restructuring charges (note 19) . . . . .	<b>(33,307)</b>	(28,613)	–	<b>(311,280)</b>
Interest income . . . . .	<b>13,413</b>	12,808	14,158	<b>125,355</b>
Dividends income . . . . .	<b>5,971</b>	6,352	8,921	<b>55,804</b>
Other income (notes 20 and 21) . . . . .	<b>67,024</b>	142,010	23,658	<b>626,392</b>
Interest charges . . . . .	<b>(29,057)</b>	(30,855)	(34,338)	<b>(271,561)</b>
Other deductions (note 20) . . . . .	<b>(11,796)</b>	(23,331)	(60,064)	<b>(110,243)</b>
Income before income taxes and minority interests . . . . .	<b>264,506</b>	237,149	96,828	<b>2,472,019</b>
Income taxes (note 10) . . . . .	<b>(149,990)</b>	(198,655)	(52,662)	<b>(1,401,776)</b>
Income before minority interests . . . . .	<b>114,516</b>	38,494	44,166	<b>1,070,243</b>
Minority interests . . . . .	<b>(63,020)</b>	(22,618)	(16,299)	<b>(588,972)</b>
Net income . . . . .	<b>¥ 51,496</b>	¥ 15,876	¥ 27,867	<b>\$ 481,271</b>
<b>Net income per share (note 22):</b>				
Basic . . . . .	<b>¥15.53</b>	¥4.81	¥8.31	<b>\$0.15</b>
Diluted . . . . .	<b>15.15</b>	4.75	8.19	<b>0.14</b>

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Stockholders' Equity

Hitachi, Ltd. and Subsidiaries

Years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (note 3)
	2005	2004	2003	2005
<b>Common stock (notes 11 and 13):</b>				
Balance at beginning of year . . . . .	¥ 282,032	¥ 282,032	¥ 282,032	\$ 2,635,813
Conversion of convertible debentures . . . . .	1	0	–	9
Balance at end of year . . . . .	¥ 282,033	¥ 282,032	¥ 282,032	\$ 2,635,822
<b>Capital surplus (note 13):</b>				
Balance at beginning of year . . . . .	¥ 551,690	¥ 562,214	¥ 527,010	\$ 5,155,981
Gains on sales of treasury stock . . . . .	353	48	–	3,299
Gains on stock exchange upon a merger . . . . .	12,509	–	–	116,907
Increase (decrease) arising from divestiture and other . . . . .	808	(10,572)	35,204	7,551
Balance at end of year . . . . .	¥ 565,360	¥ 551,690	¥ 562,214	\$ 5,283,738
<b>Legal reserve (note 14):</b>				
Balance at beginning of year . . . . .	¥ 109,163	¥ 111,309	¥ 110,751	\$ 1,020,215
Net transfer from (to) retained earnings . . . . .	921	(1,849)	554	8,608
Net transfer from (to) minority interests . . . . .	130	(297)	4	1,215
Balance at end of year . . . . .	¥ 110,214	¥ 109,163	¥ 111,309	\$ 1,030,038
<b>Retained earnings (note 14):</b>				
Balance at beginning of year . . . . .	¥1,651,272	¥1,655,029	¥1,643,248	\$15,432,449
Net income . . . . .	51,496	15,876	27,867	481,271
Cash dividends . . . . .	(34,628)	(19,990)	(10,013)	(323,626)
Net transfer from (to) legal reserve . . . . .	(921)	1,849	(554)	(8,608)
Net transfer from (to) minority interests . . . . .	1,765	(1,492)	(5,519)	16,495
Balance at end of year . . . . .	¥1,668,984	¥1,651,272	¥1,655,029	\$15,597,981
<b>Accumulated other comprehensive loss (note 16):</b>				
Balance at beginning of year . . . . .	¥ (393,864)	¥ (755,525)	¥ (258,484)	\$ (3,680,972)
Other comprehensive income (loss), net of reclassification adjustments . . . . .	92,666	359,116	(495,861)	866,037
Net transfer from (to) minority interests . . . . .	(326)	2,545	(1,180)	(3,046)
Balance at end of year . . . . .	¥ (301,524)	¥ (393,864)	¥ (755,525)	\$ (2,817,981)
<b>Treasury stock, at cost (note 15):</b>				
Balance at beginning of year . . . . .	¥ (32,162)	¥ (1,847)	¥ (333)	\$ (300,579)
Acquisition for treasury . . . . .	(1,177)	(30,464)	(1,514)	(11,000)
Sales of treasury stock . . . . .	478	149	–	4,467
Stock exchange upon a merger . . . . .	15,625	–	–	146,028
Balance at end of year . . . . .	¥ (17,236)	¥ (32,162)	¥ (1,847)	\$ (161,084)
Total stockholders' equity . . . . .	¥2,307,831	¥2,168,131	¥1,853,212	\$21,568,514
<b>Comprehensive income (loss) (note 16):</b>				
Net income . . . . .	¥ 51,496	¥ 15,876	¥ 27,867	\$ 481,271
Other comprehensive income (loss) arising during the year . . . . .	97,878	362,893	(492,476)	914,747
Reclassification adjustments for net gain included in net income . . . . .	(5,212)	(3,777)	(3,385)	(48,710)
Comprehensive income (loss) . . . . .	¥ 144,162	¥ 374,992	¥ (467,994)	\$ 1,347,308

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Hitachi, Ltd. and Subsidiaries

Years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (note 3)
	2005	2004	2003	2005
<b>Cash flows from operating activities (note 24):</b>				
Net income	¥ 51,496	¥ 15,876	¥ 27,867	\$ 481,271
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	425,080	436,053	480,274	3,972,710
Amortization	132,370	117,561	86,095	1,237,103
Impairment losses for long-lived assets	26,797	26,085	8,474	250,439
Deferred income taxes	45,310	77,056	(35,526)	423,458
Equity in (earnings) losses of affiliated companies, net	162	(10,120)	15,803	1,514
Gain on sale of investments and subsidiaries' common stock	(54,741)	(137,925)	(54,849)	(511,598)
Impairment of investments in securities	9,665	12,893	65,828	90,327
Loss (gain) on disposal of rental assets and other property	15,202	13,274	(14,064)	142,075
Income applicable to minority interests	63,020	22,618	16,299	588,972
(Increase) decrease in receivables	103,246	(187,545)	2,280	964,916
(Increase) decrease in inventories	(95,191)	(67,026)	7,994	(889,636)
(Increase) decrease in prepaid expenses and other current assets	(29,973)	(3,075)	3,170	(280,121)
Increase (decrease) in payables	(53,785)	145,234	96,777	(502,664)
Increase (decrease) in accrued expenses and retirement and severance benefits	(26,823)	109,152	(71,969)	(250,682)
Increase (decrease) in accrued income taxes	(18,861)	27,741	(5,825)	(176,271)
Increase (decrease) in other liabilities	(408)	5,276	11,989	(3,813)
Net change in inventory-related receivables from financial services (note 2 (y))	(22,036)	(3,140)	11,041	(205,944)
Other	(5,174)	3,415	5,901	(48,355)
Net cash provided by operating activities	<b>565,356</b>	<b>603,403</b>	<b>657,559</b>	<b>5,283,701</b>
<b>Cash flows from investing activities (note 24):</b>				
(Increase) decrease in short-term investments	47,179	10,035	(8,162)	440,925
Capital expenditures	(368,896)	(289,753)	(323,825)	(3,447,626)
Purchase of assets to be leased (note 2 (y))	(483,192)	(439,047)	(381,326)	(4,515,813)
Collection of investments in leases (note 2 (y))	301,614	340,376	307,392	2,818,823
Proceeds from disposal of rental assets and other property	90,726	122,258	142,973	847,907
Proceeds from sale of investments and subsidiaries' common stock	112,932	301,553	167,350	1,055,439
Purchase of investments and subsidiaries' common stock	(61,711)	(110,837)	(262,424)	(576,738)
Purchase of software (note 2 (y))	(121,415)	(117,896)	(137,113)	(1,134,720)
Other	(44,225)	(84,102)	(135,191)	(413,318)
Net cash used in investing activities	<b>(526,988)</b>	<b>(267,413)</b>	<b>(630,326)</b>	<b>(4,925,121)</b>
<b>Cash flows from financing activities (note 24):</b>				
Increase (decrease) in short-term debt, net	27,029	(193,286)	(12,490)	252,608
Proceeds from long-term debt	533,442	460,144	375,802	4,985,439
Payments on long-term debt	(599,637)	(587,335)	(547,759)	(5,604,084)
Proceeds (payments) on subsidiaries' common stock, net	(8,431)	9,984	1,872	(78,794)
Dividends paid to stockholders	(34,815)	(19,961)	(9,973)	(325,374)
Dividends paid to minority stockholders of subsidiaries	(16,671)	(13,714)	(13,108)	(155,804)
Acquisition of common stock for treasury	(1,177)	(30,464)	(1,514)	(11,000)
Proceeds from sales of treasury stock	831	197	-	7,766
Net cash used in financing activities	<b>(99,429)</b>	<b>(374,435)</b>	<b>(207,170)</b>	<b>(929,243)</b>
Effect of exchange rate changes on cash and cash equivalents	5,380	(25,330)	(21,266)	50,280
Net decrease in cash and cash equivalents	(55,681)	(63,775)	(201,203)	(520,383)
Cash and cash equivalents at beginning of year	764,396	828,171	1,029,374	7,143,888
Cash and cash equivalents at end of year	<b>¥708,715</b>	<b>¥764,396</b>	<b>¥ 828,171</b>	<b>\$6,623,505</b>

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Hitachi, Ltd. and Subsidiaries

## 1. NATURE OF OPERATIONS

Hitachi, Ltd. (the Company) is a Japanese corporation, whose principal office is located in Japan. The Company's and its subsidiaries' businesses are diverse, and include information and telecommunication systems, electronic devices, power and industrial systems, digital media and consumer products, high functional materials and components, and other services including financial services and logistics services.

## 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **(a) Basis of Presentation**

The Company and its domestic subsidiaries maintain their books of account in conformity with the 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 necessary to conform them with accounting principles generally accepted in the United States of America. Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements. Actual results could differ from those estimates.

### **(b) Principles of Consolidation**

The consolidated financial statements as of and for the years ended March 31, 2005 and 2004 include the accounts of the Company, its majority-owned subsidiaries and all variable interest entities (VIEs) for which any of the Company and its consolidated entities are the primary beneficiary. The consolidated financial statements for the year ended March 31, 2003 include the accounts of the Company and its majority-owned subsidiaries. The consolidated financial statements include accounts of certain subsidiaries, of which fiscal years differ from March 31 by 93 days or less, to either comply with local statutory requirements or facilitate timely reporting. There have been no significant transactions, which would materially affect the Company's financial position and results of operations, with such subsidiaries during the period from their fiscal year-end to March 31. Intercompany accounts and significant intercompany transactions have been eliminated in consolidation.

A VIE is defined in Financial Accounting Standards Board (FASB) Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51." This interpretation addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. The application of this interpretation did not have a material effect on the Company's consolidated financial statements as of and for the year ended March 31, 2004.

Investments in corporate joint ventures and affiliated companies that are accounted for using the equity method primarily relate to 20% to 50% owned companies to which the Company has the ability to exercise significant influence over operational and financial policies of the investee company. Investments of less than 20% or where the Company does not have significant influence are accounted for using the cost method.

### **(c) Cash Equivalents**

For the purpose of the statement of cash flows, the Company considers all highly liquid investments with insignificant risk of changes in value which have maturities of generally three months or less when purchased to be cash equivalents.

### **(d) Allowance for doubtful receivables**

Allowance for doubtful receivables, including both trade and investments in leases, is the Company's and subsidiaries' best estimate of the amount of probable credit losses in their existing receivables. The allowance is determined based on, but are not limited to, historical collection experience adjusted for the effects of current economic environment, assessment of inherent risks, aging and financial performance of debtors. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

***(e) Foreign Currency Translation***

Foreign currency financial statements have been translated in accordance with Statement of Financial Accounting Standards (SFAS) No. 52, "Foreign Currency Translation." Under this standard, the 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 rates prevailing during the year. Gains and losses resulting from foreign currency transactions are included in other income (deductions), and those resulting from translation of financial statements are excluded from the consolidated statements of operations and are accumulated and included in accumulated other comprehensive loss as part of stockholders' equity.

***(f) Investments in Securities and Affiliated Companies***

Equity securities that do not have readily determinable fair values are accounted for under the cost method. The Company classifies investments in securities that have readily determinable fair values and all investments in debt securities in three categories: held-to-maturity securities, trading securities and available-for-sale securities.

Held-to-maturity securities are debt securities that the Company has the positive intent and ability to hold to maturity. Trading securities are debt and equity securities that are bought and held principally for the purpose of selling them in the near term. Available-for-sale securities are debt and equity securities not classified as either held-to-maturity securities or trading securities.

Held-to-maturity securities are reported at amortized cost. Trading securities are reported at fair value, with unrealized gains and losses included in earnings. Available-for-sale securities are reported at fair value, with unrealized gains and losses reported in other comprehensive income.

A decline in fair value of any available-for-sale or held-to-maturity security below the cost basis or the amortized cost basis that is deemed to be other-than-temporary results in a write-down of the cost basis or the amortized cost basis to fair value as a new cost basis and the amount of the write-down is included in earnings.

On a continuous basis, but no less frequently than at the end of each semi-annual period, the Company evaluates the cost basis of an available-for-sale security for possible impairment. Factors considered in assessing whether an indication of other-than-temporary impairment exists include: the degree of change in the ratio of market prices per share to book value per share at the date of evaluation compared to that at the date of acquisition, the financial condition and prospects of each investee company, industry conditions in which the investee company operates, the fair value of an available-for-sale security relative to the cost basis of the investment, the period of time the fair value of an available-for-sale security has been below the cost basis of the investment and other relevant factors.

The Company evaluates the amortized cost basis of a held-to-maturity security for possible impairment by taking into consideration the financial condition, business prospects and credit worthiness of the issuer.

Impairment to be recognized is measured based on the amount by which the carrying amount of the investment exceeds the fair value of the investment. Fair value is determined based on quoted market prices, projected discounted cash flows or other valuation techniques as appropriate.

On a continuous basis, but no less frequently than at the end of each semi-annual period, the Company evaluates the carrying amount of its ownership interests in equity-method investees and cost method investments for possible impairment. Factors considered in assessing whether an indication of other-than-temporary impairment exists include the achievement of business plan objectives and milestones including cash flow projections and the results of planned financing activities, the financial condition and prospects of each investee company, the fair value of the ownership interest relative to the carrying amount of the investment, the period of time during which the fair value of the ownership interest has been below the carrying amount of the investment and other relevant factors. Impairment to be recognized is measured based on the amount by which the carrying amount of the investment exceeds the fair value of the investment. Fair value is determined based on quoted market prices, projected discounted cash flows or other valuation techniques as appropriate.

The cost of a security sold or the amount reclassified out of accumulated other comprehensive income into earnings is determined by the average cost method.

**(g) Securitizations**

The Company and certain subsidiaries have a number of securitization programs. Under those programs, certain financial assets such as lease receivables, trade receivables and others are sold to Special Purpose Entities (SPEs) which are funded through the issuance of asset-backed securities to investors. When a transfer of financial assets is eligible to be accounted for as a sale under SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," the carrying amount of the financial assets is allocated based on relative fair values to the portions to be retained and sold. The Company and its subsidiaries recognize a gain or loss for the difference between the net proceeds received and the allocated carrying amount of the assets sold when the transaction is consummated.

Fair values are based on the present value of estimated future cash flows which take into consideration various factors such as expected credit loss and others.

**(h) Inventories**

Inventories are stated at the lower of cost or market. Cost is determined by the specific identification method for job order inventories and generally by the average cost method for raw materials and other inventories.

**(i) Property, Plant and Equipment**

Property, plant and equipment are stated at cost. Property, plant and equipment are principally depreciated by the declining-balance method, except for some assets which are depreciated by the straight-line method, over the following estimated useful lives:

**Buildings**

Buildings and building equipment . . . . .	3 to 50 years
Structures . . . . .	7 to 60 years

**Machinery and equipment**

Machinery . . . . .	4 to 13 years
Vehicles . . . . .	4 to 7 years
Tools, furniture and fixtures . . . . .	2 to 20 years

**(j) Goodwill and Other Intangible Assets**

The Company tests goodwill and indefinite-lived intangible assets for impairment at least annually. The Company performs its annual impairment test during the fourth quarter after the annual forecasting process is completed. Furthermore, goodwill is reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The fair value of a reporting unit is estimated using the expected present value of future cash flows. Intangible assets with finite useful lives are amortized over their respective estimated useful lives.

**(k) Capitalized Software Costs**

Costs incurred for computer software developed or obtained for internal use are capitalized and amortized on a straight-line basis over their estimated useful lives in accordance with Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." In addition, the Company and its subsidiaries develop certain computer software to be sold where related costs are capitalized after establishment of technological feasibility in accordance with SFAS No.86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed." The annual amortization of such capitalized costs is the greater of the amount computed using the ratio of each software's expected future revenue to current year's revenue or the straight-line method over the remaining estimated economic life of each software.

***(l) Impairment of Long-lived Assets***

The Company reviews the carrying value of long-lived assets or related group of assets to be held and used, including intangible assets with finite useful lives, for impairment whenever events or circumstances occur that indicate that the carrying value of the assets may not be recoverable. The assets are considered to be impaired when estimated undiscounted cash flows expected to result from the use of the assets and their eventual disposition is less than their carrying values. The impairment losses are measured as the amount by which the carrying value of the asset exceeds the fair value. In determining the fair value, the Company uses available quoted market prices and present value techniques, if appropriate, based on the estimated future cash flow expected to result from the use of the assets and their eventual disposition.

***(m) Retirement and Severance Benefits***

The Company accounts for retirement and severance benefits in accordance with SFAS No. 87, "Employers' Accounting for Pensions." Unrecognized gains and losses are amortized using the straight-line method over the average remaining service period of active employees.

***(n) Derivative Financial Instruments***

The Company accounts for derivative financial instruments in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. SFAS No. 133 requires that all derivative financial instruments, such as forward exchange and interest rate swap contracts, be recognized in the financial statements as either assets or liabilities and measured at fair value regardless of the purpose or intent for holding them.

The Company designates and accounts for hedging derivatives as follows:

- "Fair value" hedge: a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment. The changes in fair value of the recognized assets or liabilities or unrecognized firm commitment and the derivatives are recorded in earnings if the hedge is considered highly effective.
- "Cash flow" hedge: a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability. The changes in the fair value of the derivatives designated as cash flow hedges are recorded as other comprehensive income if the hedge is considered highly effective. This treatment is continued until earnings are affected by the variability in cash flows or the unrecognized firm commitment of the designated hedged item, at which point changes in fair value of the derivative is recognized in income.
- "Foreign currency" hedge: a hedge of foreign-currency fair value or cash flow. The changes in fair value of the recognized assets or liabilities or unrecognized firm commitment and the derivatives are recorded as either earnings or other comprehensive income if the hedge is considered highly effective. Recognition as earnings or other comprehensive income is dependent on the treatment of foreign currency hedges as fair value or cash flow hedges.

The Company follows the documentation requirements as prescribed by the standard, which includes risk management objective and strategy for undertaking various hedge transactions. In addition, a formal assessment is made at the hedge's inception and periodically on an ongoing basis, as to whether the derivative used in hedging activities is highly effective in offsetting changes in fair values or cash flows of hedged items. Hedge accounting is discontinued for ineffective hedges, if any. Subsequent changes in the fair value of derivatives related to discontinued hedges are recognized in earnings immediately.

***(o) Revenue Recognition***

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services are rendered, the sales price is fixed and determinable and collectibility is reasonably assured. The Company adopted the consensus of the FASB Emerging Issue Task Force (EITF) Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables," during the year ended March 31, 2004. The impact of adopting the consensus was not material to the Company's results of operations.

The Company offers multiple solutions to its customers' needs. Those solutions may involve the delivery or performance of multiple elements, such as products, services, or rights to use assets, and performance may occur at different points in time or over different periods of time. When one element is delivered prior to the other in an arrangement, revenue is deferred until the delivery of the last element, unless transactions are such that the delivered item has value to the customer on a standalone basis, there is objective and reliable evidence of the fair value of the undelivered item, and delivery or performance of the undelivered item is considered probable and substantially in the control of the Company if the arrangement includes a general right of return relative to the delivered item. If all conditions described above are met, each element in an arrangement is considered a separate unit of accounting, and the arrangement consideration is allocated to the separate units of accounting based on the relative fair values provided that there is objective and reliable evidence of the fair values of all units of accounting in the arrangement. The Company allocates revenue on software arrangements involving multiple elements to each element based on its relative fair value, as evidenced by vendor specific objective evidence (VSOE), or in the absence of VSOE, the residual method. VSOE is the price charged by the Company to an external customer for the same element when such an element is sold separately.

#### Product Sales:

Revenue from sales of these products is recognized when title and risk of loss have been transferred to the customer. Depending upon the terms of the contract or arrangement with the customer, this may occur at the time of shipment, when installation is completed or upon the attainment of customer acceptance. The Company's policy is not to accept product returns unless the products are defective. The conditions of acceptance are governed by the terms of the contract or customer arrangement and those not meeting the predetermined specification are not recorded as revenue. Product warranties are offered on the Company's and certain subsidiaries' products (in certain cases separately priced) and a warranty accrual is established when sales are recognized and is based on estimated future costs of repair and replacement principally using our historical experience of warranty claims.

Price protection is provided to retailers of the Company's consumer products business and others to compensate the customer retailers for a decline in the product's value due mainly to competition. Price protection granted to the customers is classified as a reduction of revenue on the consolidated statements of operations. In addition, it is our policy to accrue reasonably and reliably estimated price adjustment at the later of the date at which the related sales are recognized, or the date at which price protection is offered. The estimate is made based primarily upon historical experience or agreement on the adjustment rate and the number of units that are subject to such adjustment (e.g., units in distribution channels).

Product revenues which are recognized upon shipment are information technology system products, semiconductor manufacturing equipment, test and measurement equipment, construction equipment, displays, disk drives, televisions, air conditioners, batteries, magnetic tapes, high functional materials, cable products and automotive equipment. Revenues for railway vehicles are recognized upon acceptance or shipment, depending on contract terms. Product revenues that are recognized upon acceptance are medical electronic devices, industrial machinery and equipment, nuclear, thermal and hydroelectric power plants, and elevators and escalators.

Revenue from sales of tangible products under long-term construction type arrangements, principally in connection with the construction of nuclear, thermal and hydroelectric power plants, are recognized under the percentage-of-completion method. Under the percentage-of-completion method, revenue is recognized as a percentage of estimated total revenue that incurred costs to date bear to estimated total costs after giving effect to estimates of costs to complete based upon most recent information. Any anticipated losses on fixed price contracts are charged to operations when such losses can be estimated. Provisions are made for contingencies (i.e. performance penalty, benchmarking, etc.) in the period in which they become known pursuant to specific contract terms and conditions and are estimable.

The Company recognizes software revenue in accordance with the provisions of Statement of Position 97-2, "Software Revenue Recognition," as amended. Revenue from software consists of software licensing, customized software development and post contract customer support. Revenues from software license arrangements are recognized upon shipment of the software if evidence of the arrangement exists, pricing is fixed and determinable and collectibility is probable. Customized software revenue is recognized upon customer acceptance. Revenue from post contract customer support is amortized over the period of the post contract customer support. Consulting and training services are recognized when the services are rendered.

The Company's standard software license agreement provides for a limited warranty that the license will operate substantially in accordance with the functionality described in the documentation provided with the products. The standard software license does not provide for right of return. The Company provides for warranty at the time of revenue recognition using historical experience of warranty claims. To date such warranty provisions have been insignificant.

**Service Revenues:**

Service revenues from maintenance and distribution services are recognized upon completion of service delivery. Revenue from time service contracts is recognized as services are rendered. Revenue from long-term fixed price service contracts such as support or maintenance contracts is recognized ratably over the contractual period. Finance lease income is recognized at level rates of return over the term of the leases. Operating lease income is recognized on a straight-line basis over the term of the lease.

***(p) Advertising***

Advertising costs are expensed as incurred.

***(q) Research and Development Costs***

Research and development costs are expensed as incurred. Costs incurred in connection with the development of software products for sale are accounted for in accordance with SFAS No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed." Development costs incurred in the research and development of new software products and enhancements to existing products are expensed as incurred until technological feasibility has been established.

***(r) Income Taxes***

Deferred income taxes are accounted for under the asset and liability method in accordance with SFAS No. 109, "Accounting for Income Taxes." Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating losses and tax credit carryforwards. Under this method, deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS No. 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established to reduce deferred tax assets to their net realizable value if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

***(s) Sales of Stock by Subsidiaries***

The change in the Company's proportionate share of a subsidiary's equity resulting from issuance of stock by the subsidiary is accounted for as an income statement recognition.

***(t) Net Income per Share***

Net income per share is computed in accordance with SFAS No. 128, "Earnings per Share." This standard requires a dual presentation of basic and diluted net income per share amounts on the face of the statements of operations. Under this standard, basic net income per share is computed based upon the weighted average number of shares of common stock outstanding during each year. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company.

**(u) Stock-Based Compensation**

The Company and certain subsidiaries have stock-based compensation plans. As of March 31, 2005, the Company has several stock-based compensation plans, which are described more fully in note 29. The Company accounts for those plans under the recognition and measurement principles of Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees," and related interpretations. For the years ended March 31, 2005, 2004 and 2003, the Company recognized no material stock-based compensation expense.

SFAS No. 123, "Accounting for Stock-Based Compensation," prescribes the recognition of compensation expense based on the fair value of options on the grant date and allows continuous application of APB No. 25 if certain pro forma disclosures are made assuming hypothetical fair value method application. The Company elects to continue applying APB No. 25, however, the pro forma effects of applying SFAS No. 123 on net income and the per share information for the years ended March 31, 2005, 2004 and 2003 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Net income — as reported . . . . .	<b>¥51,496</b>	¥15,876	¥27,867	<b>\$481,271</b>
Stock-based compensation expense included in reported net income . . . . .	<b>215</b>	—	—	<b>2,010</b>
Stock-based compensation expense determined under SFAS No. 123 . . . . .	<b>(459)</b>	(3,034)	(172)	<b>(4,290)</b>
Net income — pro forma . . . . .	<b>¥51,252</b>	¥12,842	¥27,695	<b>\$478,991</b>

	Yen			U.S. dollars
Net income per share:				
Basic — as reported . . . . .	<b>¥15.53</b>	¥4.81	¥8.31	<b>\$0.15</b>
Basic — pro forma . . . . .	<b>15.45</b>	3.89	8.26	<b>0.14</b>
Diluted — as reported . . . . .	<b>15.15</b>	4.75	8.19	<b>0.14</b>
Diluted — pro forma . . . . .	<b>15.08</b>	3.83	8.14	<b>0.14</b>

**(v) Disclosures about Segments of an Enterprise and Related Information**

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," establishes standards for the manner in which a public business enterprise is required to report financial and descriptive information about its operating segments. This standard defines operating segments as components of an enterprise for which separate financial information is available and evaluated regularly as a means for assessing segment performance and allocating resources to segments. A measure of profit or loss, total assets and other related information is required to be disclosed for each operating segment. Further, this standard requires the disclosure of information concerning revenues derived from the enterprise's products or services, countries in which it earns revenue or holds assets and major customers. However, certain foreign issuers are presently exempted from the segment disclosure requirements of SFAS No. 131 in filings with the United States Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934, and the Company has not presented the segment information required to be disclosed in the footnotes to the consolidated financial statements under SFAS No. 131.

***(w) Guarantees***

The Company recognizes, at the inception of the guarantees, a liability for the fair value of the obligation undertaken in issuing the guarantee for guarantees issued or modified after December 31, 2002, in accordance with the FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of SFAS No. 5, 57, and 107 and rescission of FASB Interpretation No. 34."

***(x) New Accounting Standards***

In October 2004, the EITF reached a consensus on EITF Issue No. 04-8, "The Effect of Contingently Convertible Instruments on Diluted Earnings per Share." This consensus requires that all instruments which have embedded conversion features that are contingent on market conditions indexed to an issuer's share price should be included in diluted earnings per share computations (if dilutive) regardless of whether the market price trigger (or other contingent feature) has been met. This consensus is effective for reporting periods ending after December 15, 2004 and applied retroactively to instruments outstanding at the end of the first reporting period after December 15, 2004, except for those that have been cash settled before such date. It had no impact on the diluted earnings per share for the years ended March 31, 2004 and 2003.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4." The amendments made by SFAS No. 151 clarify that abnormal amounts of costs should be recognized as current-period charges rather than as a portion of the inventory cost. In addition, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of SFAS No. 151 shall be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. SFAS No. 151 is not expected to have a material effect on the consolidated financial position or results of operations of the Company and subsidiaries.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29." The amendments made by SFAS No. 153 is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged and adopted a broader exception for exchanges of nonmonetary assets that do not have commercial substance and should be measured based on the recorded amount of the asset relinquished. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. SFAS No. 153 is not expected to have a material effect on the consolidated financial position or results of operations of the Company and subsidiaries.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment," which is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123 (R) supersedes APB No. 25, "Accounting for Stock Issued to Employees," and amends SFAS No. 95, "Statement of Cash Flows." SFAS No. 123 (R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. Also, the SEC issued Staff Accounting Bulletin No. 107, in which interpretations expressed views of the staff regarding the interaction between SFAS No. 123 (R) and certain SEC rules and regulations, and provided the staff's views regarding the valuation of share-based payment arrangements for public companies. The provisions of SFAS No. 123 (R) shall be effective no later than the beginning of the first fiscal year beginning after June 15, 2005, as deferred by the SEC. SFAS No. 123 (R) is not expected to have a material effect on the consolidated financial position or results of operations of the Company and subsidiaries.

In March 2004, the EITF reached a consensus in Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments," which provides guidance for the determination of other-than-temporary impairment and disclosure of debt and equity securities accounted for in accordance with SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities," and cost method investments. In September 2004, the FASB issued FASB Staff Position No. 03-1-1, "Effective Date of Paragraphs 10-20 of EITF Issue No. 03-1" which delayed the effective date for the recognition and measurement guidance of EITF Issue No. 03-1. The delay remains in effect until the FASB issues further implementation guidance. The disclosure requirements of the consensus remain of effect.

**(y) Presentation of Receivables from Financing Services in Consolidated Statements of Cash Flows**

Certain financing subsidiaries provide the financing services related to products which the Company and its subsidiaries manufacture under lease agreements. In the prior years, such transactions were reflected as an operating cash inflow and an investing cash outflow in the consolidated statements of cash flows when a lease agreement was commenced even though there was no cash flow on a consolidated basis. After considering the concern raised by the SEC in public, the Company has decided to reflect the fact there was no cash received by the consolidated entity at the inception of the lease, resulting in the elimination of the effects of the intercompany transaction, and to properly classify cash receipts from lease receivables related to the products manufactured by the Company and its subsidiaries as operating activities. The reclassification has also been made to the presentation of the prior year's statements of cash flows and the effects of this reclassification for the years ended March 31, 2004 and 2003 are as follows:

	Millions of yen	
	2004	2003
Net cash provided by operating activities, as previously reported . . . . .	¥ 606,543	¥ 646,518
Reclassification . . . . .	(3,140)	11,041
Revised net cash provided by operating activities . . . . .	<u>¥ 603,403</u>	<u>¥ 657,559</u>
Net cash used in investing activities, as previously reported . . . . .	¥(270,553)	¥(619,285)
Reclassification . . . . .	3,140	(11,041)
Revised net cash used in investing activities . . . . .	<u>¥(267,413)</u>	<u>¥(630,326)</u>

**(z) Reclassifications**

Certain reclassifications have been made to prior year balances in order to conform to the current year presentations.

### 3. BASIS OF FINANCIAL STATEMENT TRANSLATION

The accompanying consolidated financial statements are expressed in yen and, solely for the convenience of the reader, have been translated into United States dollars at the rate of ¥107=U.S.\$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market as of March 31, 2005. This translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars.

## 4. INVESTMENTS IN SECURITIES AND AFFILIATED COMPANIES

Short-term investments as of March 31, 2005 and 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Investments in securities:			
Available-for-sale securities	¥ 81,583	¥ 94,788	\$ 762,458
Held-to-maturity securities	392	259	3,663
Trading securities	64,593	82,902	603,673
	<b>¥146,568</b>	<b>¥177,949</b>	<b>\$1,369,794</b>

Investments and advances, including affiliated companies as of March 31, 2005 and 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Investments in securities:			
Available-for-sale securities	¥314,471	¥311,414	\$2,938,981
Held-to-maturity securities	658	1,070	6,149
Securities without readily determinable fair values	77,755	77,242	726,682
Investments in affiliated companies	388,076	389,295	3,626,879
Advances and other	113,891	129,941	1,064,402
	<b>¥894,851</b>	<b>¥908,962</b>	<b>\$8,363,093</b>

The following is a summary of the amortized cost basis, gross unrealized holding gains, gross unrealized holding losses and aggregate fair value of available-for-sale securities by the consolidated balance sheets classification as of March 31, 2005 and 2004.

	Millions of yen							
	Amortized cost basis	Gross gains	Gross losses	Aggregate fair value	Amortized cost basis	Gross gains	Gross losses	Aggregate fair value
	2005				2004			
Short-term investments:								
Debt securities	¥ 37,195	¥ 34	¥ 20	¥ 37,209	¥ 53,979	¥ 45	¥ 2	¥ 54,022
Other securities	44,355	19	-	44,374	40,766	43	43	40,766
	<b>81,550</b>	<b>53</b>	<b>20</b>	<b>81,583</b>	94,745	88	45	94,788
Investments and advances:								
Equity securities	98,751	102,170	3,623	197,298	89,450	90,245	1,162	178,533
Debt securities	91,412	1,383	907	91,888	112,288	521	951	111,858
Other securities	24,928	450	93	25,285	20,620	476	73	21,023
	<b>215,091</b>	<b>104,003</b>	<b>4,623</b>	<b>314,471</b>	222,358	91,242	2,186	311,414
	<b>¥296,641</b>	<b>¥104,056</b>	<b>¥4,643</b>	<b>¥396,054</b>	¥317,103	¥91,330	¥2,231	¥406,202

	Thousands of U.S. dollars			
	Amortized cost basis	Gross gains	Gross losses	Aggregate fair value
<b>2005</b>				
Short-term investments:				
Debt securities . . . . .	\$ 347,617	\$ 318	\$ 187	\$ 347,748
Other securities . . . . .	414,533	177	-	414,710
	<b>762,150</b>	<b>495</b>	<b>187</b>	<b>762,458</b>
Investments and advances:				
Equity securities . . . . .	922,906	954,860	33,860	1,843,906
Debt securities . . . . .	854,318	12,925	8,477	858,766
Other securities . . . . .	232,972	4,206	869	236,309
	<b>2,010,196</b>	<b>971,991</b>	<b>43,206</b>	<b>2,938,981</b>
	<b>\$2,772,346</b>	<b>\$972,486</b>	<b>\$43,393</b>	<b>\$3,701,439</b>

The following is a summary of gross unrealized holding losses on available-for-sale securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of March 31, 2005 and 2004.

	Millions of yen							
	Less than 12 months		12 months or longer		Less than 12 months		12 months or longer	
	Aggregate fair value	Gross losses	Aggregate fair value	Gross losses	Aggregate fair value	Gross losses	Aggregate fair value	Gross losses
<b>2005</b>								2004
Short-term investments:								
Debt securities . . . . .	¥ 3,842	¥ 20	¥ -	¥ -	¥ 1,820	¥ 2	¥ -	¥ -
Other securities . . . . .	-	-	-	-	127	7	166	36
	<b>3,842</b>	<b>20</b>	<b>-</b>	<b>-</b>	<b>1,947</b>	<b>9</b>	<b>166</b>	<b>36</b>
Investments and advances:								
Equity securities . . . . .	10,112	2,694	5,025	929	4,692	563	3,305	599
Debt securities . . . . .	14,559	669	10,937	238	20,089	775	15,080	176
Other securities . . . . .	5,317	59	905	34	990	5	588	68
	<b>29,988</b>	<b>3,422</b>	<b>16,867</b>	<b>1,201</b>	<b>25,771</b>	<b>1,343</b>	<b>18,973</b>	<b>843</b>
	<b>¥33,830</b>	<b>¥3,442</b>	<b>¥16,867</b>	<b>¥1,201</b>	<b>¥27,718</b>	<b>¥1,352</b>	<b>¥19,139</b>	<b>¥879</b>

	Thousands of U.S. dollars			
	Less than 12 months		12 months or longer	
	Aggregate fair value	Gross losses	Aggregate fair value	Gross losses
<b>2005</b>				
Short-term investments:				
Debt securities . . . . .	\$ 35,906	\$ 187	\$ -	\$ -
Other securities . . . . .	-	-	-	-
	<b>35,906</b>	<b>187</b>	<b>-</b>	<b>-</b>
Investments and advances:				
Equity securities . . . . .	94,505	25,178	46,963	8,682
Debt securities . . . . .	136,065	6,253	102,215	2,224
Other securities . . . . .	49,692	551	8,458	318
	<b>280,262</b>	<b>31,982</b>	<b>157,636</b>	<b>11,224</b>
	<b>\$316,168</b>	<b>\$32,169</b>	<b>\$157,636</b>	<b>\$11,224</b>

Debt securities consist primarily of national, local and foreign governmental bonds, debentures issued by banks and corporate bonds. Other securities consist primarily of investment trusts.

The proceeds from sale of available-for-sale securities for the years ended March 31, 2005, 2004 and 2003 were ¥60,653 million (\$566,850 thousand), ¥83,886 million and ¥112,861 million, respectively. The gross realized gains on the sale of those securities for the years ended March 31, 2005, 2004 and 2003 were ¥15,889 million (\$148,495 thousand), ¥33,887 million and ¥40,119 million, respectively, while gross realized losses on the sale of those securities for the years ended March 31, 2005, 2004 and 2003 were ¥64 million (\$598 thousand), ¥2,160 million and ¥4,660 million, respectively.

For the years ended March 31, 2005, 2004 and 2003, the amount of the net unrealized holding gain or loss on available-for-sale securities that has been included in accumulated other comprehensive loss was a net gain of ¥18,848 million (\$176,150 thousand), a net gain of ¥67,265 million and a net loss of ¥60,907 million, respectively, and the amount of gains and losses reclassified out of accumulated other comprehensive loss was a net gain of ¥9,379 million (\$87,654 thousand), ¥19,319 million and ¥5,999 million, respectively.

Trading securities consist mainly of investments in trust accounts. The portions of trading gains and losses for the years ended March 31, 2005, 2004 and 2003 that relate to trading securities still held at the balance sheet date were a gain of ¥2,223 million (\$20,776 thousand), a gain of ¥2,214 million and a loss of ¥437 million, respectively.

The contractual maturities of debt securities and other securities classified as Investments and advances in the consolidated balance sheets as of March 31, 2005 are as follows:

	Millions of yen			Thousands of U.S. dollars		
	Held-to-maturity	Available-for-sale	Total	Held-to-maturity	Available-for-sale	Total
			<b>2005</b>			<b>2005</b>
Due within five years . . . . .	<b>¥558</b>	<b>¥ 44,881</b>	<b>¥ 45,439</b>	<b>\$5,215</b>	<b>\$ 419,448</b>	<b>\$ 424,663</b>
Due after five years . . . . .	<b>100</b>	<b>72,292</b>	<b>72,392</b>	<b>934</b>	<b>675,627</b>	<b>676,561</b>
	<b>¥658</b>	<b>¥117,173</b>	<b>¥117,831</b>	<b>\$6,149</b>	<b>\$1,095,075</b>	<b>\$1,101,224</b>

Expected redemptions may differ from contractual maturities because these securities are redeemable at the option of the issuers.

The aggregate carrying amount of cost method investments which were not evaluated for impairment as of March 31, 2005 was ¥75,838 million (\$708,766 thousand) mainly because the Company did not identify any events or changes in circumstances that might have had a significant adverse effect on their fair value.

The aggregate fair values of investments in affiliated companies based on the quoted market price as of March 31, 2005 and 2004 were ¥206,942 million (\$1,934,037 thousand) and ¥159,774 million, respectively. The aggregate carrying amount of such investments as of March 31, 2005 and 2004 were ¥130,850 million (\$1,222,897 thousand) and ¥114,636 million, respectively.

As of March 31, 2005 and 2004, cumulative recognition of other-than-temporary declines in values of investments in certain affiliated companies resulted in the difference of ¥14,673 million (\$137,131 thousand) and ¥28,379 million, respectively, between the carrying amount of the investment and the amount of underlying equity in net assets. In addition, equity method goodwill of ¥8,669 million (\$81,019 thousand) and ¥7,434 million, respectively, are included in investments in certain affiliated companies as of March 31, 2005 and 2004.

Summarized combined financial information relating to affiliated companies accounted for by the equity method is as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Current assets . . . . .	<b>¥1,516,004</b>	¥1,372,889	<b>\$14,168,262</b>
Non-current assets . . . . .	<b>1,096,151</b>	1,283,797	<b>10,244,402</b>
Current liabilities . . . . .	<b>1,094,051</b>	1,251,814	<b>10,224,776</b>
Non-current liabilities . . . . .	<b>540,773</b>	398,058	<b>5,053,953</b>

  

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Revenues . . . . .	<b>¥2,588,526</b>	¥2,457,443	¥1,400,599	<b>\$24,191,832</b>
Gross profit . . . . .	<b>432,615</b>	374,535	233,772	<b>4,043,131</b>
Net income (loss) . . . . .	<b>1,850</b>	14,581	(29,841)	<b>17,290</b>

On April 1, 2003, Renesas Technology Corp. (Renesas), which focuses on system LSI (Large Scale Integration) operations, was incorporated through a corporate split procedure, where the Semiconductor & Integrated Circuits operations of the Company and Mitsubishi Electric Corporation were spun-off from their respective companies. Although the Company owns 55% of the voting stock of Renesas, the Company accounts for the investment under the equity method of accounting as Mitsubishi Electric Corporation has substantive participating rights per the joint venture agreement. Total assets and net assets of the operations as of April 1, 2003 amounted to approximately ¥596,118 million and ¥147,443 million, respectively.

## 5. RECEIVABLES

The aggregate annual maturities of the long-term trade receivables after March 31, 2006 included in Trade receivables-Accounts are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2007 . . . . .	¥18,552	\$173,383
2008 . . . . .	11,167	104,365
2009 . . . . .	7,453	69,654
2010 . . . . .	1,107	10,346
Thereafter . . . . .	984	9,196
	<b>¥39,263</b>	<b>\$366,944</b>

Sales on an installment payment basis for the years ended March 31, 2005, 2004 and 2003 totaled ¥8,275 million (\$77,336 thousand), ¥9,021 million and ¥14,618 million, respectively.

## 6. INVENTORIES

Inventories as of March 31, 2005 and 2004 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Finished goods . . . . .	¥ 371,331	¥ 333,337	\$ 3,470,383
Work in process . . . . .	651,227	632,358	6,086,234
Raw materials . . . . .	176,397	157,711	1,648,570
	<b>¥1,198,955</b>	<b>¥1,123,406</b>	<b>\$11,205,187</b>

Inventories include items associated with major contracts which require long-term processing performed for more than twelve months. These items as of March 31, 2005 and 2004 aggregated ¥39,474 million (\$368,916 thousand) and ¥45,860 million, respectively.

## 7. LEASES

The Company and certain subsidiaries are lessors of manufacturing machinery and equipment under financing and operating lease arrangements with terms ranging from 3 to 6 years.

Machinery and equipment at cost under operating leases and accumulated depreciation as of March 31, 2005 amounted to ¥1,433,516 million (\$13,397,346 thousand) and ¥1,094,835 million (\$10,232,103 thousand), respectively. The leased assets are recorded at cost and depreciated using the straight-line method over their estimated useful lives.

The following table shows the future minimum lease receivables of financing and non-cancelable operating leases as of March 31, 2005 and the future minimum lease receivables of financing leases as of March 31, 2004:

Years ending March 31	Millions of yen		Thousands of U.S. dollars	
	Financing leases	Operating leases	Financing leases	Operating leases
	<b>2005</b>		<b>2005</b>	
2006 . . . . .	¥201,762	¥ 72,158	\$1,885,626	\$ 674,374
2007 . . . . .	149,871	54,022	1,400,664	504,879
2008 . . . . .	106,649	36,129	996,720	337,654
2009 . . . . .	73,471	18,893	686,645	176,570
2010 . . . . .	36,546	7,163	341,551	66,944
Thereafter . . . . .	35,143	11,160	328,439	104,299
Total minimum payments to be received . . . . .	<b>603,442</b>	<b>¥199,525</b>	<b>5,639,645</b>	<b>\$1,864,720</b>
Amount representing executory costs . . . . .	(32,029)		(299,337)	
Unearned income . . . . .	(39,650)		(370,561)	
Allowance for doubtful receivables . . . . .	(5,004)		(46,766)	
Net investment in financing leases . . . . .	<b>¥526,759</b>		<b>\$4,922,981</b>	
	Millions of yen			
	Financing leases			
	2004			
Total minimum payments to be received . . . . .	¥510,834			
Amount representing executory costs . . . . .	(28,936)			
Unearned income . . . . .	(24,620)			
Allowance for doubtful receivables . . . . .	(5,525)			
Net investment in financing leases . . . . .	<b>¥451,753</b>			

The Company and certain subsidiaries lease certain manufacturing machinery and equipment. The amount of leased assets at cost under capital leases as of March 31, 2005 and 2004 amounted to ¥33,239 million (\$310,645 thousand) and ¥34,080 million, respectively, and accumulated depreciation as of March 31, 2005 and 2004 amounted to ¥17,803 million (\$166,383 thousand) and ¥16,655 million, respectively.

In March 2003, the Company entered into a sale and lease back agreement for its headquarter land and building for total proceeds of ¥40,000 million. The lease back is classified as an operating lease with a term of 38 months. A portion of the gain on sale which represents the present value of the minimum lease payments over the lease term has been deferred and is being recognized over the lease term. This deferral amounted to ¥8,551 million.

The following table shows the future minimum lease payments of capital and non-cancelable operating leases as of March 31, 2005:

Years ending March 31	Millions of yen		Thousands of U.S. dollars	
	Capital leases	Operating leases	Capital leases	Operating leases
		<b>2005</b>		<b>2005</b>
2006 .....	¥ 3,977	¥13,540	\$ 37,168	\$126,542
2007 .....	3,616	10,040	33,794	93,832
2008 .....	2,479	7,348	23,168	68,673
2009 .....	2,070	6,117	19,346	57,168
2010 .....	862	3,925	8,056	36,682
Thereafter .....	1,474	7,873	13,776	73,580
Total minimum lease payments .....	<u>14,478</u>	<u>¥48,843</u>	<u>135,308</u>	<u>\$456,477</u>
Amount representing executory costs .....	(362)		(3,383)	
Amount representing interest .....	(965)		(9,019)	
Present value of net minimum lease payments .....	13,151		122,906	
Less current portion of capital lease obligations .....	(3,569)		(33,355)	
Long-term capital lease obligations .....	<u>¥ 9,582</u>		<u>\$ 89,551</u>	

## 8. SECURITIZATIONS

For the years ended March 31, 2005, 2004 and 2003, Hitachi Capital Corporation (HCC), a financing subsidiary, sold primarily lease receivables, to Special Purpose Entities (SPE), and the SPEs issued asset-backed commercial papers to investors. The investors and the SPEs have no recourse to HCC's other assets for failure of debtors to pay when due. HCC retained servicing responsibilities and subordinated interests, but has not recorded a servicing asset or liability since the cost to service the receivables approximates the servicing income. The retained interests are not material and are subordinate to investor's interests. For the years ended March 31, 2005, 2004 and 2003, gains recognized on the sale of lease receivables amounted to ¥12,985 million (\$121,355 thousand), ¥12,394 million and ¥8,278 million, respectively.

The table below summarizes certain cash flows received from and paid to the SPEs during the years ended March 31, 2005, 2004 and 2003:

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Proceeds from transfer of lease receivables . . . . .	<b>¥310,668</b>	¥271,281	¥249,430	<b>\$2,903,439</b>
Servicing fees received . . . . .	<b>22</b>	23	27	<b>206</b>
Purchases of delinquent or ineligible assets . . . . .	<b>(25,717)</b>	(14,775)	(8,174)	<b>(240,346)</b>

Quantitative information about delinquencies, net credit losses, and components of lease receivables subject to transfer and other assets managed together as of and for the year ended March 31, 2005 are as follows:

	Millions of yen			Thousands of U.S. dollars		
	Total principal amount of receivables	Principal amount of receivables 90 days or more past due	Net credit losses	Total principal amount of receivables	Principal amount of receivables 90 days or more past due	Net credit losses
			2005			2005
Total assets managed or transferred:						
Lease receivables . . . . .	<b>¥1,096,553</b>	<b>¥737</b>	<b>¥951</b>	<b>\$10,248,159</b>	<b>\$6,888</b>	<b>\$8,888</b>
Assets transferred . . . . .	<b>(569,794)</b>			<b>(5,325,178)</b>		
Assets held in portfolio . . . . .	<b>¥ 526,759</b>			<b>\$ 4,922,981</b>		

For the years ended March 31, 2005, 2004 and 2003, the Company and certain subsidiaries sold trade receivables mainly to SPEs which securitized these receivables. In these securitizations, the Company and certain subsidiaries retained servicing responsibility. No servicing asset or liability has been recorded because the fees for servicing the receivables approximate the related costs. In addition, the Company and certain subsidiaries retained subordinated interests which were not material.

During the years ended March 31, 2005, 2004 and 2003, proceeds from the transfer of trade receivables were ¥1,252,656 million (\$11,707,065 thousand), ¥1,006,164 million and ¥1,080,805 million, respectively, and losses recognized on those transfers were ¥3,388 million (\$31,664 thousand), ¥2,973 million and ¥2,965 million, respectively.

## 9. GOODWILL AND OTHER INTANGIBLE ASSETS

Intangible assets other than goodwill acquired during the years ended March 31, 2005, 2004 and 2003 amounted to ¥228,085 million (\$2,131,636 thousand), ¥190,059 million and ¥262,460 million, respectively, and related amortization expense during the years ended March 31, 2005, 2004 and 2003 amounted to ¥132,370 million (\$1,237,103 thousand), ¥117,561 million and ¥86,095 million, respectively.

The main component of intangible assets subject to amortization was capitalized software. Amortization of capitalized computer software costs for software to be sold, leased or otherwise marketed is charged to cost of sales.

Intangible assets other than goodwill as of March 31, 2005 and 2004 are as follows:

	2005			2004		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Millions of yen						
Amortized intangible assets						
Software	¥402,523	¥279,139	¥123,384	¥335,808	¥218,972	¥116,836
Software for internal use	362,426	189,024	173,402	326,745	151,955	174,790
Patents	123,445	24,375	99,070	73,502	14,350	59,152
Other	96,371	61,769	34,602	75,868	45,064	30,804
	<b>¥984,765</b>	<b>¥554,307</b>	<b>¥430,458</b>	<b>¥811,923</b>	<b>¥430,341</b>	<b>¥381,582</b>
Unamortized intangible assets	¥ 9,382	¥ -	¥ 9,382	¥ 13,618	¥ -	¥ 13,618

	2005		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Thousands of U.S. dollars			
Amortized intangible assets			
Software	\$3,761,897	\$2,608,776	\$1,153,121
Software for internal use	3,387,159	1,766,579	1,620,580
Patents	1,153,692	227,804	925,888
Other	900,663	577,280	323,383
	<b>\$9,203,411</b>	<b>\$5,180,439</b>	<b>\$4,022,972</b>
Unamortized intangible assets	\$ 87,682	\$ -	\$ 87,682

The following table shows the estimated aggregate amortization expense of intangible assets for the next five years.

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2006	¥100,236	\$936,785
2007	80,885	755,935
2008	59,756	558,467
2009	39,743	371,430
2010	25,605	239,299

The changes in the carrying amount of goodwill for the years ended March 31, 2005 and 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Balance at beginning of the year	¥53,478	¥60,317	\$499,794
Acquired during the year	6,424	10,003	60,038
Impairment loss	(13,646)	(3,623)	(127,533)
Transfer due to divestiture	-	(8,232)	-
Translation adjustment and other	(358)	(4,987)	(3,346)
Balance at end of the year, included in other assets	<b>¥45,898</b>	<b>¥53,478</b>	<b>\$428,953</b>

Mainly due to severe demands for price reduction in the Automotive industry reporting units in the Power and Industrial Systems, operating profits and cash flows were lower than expected. Based on that trend, the earnings forecast for the next three years was revised. The Company's determination of fair values of the reporting units incorporate the earnings forecast into its valuation assumptions resulting in a fair market value that was less than its carrying value. The Company recorded a pretax impairment loss of ¥11,526 million (\$107,720 thousand), which was reported in selling, general and administrative expenses for the year ended March 31, 2005.

## 10. INCOME TAXES

Components, as either domestic or foreign, of income before income taxes and minority interests, and income taxes attributable to continuing operations are as follows:

	Millions of yen		
	Domestic	Foreign	Total
	2005		
Income before income taxes and minority interests . . . . .	¥212,424	¥52,082	¥264,506
Income taxes:			
Current tax expense . . . . .	85,263	19,417	104,680
Deferred tax expense . . . . .	41,847	3,463	45,310
	<b>¥127,110</b>	<b>¥22,880</b>	<b>¥149,990</b>
	Thousands of U.S. dollars		
	2005		
	Domestic	Foreign	Total
Income before income taxes and minority interests . . . . .	\$1,985,271	\$486,748	\$2,472,019
Income taxes:			
Current tax expense . . . . .	796,851	181,467	978,318
Deferred tax expense . . . . .	391,093	32,365	423,458
	<b>\$1,187,944</b>	<b>\$213,832</b>	<b>\$1,401,776</b>
	Millions of yen		
	2004		
	Domestic	Foreign	Total
Income before income taxes and minority interests . . . . .	¥211,000	¥26,149	¥237,149
Income taxes:			
Current tax expense . . . . .	93,264	28,335	121,599
Deferred tax expense (benefit) . . . . .	89,293	(12,237)	77,056
	<b>¥182,557</b>	<b>¥16,098</b>	<b>¥198,655</b>
	Millions of yen		
	2003		
	Domestic	Foreign	Total
Income before income taxes and minority interests . . . . .	¥69,248	¥27,580	¥96,828
Income taxes:			
Current tax expense . . . . .	76,782	11,406	88,188
Deferred tax expense (benefit) . . . . .	(38,996)	3,470	(35,526)
	<b>¥37,786</b>	<b>¥14,876</b>	<b>¥52,662</b>

Significant components of income tax expense (benefit) attributable to continuing operations and other comprehensive income (loss), net of reclassification adjustments, for the years ended March 31, 2005, 2004 and 2003 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
<b>Continuing operations:</b>				
Current tax expense . . . . .	<b>¥104,680</b>	¥121,599	¥ 88,188	<b>\$ 978,318</b>
Deferred tax expense (benefit) (exclusive of the effects of other components listed below) . . . . .	<b>23,672</b>	35,714	(20,525)	<b>221,234</b>
Adjustments of deferred tax assets and liabilities for enacted changes in tax laws and rates in Japan . . .	-	2,318	27,993	-
Change in valuation allowance . . . . .	<b>21,638</b>	39,024	(42,994)	<b>202,224</b>
	<b>149,990</b>	198,655	52,662	<b>1,401,776</b>
<b>Other comprehensive income (loss), net of reclassification adjustments:</b>				
Minimum pension liability adjustments . . . . .	<b>77,535</b>	259,788	(333,700)	<b>724,626</b>
Net unrealized holding gain on available-for-sale securities . . . . .	<b>3,115</b>	19,154	(27,878)	<b>29,112</b>
Cash flow hedges . . . . .	<b>(523)</b>	162	(335)	<b>(4,888)</b>
	<b>80,127</b>	279,104	(361,913)	<b>748,850</b>
	<b>¥230,117</b>	¥477,759	¥(309,251)	<b>\$2,150,626</b>

The Company and its domestic subsidiaries are subject to a national corporate tax of 30%, an inhabitant tax of between 17.3% and 20.7% and a deductible business tax between 5% and 10.08%, which in the aggregate resulted in a combined statutory income tax rate of approximately 41.8% for the year ended March 31, 2003.

The Company adopted the consolidated taxation system in Japan effective from the year ended March 31, 2003. Under the consolidated taxation system, the Company had consolidated, for Japanese tax purposes, all wholly-owned domestic subsidiaries. A temporary 2% surtax for the period between April 1, 2002 through March 31, 2004 was assessed for adopting the consolidated taxation system. The aggregated statutory income tax rate for the consolidated group for tax purposes was approximately 43.6% for the year ended March 31, 2004.

On March 31, 2003, amendments to local business tax law in Japan were enacted, resulting in the lower business tax rates. During the year ended March 31, 2004, additional minor changes in tax rates for business taxes were enacted in certain local administrative divisions of Japan. Those changes became effective on April 1, 2004. As a result, the aggregated statutory income tax rate for domestic companies was approximately 40.6% for the year ended March 31, 2005.

In accordance with EITF Issue No. 93-13, "Effect of a Retroactive Change in Enacted Tax Rates That Is Included in Income from Continuing Operations," the Company determined the tax effect of retroactive changes or changes in enacted tax rates on current and deferred tax assets and liabilities. The effect of these changes on the Company's deferred tax balances amounted to ¥2,318 million and ¥27,933 million in income from continuing operations for the years ended March 31, 2004 and 2003, respectively.

Reconciliations between the combined statutory income tax rate and the effective income tax rate as a percentage of income before income taxes and minority interests are as follows:

	2005	2004	2003
Combined statutory income tax rate . . . . .	40.6%	43.6%	41.8%
Equity in (earnings) losses of affiliated companies . . . . .	0.0	(1.9)	6.8
Impairment of investments in affiliated companies . . . . .	-	1.4	10.8
Excess amounts over the tax basis of investments in affiliated companies . . . . .	2.6	3.0	-
Adjustment of net gain on sale of investments in subsidiaries and affiliated companies . . . . .	1.6	12.6	5.6
Expenses not deductible for tax purposes . . . . .	4.6	7.2	12.9
Enacted changes in tax laws and rates in Japan . . . . .	-	1.0	28.9
Change in valuation allowance . . . . .	8.2	16.5	(44.4)
Difference in statutory tax rates of foreign subsidiaries . . . . .	(2.1)	(1.5)	(9.1)
Other . . . . .	1.2	1.9	1.1
Effective income tax rate . . . . .	<u>56.7%</u>	<u>83.8%</u>	<u>54.4%</u>

The tax effects of temporary differences and carryforwards that give rise to significant portions of the deferred tax assets and liabilities as of March 31, 2005 and 2004 are presented below:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Total gross deferred tax assets:			
Retirement and severance benefits . . . . .	¥ 380,254	¥ 478,559	\$3,553,776
Accrued expenses . . . . .	216,139	184,521	2,019,990
Property, plant and equipment, due to differences in depreciation . . . . .	34,769	30,442	324,944
Net operating loss carryforwards . . . . .	119,930	157,958	1,120,841
Other . . . . .	293,735	288,820	2,745,187
	<u>1,044,827</u>	<u>1,140,300</u>	<u>9,764,738</u>
Valuation allowance . . . . .	(196,811)	(191,196)	(1,839,355)
	<u>848,016</u>	<u>949,104</u>	<u>7,925,383</u>
Total gross deferred tax liabilities:			
Deferred profit on sale of properties . . . . .	(33,077)	(34,645)	(309,131)
Tax purpose reserves regulated by Japanese tax laws . . . . .	(24,268)	(26,674)	(226,804)
Net unrealized gain on securities . . . . .	(35,477)	(26,023)	(331,561)
Other . . . . .	(27,706)	(28,558)	(258,934)
	<u>(120,528)</u>	<u>(115,900)</u>	<u>(1,126,430)</u>
Net deferred tax asset . . . . .	<u>¥ 727,488</u>	<u>¥ 833,204</u>	<u>\$6,798,953</u>

In addition to the above, income taxes paid on net intercompany profit on assets remaining within the group, which had been deferred in accordance with Accounting Research Bulletin No. 51, "Consolidated Financial Statements," as of March 31, 2005 and 2004 are reflected in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Prepaid expenses and other current assets . . . . .	¥11,781	¥10,673	\$110,103
Other assets . . . . .	51,610	56,843	482,336
	<u>¥63,391</u>	<u>¥67,516</u>	<u>\$592,439</u>

Net deferred tax asset as of March 31, 2005 and 2004 is reflected in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Prepaid expenses and other current assets . . . . .	<b>¥295,532</b>	¥283,538	<b>\$2,761,981</b>
Other assets . . . . .	<b>460,721</b>	572,982	<b>4,305,804</b>
Other current liabilities . . . . .	<b>(3,011)</b>	(2,392)	<b>(28,140)</b>
Other liabilities . . . . .	<b>(25,754)</b>	(20,924)	<b>(240,692)</b>
Net deferred tax asset . . . . .	<b>¥727,488</b>	¥833,204	<b>\$6,798,953</b>

A valuation allowance was recorded against deferred tax assets for deductible temporary differences, net operating loss carryforwards and tax credit carryforwards, taking into account the tax laws of various jurisdictions in which the Company and its subsidiaries operate. The net change in the total valuation allowance for the years ended March 31, 2005 and 2004 was an increase of ¥5,615 million (\$52,477 thousand) and ¥3,509 million, respectively.

In assessing the realizability of deferred tax assets, management of the Company 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 in specific tax jurisdictions during the periods in which these deductible differences become deductible. Although realization is not assured, management considered the scheduled reversals of deferred tax liabilities and projected future taxable income, including the execution of certain available tax strategies if needed, in making this assessment. Based on these factors, management believes it is more likely than not the Company will realize the benefits of these deductible differences, net of the existing valuation allowance as of March 31, 2005.

As of March 31, 2005, the Company and various subsidiaries have operating loss carryforwards of ¥328,158 million (\$3,066,897 thousand) which are available to offset future taxable income, if any. Operating loss carryforwards of ¥245,065 million (\$2,290,327 thousand) expire by March 31, 2010, and ¥83,093 million (\$776,570 thousand) expire in various years thereafter or do not expire.

Deferred tax liabilities have not been recognized for excess amounts over the tax basis of investments in foreign subsidiaries that are considered to be reinvested indefinitely, since such temporary differences will not reverse in the foreseeable future and those undistributed earnings, if remitted, generally would not result in material additional Japanese income taxes because of available foreign tax credits. Also, prior to April 1, 2003, deferred tax liabilities had not been recognized for excess amounts over the tax basis of investments in affiliated companies as the effects to the Company's financial position and results of operations were not material.

## 11. SHORT-TERM AND LONG-TERM DEBT

The components of short-term debt as of March 31, 2005 and 2004 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Borrowings mainly from banks . . . . .	<b>¥333,183</b>	¥323,288	<b>\$3,113,860</b>
Commercial paper . . . . .	<b>295,821</b>	216,671	<b>2,764,682</b>
Borrowings from affiliates . . . . .	<b>47,607</b>	83,857	<b>444,925</b>
	<b>¥676,611</b>	¥623,816	<b>\$6,323,467</b>

The weighted average interest rate on short-term debt outstanding as of March 31, 2005 and 2004 was 0.1%.

The components of long-term debt as of March 31, 2005 and 2004 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Unsecured notes and debentures:			
Due 2006, interest 3.45% debenture . . . . .	<b>¥ 200,000</b>	¥ 200,000	<b>\$ 1,869,159</b>
Due 2013, interest 0.72% debenture . . . . .	<b>80,000</b>	80,000	<b>747,663</b>
Due 2008, interest 0.52% debenture . . . . .	<b>5,000</b>	–	<b>46,729</b>
Due 2010, interest 0.74% debenture . . . . .	<b>5,000</b>	–	<b>46,729</b>
Due 2005–2018, interest 0.03–5.92%, issued by subsidiaries . . . .	<b>704,097</b>	687,551	<b>6,580,346</b>
Unsecured convertible debentures:			
7th series, due 2004, interest 1.4% . . . . .	–	218,468	–
Series A, due 2009, zero coupon . . . . .	<b>50,000</b>	–	<b>467,290</b>
Series B, due 2009, zero coupon . . . . .	<b>50,000</b>	–	<b>467,290</b>
Due 2004, interest 1.7–1.8%, issued by subsidiaries . . . . .	–	13,059	–
Loans, principally from banks and insurance companies:			
Secured by various assets and mortgages on property, plant and equipment, maturing 2005–2014, interest 0.65–4.65% . . . . .	<b>12,140</b>	22,777	<b>113,458</b>
Unsecured, maturing 2005–2015, interest 0.4–5.7% . . . . .	<b>706,507</b>	637,111	<b>6,602,869</b>
Capital lease obligations . . . . .	<b>13,151</b>	14,783	<b>122,906</b>
	<b>1,825,895</b>	1,873,749	<b>17,064,439</b>
Less current portion . . . . .	<b>506,863</b>	559,647	<b>4,737,037</b>
	<b>¥1,319,032</b>	¥1,314,102	<b>\$12,327,402</b>

Before the Company's merger with Hitachi Unisia Automotive, Ltd., a wholly owned subsidiary, on October 1, 2004, "Due 2008, interest 0.52% debenture" and "Due 2010, interest 0.74% debenture" were included in "Due 2005–2018, interest 0.03–5.92%, issued by subsidiaries."

The aggregate annual maturities of long-term debt after March 31, 2006 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2007 . . . . .	¥ 214,029	\$ 2,000,271
2008 . . . . .	241,888	2,260,636
2009 . . . . .	198,691	1,856,925
2010 . . . . .	337,124	3,150,692
Thereafter . . . . .	327,300	3,058,878
	<b>¥1,319,032</b>	<b>\$12,327,402</b>

A subsidiary pledges equity securities issued by its subsidiary as collateral for bank loans totaling ¥477 million (\$4,458 thousand). The collateralized number of shares and the fair value as of March 31, 2005 are as follows:

Subsidiary name	Number of shares owned in thousands	Percent of ownership	Collateralized number of shares in thousands	Fair value as of March 31, 2005	
				Millions of yen	Thousands of U.S. dollars
Hitachi Powdered Metals Co., Ltd. . . . . .	17,072	53.3%	2,000	¥1,614	\$15,084

In addition, some other assets are collateralized for bank loans of certain subsidiaries as described in note 17.

As is customary in Japan, both short-term and long-term bank loans are made under general agreements which provide that securities and guarantees for present and future indebtedness will be given upon request of the bank, and that the bank shall have the right, as the obligations become due, or in the event of their default, to offset cash deposits against such obligations.

Generally, the mortgage debenture trust agreements and certain secured and unsecured loan agreements provide, among other things, that the lenders or trustees shall have the right to have any distribution of earnings, including the payment of dividends and the issuance of additional capital stock, submitted to them for prior approval and also grant them the right to request additional securities or mortgages on property, plant and equipment.

In October, 2004, the Company issued Euro yen zero coupon convertible bonds. The bonds consist of ¥50,000 million (\$467,290 thousand) series A zero coupon convertible bonds due 2009 and ¥50,000 million (\$467,290 thousand) series B zero coupon convertible bonds due 2009. The bondholders are entitled to stock acquisition rights effective from November 2, 2004 to October 5, 2009. The initial conversion price is ¥1,009 (\$9.43) per share, which will be adjusted to no less than ¥822 (\$7.68) on October 19, 2005 and October 19, 2007 for series A zero coupon convertible bonds, and April 19, 2006 and April 19, 2008 for series B zero coupon convertible bonds. During the conversion period, the bondholders may exercise the stock acquisition rights anytime after the closing price of the Company's shares at the Tokyo Stock Exchange on at least one trading day is 115 percent or more of the then applicable conversion price rounded down to the nearest yen. In addition, the bondholders are entitled, at its option, to require the Company to redeem the bonds at a redemption price of 100 percent of the principal amount on October 17, 2008.

## 12. RETIREMENT AND SEVERANCE BENEFITS

### (a) Defined benefit plans

The Company and its subsidiaries have a number of contributory and noncontributory pension plans to provide retirement and severance benefits to substantially all employees.

Under unfunded defined benefit pension plans, employees are entitled to lump-sum payments based on the current rate of pay and the length of service upon retirement or termination of employment for reasons other than dismissal for cause.

Directors, Executive Officers and certain employees are not covered by the programs described above. Certain benefits paid to such persons are charged to income as paid as it is not practicable to compute the liability for future payments since amounts vary with circumstances.

In addition to unfunded defined benefit pension plans, the Company and certain of its subsidiaries make contributions to a number of defined benefits pension plans. During the years ended March 31, 2005 and 2004, the Company and certain subsidiaries amended a portion of their defined benefit plans to cash balance plans.

Under the cash balance plans, each employee has a notional account which represents pension benefits. The balance in the notional account is based on principal credits, which are accumulated as employees render services, and interest credits, which are determined based on the market interest rates.

Net periodic benefit cost for the funded benefit pension plans and the unfunded lump-sum payment plans for the years ended March 31, 2005, 2004 and 2003 consists of the following components:

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Service cost .....	¥ 85,500	¥107,002	¥112,948	\$ 799,065
Interest cost .....	63,637	78,493	97,161	594,738
Expected return on plan assets for the period .....	(33,749)	(32,863)	(71,679)	(315,411)
Amortization of transition asset .....	(208)	(368)	(421)	(1,944)
Amortization of prior service benefit .....	(13,842)	(13,423)	(10,115)	(129,364)
Recognized actuarial loss .....	100,274	151,567	107,478	937,140
Transfer to defined contribution pension plan .....	3,223	1,557	5,167	30,121
Derecognition of previously accrued salary progression due to transfer of substitutional portion .....	(16,235)	(17,215)	-	(151,729)
Loss on previously deferred actuarial losses due to transfer of substitutional portion .....	105,758	375,049	-	988,393
Curtailment and settlement loss .....	173	1,072	700	1,617
Employees' contributions .....	(3,187)	(9,735)	(16,558)	(29,785)
Net periodic benefit cost .....	291,344	641,136	224,681	2,722,841
Difference between the obligations settled and the assets transferred due to transfer of substitutional portion .....	(165,247)	(411,621)	-	(1,544,364)
	<b>¥126,097</b>	<b>¥229,515</b>	<b>¥224,681</b>	<b>\$1,178,477</b>

Unrecognized transition asset, unrecognized prior service benefit and cost and unrecognized actuarial gain and loss are amortized using the straight-line method over the average remaining service period of active employees.

Reconciliations of beginning and ending balances of the benefit obligation of the funded defined benefit pension plans and the unfunded defined benefit pension plans and the fair value of the plan assets are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Change in benefit obligation:			
Benefit obligation at beginning of year . . . . .	<b>¥2,717,784</b>	¥3,753,375	<b>\$25,399,850</b>
Service cost . . . . .	<b>85,500</b>	107,002	<b>799,065</b>
Interest cost . . . . .	<b>63,637</b>	78,493	<b>594,738</b>
Plan amendments . . . . .	<b>(57,625)</b>	(115,859)	<b>(538,551)</b>
Actuarial loss . . . . .	<b>18,377</b>	34,676	<b>171,748</b>
Benefits paid . . . . .	<b>(138,245)</b>	(175,210)	<b>(1,292,009)</b>
Acquisitions and divestitures . . . . .	<b>13,559</b>	(78,689)	<b>126,720</b>
Transfer to defined contribution pension plan . . . . .	<b>(18,308)</b>	(19,329)	<b>(171,103)</b>
Transfer of substitutional portion . . . . .	<b>(368,132)</b>	(850,697)	<b>(3,440,486)</b>
Curtailment and settlement . . . . .	<b>(10,956)</b>	(6,801)	<b>(102,392)</b>
Foreign currency exchange rate changes . . . . .	<b>1,675</b>	(9,177)	<b>15,654</b>
Benefit obligation at end of year . . . . .	<b>2,307,266</b>	2,717,784	<b>21,563,234</b>
Change in plan assets:			
Fair value of plan assets at beginning of year . . . . .	<b>1,257,195</b>	1,513,674	<b>11,749,486</b>
Actual return on plan assets . . . . .	<b>59,117</b>	167,115	<b>552,495</b>
Employers' contributions . . . . .	<b>130,247</b>	154,832	<b>1,217,262</b>
Employees' contributions . . . . .	<b>3,187</b>	9,735	<b>29,785</b>
Benefits paid . . . . .	<b>(98,183)</b>	(131,274)	<b>(917,598)</b>
Acquisitions and divestitures . . . . .	<b>2,441</b>	(20,334)	<b>22,813</b>
Transfer to defined contribution pension plan . . . . .	<b>(1,209)</b>	(8,621)	<b>(11,299)</b>
Transfer of substitutional portion . . . . .	<b>(186,650)</b>	(421,861)	<b>(1,744,393)</b>
Settlement . . . . .	<b>(8,234)</b>	–	<b>(76,953)</b>
Foreign currency exchange rate changes . . . . .	<b>1,096</b>	(6,071)	<b>10,243</b>
Fair value of plan assets at end of year . . . . .	<b>1,159,007</b>	1,257,195	<b>10,831,841</b>
Funded status . . . . .	<b>(1,148,259)</b>	(1,460,589)	<b>(10,731,393)</b>
Unrecognized transition asset . . . . .	–	(208)	–
Unrecognized prior service benefit . . . . .	<b>(235,757)</b>	(190,667)	<b>(2,203,336)</b>
Unrecognized actuarial loss . . . . .	<b>803,104</b>	1,021,527	<b>7,505,645</b>
Net amount recognized in the consolidated balance sheet . . . . .	<b>¥ (580,912)</b>	¥ (629,937)	<b>\$ (5,429,084)</b>
Amounts recognized in the consolidated balance sheet consist of:			
Prepaid benefit cost . . . . .	<b>¥ 2,212</b>	¥ 1,070	<b>\$ 20,673</b>
Accrued benefit cost . . . . .	<b>(1,033,005)</b>	(1,273,509)	<b>(9,654,252)</b>
Intangible asset . . . . .	<b>1,416</b>	4,727	<b>13,233</b>
Accumulated other comprehensive loss . . . . .	<b>448,465</b>	637,775	<b>4,191,262</b>
Net amount recognized . . . . .	<b>¥ (580,912)</b>	¥ (629,937)	<b>\$ (5,429,084)</b>

The Company and substantially all subsidiaries use their year-end as a measurement date. Weighted-average assumptions used to determine the year-end benefit obligations are as follows:

	2005	2004
Discount rate . . . . .	2.5%	2.5%
Rate of compensation increase . . . . .	2.9%	3.1%

Weighted-average assumptions used to determine the net periodic pension cost for the years ended March 31, 2005, 2004 and 2003 are as follows:

	2005	2004	2003
Discount rate . . . . .	2.5%	2.5%	3.3%
Expected long-term return on plan assets . . . . .	3.0%	3.7%	3.9%
Rate of compensation increase . . . . .	3.1%	3.3%	3.2%

The expected long-term rate of return on plan assets is developed for each asset class, and is determined primarily on historical returns on the plan assets and other factors.

The accumulated benefit obligation was ¥2,167,152 million (\$20,253,757 thousand) as of March 31, 2005 and ¥2,514,233 million as of March 31, 2004.

Information for pension plans with accumulated benefit obligations in excess of plan assets and pension plans with projected benefit obligations in excess of plan assets are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Plans with accumulated benefit obligations in excess of plan assets:			
Accumulated benefit obligations . . . . .	<b>¥2,128,876</b>	¥2,486,835	<b>\$19,896,037</b>
Plan assets . . . . .	<b>1,118,739</b>	1,225,906	<b>10,455,505</b>
Plans with projected benefit obligations in excess of plan assets:			
Projected benefit obligations . . . . .	<b>¥2,306,142</b>	¥2,709,118	<b>\$21,552,729</b>
Plan assets . . . . .	<b>1,157,541</b>	1,248,067	<b>10,818,140</b>

The Employees Pension Fund (EPF) stipulated by the Japanese Pension Insurance Law is one of the defined benefit pension plans to which the Company and certain domestic subsidiaries had contributed. The pension plans under the EPF are composed of the substitutional portion of Japanese Welfare Pension Insurance and the corporate portion which is the contributory defined benefit pension plan covering substantially all of their employees and provides benefits in addition to the substitutional portion. The Company, certain subsidiaries and their employees had contributed the pension premiums for the substitutional portion and the corporate portion to each EPF. The plan assets of each EPF cannot be specifically allocated to the individual participants nor to the substitutional and corporate portions.

On June 15, 2001, the Japanese government issued a new law concerning defined benefit plans. This law allows a company, at its own discretion, to apply for an exemption from the future benefit obligation and return the past benefit obligation of the substitutional portion of the EPF to the government. In accordance with the new law, the Company and certain subsidiaries obtained approvals from the government for the exemption from the future benefit obligation and for the return of the past benefit obligation through March 31, 2005. Consequently, the Company and certain subsidiaries transferred the substitutional portion of each of their benefit obligations related to past service and the related portion of the plan assets of the EPF to the government during the years ended March 31, 2005 and 2004. The Company anticipates that all remaining subsidiaries will transfer the substitutional portion of their benefit obligations and return the related portion of the plan assets to the government during the year ending March 31, 2006.

The Company and certain subsidiaries accounted for the entire separation process of the transfer as a single settlement transaction upon the completion of the transfer to the government in accordance with EITF Issue No. 03-2, "Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities."

The Company's plans to return the substitutional portion of the EPF to the government had been considered in the actuarial assumptions. EITF Issue No. 03-2 requires employers to measure the obligation at current market rates of interest that could be obtained in a transaction with a third-party, nongovernmental entity to settle the obligation. The Company and certain subsidiaries remeasured the substitutional portion of the benefit obligation at April 1, 2002 in accordance with the EITF. As a result of this remeasurement, the benefit obligation as of April 1, 2002 and net periodic benefit costs for the year ended March 31, 2003 increased by ¥283,084 million and ¥24,857 million, respectively.

Asset allocations for the pension plans as of March 31, 2005 and 2004 are as follows:

	2005	2004
Equity securities .....	40.9%	40.6%
Debt securities .....	33.2	23.7
Cash .....	7.0	13.3
Life insurance company general accounts .....	6.3	8.4
Investment trusts .....	10.2	9.0
Other .....	2.4	5.0
	<b>100.0%</b>	<b>100.0%</b>

The objective of investment policy is to generate a stable return on the investment over the long term, which enable the Company's and certain subsidiaries' pension funds to meet their future obligations. In order to achieve the above objective, a target rate of return is established, taking into consideration composition of participants, level of funded status, the Company's and certain subsidiaries' capacity to absorb risks and the current economic environment. Also, a target asset allocation is established to achieve the target rate of return, based on expected rate of return by each asset class, standard deviation of rate of return and correlation coefficient among the assets. The investments are diversified primarily into domestic and foreign equity and debt securities according to the target asset allocation. Rebalancing will occur if market fluctuates in excess of certain levels. The Company and certain subsidiaries periodically review actual returns on assets, economic environments and their capacity to absorb risk and realign the target asset allocation if necessary.

The Company and its subsidiaries expect to contribute ¥112,346 million (\$1,049,963 thousand) to their defined benefit plans for the year ending March 31, 2006.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid.

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2006 .....	¥116,156	\$1,085,570
2007 .....	115,196	1,076,598
2008 .....	121,838	1,138,673
2009 .....	131,145	1,225,654
2010 .....	139,483	1,303,579
2011-2015 .....	683,420	6,387,103

**(b) Defined contribution plans**

The Company and certain subsidiaries have a number of defined contribution plans. The amount of cost recognized for the Company's and certain subsidiaries' contributions to the plans for the years ended March 31, 2005, 2004 and 2003 were ¥10,749 million (\$100,458 thousand), ¥7,718 million and ¥6,895 million, respectively.

## 13. COMMON STOCK

The Company has authorized for issuance 10 billion shares of common stock.

Issued shares, changes in shares and the amount of common stock for the years ended March 31, 2005, 2004 and 2003 are summarized as follows:

	Issued shares	Millions of yen	Thousands of
		Amount	U.S. dollars
			Amount
Balance as of March 31, 2002	3,338,481,041	¥282,032	
Issued under exchange offerings	29,643,245	–	
Balance as of March 31, 2003	3,368,124,286	282,032	
Issued upon conversion of convertible debentures	590	0	
Balance as of March 31, 2004	3,368,124,876	282,032	\$2,635,813
Issued upon conversion of convertible debentures	1,180	1	9
Balance as of March 31, 2005	<b>3,368,126,056</b>	<b>¥282,033</b>	<b>\$2,635,822</b>

Issued shares under exchange offerings for the year ended March 31, 2003 include the issuance of 25,143,245, in connection with the Hitachi Unisia Automotive, Ltd. acquisition shares as discussed in note 28.

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

## 14. LEGAL RESERVE AND CASH DIVIDENDS

The Japanese Commercial Code provides that earnings in an amount equal to at least 10 percent of appropriations of retained earnings to be paid in cash should be appropriated as a legal reserve until the total of additional paid in capital and legal reserve equals 25 percent of stated common stock. In addition to reduction of a deficit and transfer to stated common stock, either additional paid in capital or legal reserve may be available for dividends by resolution of the shareholders to the extent that the amount of total additional paid in capital and legal reserve exceeds 25 percent of stated common stock.

Cash dividends and appropriations to the legal reserve charged to retained earnings during the years ended March 31, 2005, 2004 and 2003 represent dividends declared during those years and the related appropriations to the legal reserve. A provision has not been made in the accompanying consolidated financial statements for the dividend for the second half year ended March 31, 2005 of ¥5.5 (\$0.05) per share, aggregating ¥18,323 million (\$171,243 thousand). This dividend will be reported by the Board of Directors at the ordinary general shareholders' meeting in respect to the year ended March 31, 2005.

Cash dividends per share for the years ended March 31, 2005, 2004 and 2003 were ¥11.0 (\$0.10), ¥8.0 and ¥6.0, respectively, based on dividends declared with respect to earnings for the periods.

## 15. TREASURY STOCK

The Japanese Commercial Code (JCC) allows a company to acquire treasury stock upon shareholders' approval to the extent that sufficient distributable funds are available. Effective September 25, 2003, the JCC was amended to no longer require shareholders' approval but Board of Directors' approval to the extent that the Board of Directors' authority was stated in the articles of incorporation. In this connection, the related amendment of the articles of incorporation was approved at the ordinary general shareholders' meeting on June 24, 2004.

Pursuant to the provisions of the JCC, shareholders may request the Company to acquire their shares below a minimum trading lot (1,000 shares) as shares below a minimum trading lot cannot be publicly traded and do not carry a voting right. The JCC also states that a shareholder holding shares less than a minimum trading lot is entitled to request the company to sell its treasury stock, if any, to the shareholder up to a minimum trading lot, provided that sale of treasury stock is allowed under the articles of incorporation. In this connection, the related amendment of the articles of incorporation was approved at the ordinary general shareholders' meeting on June 25, 2003.

The changes in treasury stock for the years ended March 31, 2005, 2004 and 2003 are summarized as follows:

	Shares	Millions of yen	Thousands of
		Amount	U.S. dollars
			Amount
Balance as of March 31, 2002	370,714	¥ 333	
Acquisition for treasury	2,864,577	1,514	
Balance as of March 31, 2003	3,235,291	1,847	
Acquisition for treasury	67,199,843	30,464	
Sales of treasury stock	(325,161)	(149)	
Balance as of March 31, 2004	70,109,973	32,162	\$300,579
Acquisition for treasury	1,697,685	1,177	11,000
Sales of treasury stock	(1,321,295)	(478)	(4,467)
Stock exchange upon a merger (note 28)	(33,937,141)	(15,625)	(146,028)
Balance as of March 31, 2005	<b>36,549,222</b>	<b>¥17,236</b>	<b>\$161,084</b>

At the ordinary general shareholders' meetings on June 25, 2003 and June 26, 2002, the Company was authorized to acquire for treasury up to 300,000,000 shares of its common stock each year for an aggregate acquisition amount not exceeding ¥150,000 million and ¥300,000 million, respectively, during the period from the close of the ordinary general shareholders' meeting to the close of the next ordinary general shareholders' meeting, pursuant to the provisions of the JCC.

## 16. ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive loss, net of related tax effects, displayed in the consolidated statements of stockholders' equity is classified as follows:

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Foreign currency translation adjustments:				
Balance at beginning of year . . . . .	¥ (95,786)	¥ (60,948)	¥ (38,012)	\$ (895,196)
Other comprehensive income (loss), net of reclassification adjustments . . . . .	5,320	(34,275)	(21,833)	49,720
Net transfer to minority interests . . . . .	(438)	(563)	(1,103)	(4,094)
Balance at end of year . . . . .	¥ (90,904)	¥ (95,786)	¥ (60,948)	\$ (849,570)
Minimum pension liability adjustments:				
Balance at beginning of year . . . . .	¥(329,536)	¥(698,916)	¥(260,100)	\$ (3,079,776)
Other comprehensive income (loss) . . . . .	86,541	366,707	(438,799)	808,794
Net transfer from (to) minority interests . . . . .	323	2,673	(17)	3,019
Balance at end of year . . . . .	¥(242,672)	¥(329,536)	¥(698,916)	\$ (2,267,963)
Net unrealized holding gain on available-for-sale securities:				
Balance at beginning of year . . . . .	¥ 31,499	¥ 4,874	¥ 39,997	\$ 294,383
Other comprehensive income (loss), net of reclassification adjustments . . . . .	1,458	26,635	(35,082)	13,626
Net transfer from (to) minority interests . . . . .	39	(10)	(41)	365
Balance at end of year . . . . .	¥ 32,996	¥ 31,499	¥ 4,874	\$ 308,374
Cash flow hedges:				
Balance at beginning of year . . . . .	¥ (41)	¥ (535)	¥ (369)	\$ (383)
Other comprehensive income (loss), net of reclassification adjustments . . . . .	(653)	49	(147)	(6,103)
Net transfer from (to) minority interests . . . . .	(250)	445	(19)	(2,336)
Balance at end of year . . . . .	¥ (944)	¥ (41)	¥ (535)	\$ (8,822)
Total accumulated other comprehensive loss:				
Balance at beginning of year . . . . .	¥(393,864)	¥(755,525)	¥(258,484)	\$ (3,680,972)
Other comprehensive income (loss), net of reclassification adjustments . . . . .	92,666	359,116	(495,861)	866,037
Net transfer from (to) minority interests . . . . .	(326)	2,545	(1,180)	(3,046)
Balance at end of year . . . . .	¥(301,524)	¥(393,864)	¥(755,525)	\$ (2,817,981)

The following is a summary of reclassification adjustments by each classification of other comprehensive income (loss) arising during the years ended March 31, 2005, 2004 and 2003 and the amounts of income tax expense or benefit allocated to each component of other comprehensive income (loss), including reclassification adjustments.

	Millions of yen		
	Before-tax amount	Tax benefit (expense)	Net-of-tax amount
<b>2005</b>			
<b>Other comprehensive income arising during the year:</b>			
Foreign currency translation adjustments . . . . .	¥ 4,650	¥ -	¥ 4,650
Minimum pension liability adjustments . . . . .	147,163	(60,622)	86,541
Net unrealized holding gain on available-for-sale securities . . . . .	13,174	(5,627)	7,547
Cash flow hedges . . . . .	(1,233)	373	(860)
	<b>163,754</b>	<b>(65,876)</b>	<b>97,878</b>
<b>Reclassification adjustments for net gain included in net income:</b>			
Foreign currency translation adjustments . . . . .	670	-	670
Net unrealized holding gain on available-for-sale securities . . . . .	(10,566)	4,477	(6,089)
Cash flow hedges . . . . .	259	(52)	207
	<b>(9,637)</b>	<b>4,425</b>	<b>(5,212)</b>
<b>Other comprehensive income, net of reclassification adjustments:</b>			
Foreign currency translation adjustments . . . . .	5,320	-	5,320
Minimum pension liability adjustments . . . . .	147,163	(60,622)	86,541
Net unrealized holding gain on available-for-sale securities . . . . .	2,608	(1,150)	1,458
Cash flow hedges . . . . .	(974)	321	(653)
	<b>¥154,117</b>	<b>¥(61,451)</b>	<b>¥92,666</b>
<b>Thousands of U.S. dollars</b>			
<b>2005</b>			
	Before-tax amount	Tax benefit (expense)	Net-of-tax amount
<b>Other comprehensive income arising during the year:</b>			
Foreign currency translation adjustments . . . . .	\$ 43,458	\$ -	\$ 43,458
Minimum pension liability adjustments . . . . .	1,375,355	(566,561)	808,794
Net unrealized holding gain on available-for-sale securities . . . . .	123,122	(52,589)	70,533
Cash flow hedges . . . . .	(11,524)	3,486	(8,038)
	<b>1,530,411</b>	<b>(615,664)</b>	<b>914,747</b>
<b>Reclassification adjustments for net gain included in net income:</b>			
Foreign currency translation adjustments . . . . .	6,262	-	6,262
Net unrealized holding gain on available-for-sale securities . . . . .	(98,748)	41,841	(56,907)
Cash flow hedges . . . . .	2,421	(486)	1,935
	<b>(90,065)</b>	<b>41,355</b>	<b>(48,710)</b>
<b>Other comprehensive income, net of reclassification adjustments:</b>			
Foreign currency translation adjustments . . . . .	49,720	-	49,720
Minimum pension liability adjustments . . . . .	1,375,355	(566,561)	808,794
Net unrealized holding gain on available-for-sale securities . . . . .	24,374	(10,748)	13,626
Cash flow hedges . . . . .	(9,103)	3,000	(6,103)
	<b>\$1,440,346</b>	<b>\$(574,309)</b>	<b>\$866,037</b>

	Millions of yen		
	2004		
	Before-tax amount	Tax benefit (expense)	Net-of-tax amount
<b>Other comprehensive income arising during the year:</b>			
Foreign currency translation adjustments . . . . .	¥ (42,535)	¥ –	¥ (42,535)
Minimum pension liability adjustments . . . . .	619,719	(253,012)	366,707
Net unrealized holding gain on available-for-sale securities . . . . .	66,059	(26,678)	39,381
Cash flow hedges . . . . .	(722)	62	(660)
	<u>642,521</u>	<u>(279,628)</u>	<u>362,893</u>
<b>Reclassification adjustments for net gain included in net income:</b>			
Foreign currency translation adjustments . . . . .	8,260	–	8,260
Net unrealized holding gain on available-for-sale securities . . . . .	(21,599)	8,853	(12,746)
Cash flow hedges . . . . .	722	(13)	709
	<u>(12,617)</u>	<u>8,840</u>	<u>(3,777)</u>
<b>Other comprehensive income, net of reclassification adjustments:</b>			
Foreign currency translation adjustments . . . . .	(34,275)	–	(34,275)
Minimum pension liability adjustments . . . . .	619,719	(253,012)	366,707
Net unrealized holding gain on available-for-sale securities . . . . .	44,460	(17,825)	26,635
Cash flow hedges . . . . .	0	49	49
	<u>¥629,904</u>	<u>¥(270,788)</u>	<u>¥359,116</u>
<b>Millions of yen</b>			
<b>2003</b>			
	Before-tax amount	Tax benefit (expense)	Net-of-tax amount
<b>Other comprehensive loss arising during the year:</b>			
Foreign currency translation adjustments . . . . .	¥ (21,294)	¥ –	¥ (21,294)
Minimum pension liability adjustments . . . . .	(744,779)	305,980	(438,799)
Net unrealized holding gain on available-for-sale securities . . . . .	(54,607)	22,789	(31,818)
Cash flow hedges . . . . .	(953)	388	(565)
	<u>(821,633)</u>	<u>329,157</u>	<u>(492,476)</u>
<b>Reclassification adjustments for net gain included in net income:</b>			
Foreign currency translation adjustments . . . . .	(539)	–	(539)
Net unrealized holding gain on available-for-sale securities . . . . .	(5,642)	2,378	(3,264)
Cash flow hedges . . . . .	707	(289)	418
	<u>(5,474)</u>	<u>2,089</u>	<u>(3,385)</u>
<b>Other comprehensive loss, net of reclassification adjustments:</b>			
Foreign currency translation adjustments . . . . .	(21,833)	–	(21,833)
Minimum pension liability adjustments . . . . .	(744,779)	305,980	(438,799)
Net unrealized holding gain on available-for-sale securities . . . . .	(60,249)	25,167	(35,082)
Cash flow hedges . . . . .	(246)	99	(147)
	<u>¥(827,107)</u>	<u>¥331,246</u>	<u>¥(495,861)</u>

## 17. COMMITMENTS AND CONTINGENCIES

The Company and its operating subsidiaries are contingently liable for loan guarantees to its affiliates in the amount of approximately ¥31,258 million (\$292,131 thousand) as of March 31, 2005.

Hitachi Capital Corporation (HCC), a financing subsidiary of the Company, provides guarantees to financial institutions for extending loans to customers of HCC. As of March 31, 2005, the undiscounted maximum potential future payments under such guarantees amounted to ¥548,504 million (\$5,126,206 thousand). The Company has accrued ¥6,099 million (\$57,000 thousand) as an obligation to stand ready to perform over the term of the guarantees in the event the customer can not make its scheduled payments.

HCC provides certain revolving lines of credit to its credit card holders in accordance with the terms of the credit card business customer service contracts. Furthermore, HCC provides credit facilities to parties in accordance with the service agency business contracts from which temporary payments on behalf of such parties are made. In addition, the Company and HCC provide loan commitments to its affiliates.

The outstanding balance of these revolving lines of credit, credit facilities and loan commitments as of March 31, 2005 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2005	2005
Total commitment available . . . . .	¥656,825	\$6,138,552
Amount utilized . . . . .	18,421	172,159
Balance available . . . . .	¥638,404	\$5,966,393

A portion of these revolving lines of credit is pending credit approval and cannot be utilized.

The Company and certain of its subsidiaries have line of credit arrangements with banks in order to secure a source of working capital. The unused line of credit as of March 31, 2005 amounted to ¥183,014 million (\$1,710,411 thousand).

As of March 31, 2005, outstanding commitments for the purchase of property, plant and equipment were approximately ¥35,937 million (\$335,860 thousand).

The Company and its subsidiaries generally warrant its products over respective warranty periods. The accrued product warranty costs are based primarily on historical experience of actual warranty claims. The changes in accrued product warranty costs for the years ended March 31, 2005 and 2004 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Balance at beginning of year . . . . .	¥107,774	¥105,297	\$1,007,234
Expense recognized upon issuance of warranties . . . . .	76,510	56,422	715,047
Payment of cash or in kind . . . . .	(55,264)	(50,471)	(516,486)
Other, including effect of foreign currency translation . . . . .	(71)	(3,474)	(664)
Balance at end of year . . . . .	¥128,949	¥107,774	\$1,205,131

It is a common practice in Japan for companies, in the ordinary course of business, to receive promissory notes in the settlement of trade accounts receivable and to subsequently discount such notes to banks or to transfer them by endorsement to suppliers in the settlement of accounts payable.

As of March 31, 2005 and 2004, the Company and subsidiaries were contingently liable for trade notes discounted and endorsed in the following amounts:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Notes discounted . . . . .	¥ 4,853	¥ 3,839	\$ 45,355
Notes endorsed . . . . .	6,644	15,592	62,094
	<b>¥11,497</b>	<b>¥19,431</b>	<b>\$107,449</b>

As of March 31, 2005, certain subsidiaries pledge a portion of their assets as collateral for bank loans, trade payables and other liabilities as follows:

	Millions of yen	Thousands of U.S. dollars
	2005	2005
Cash and cash equivalents . . . . .	¥ 117	\$ 1,093
Short-term investments . . . . .	247	2,308
Other current assets . . . . .	1,833	17,131
Investments and advances . . . . .	112	1,047
Land . . . . .	7,437	69,505
Buildings . . . . .	9,053	84,607
Machinery and equipment . . . . .	5,910	55,234
	<b>¥24,709</b>	<b>\$230,925</b>

The Company and certain subsidiaries are subject to several legal proceedings and claims which have arisen in the ordinary course of business and have not been finally adjudicated. These actions when ultimately concluded and determined will not, in the opinion of management, have a material adverse effect on the financial position and results of operations of the Company.

## 18. IMPAIRMENT LOSSES FOR LONG-LIVED ASSETS

The Company and certain subsidiaries recognized impairment losses for long-lived assets for the years ended March 31, 2005, 2004 and 2003 in the amount of ¥26,797 million (\$250,439 thousand), ¥26,085 million and ¥8,474 million, respectively.

For the year ended March 31, 2005, the majority of the impairment losses were recorded on long-lived property, plant and equipment located in Japan, which primarily consisted of ¥8,517 million (\$79,598 thousand) in the Electronic Devices division, ¥4,954 million (\$46,299 thousand) in the High Functional Materials & Components division and ¥4,453 million (\$41,617 thousand) in the Corporate division. These losses were mainly the result of change in the extent or manner the assets were used and were determined based primarily on discounted future cash flows.

For the year ended March 31, 2004, the majority of the impairment losses were recorded on long-lived property, plant and equipment located in Japan, which primarily consisted of ¥13,391 million in the Corporate division and ¥8,175 million in the Information & Telecommunication Systems division. These losses, in part, were the result of change in the manner the assets were used.

For the year ended March 31, 2003, the majority of the impairment losses were recorded on the Company's Device Development Center, which develops semiconductor products, resulted from the Company's realignment of the semiconductor operations.

## 19. RESTRUCTURING CHARGES

Certain losses incurred in the reorganization of the Company's operations are considered restructuring charges. Components and related amounts of the restructuring charges, before the related tax effects, for the years ended March 31, 2005, 2004 and 2003 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Special termination benefits . . . . .	¥29,426	¥18,155	¥ –	\$275,009
Loss on fixed assets . . . . .	3,881	10,458	–	36,271
Total restructuring charges . . . . .	¥33,307	¥28,613	¥ –	\$311,280

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies the FASB's EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 applies to costs associated with an exit activity that does not involve an entity newly acquired in a business combination covered by EITF Issue No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination," or with a disposal activity covered by SFAS No. 144. This statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred and measured at fair value. The provisions of the statement were effective for exit or disposal activities that were initiated after December 31, 2002. The adoption of this statement did not have a material effect on the Company's financial position or results of operations.

The Company and certain subsidiaries provided special termination benefits to those employees voluntarily leaving the Company. The accrued special termination benefits were recognized at the time voluntary termination was offered and benefits accepted by the employees. An analysis of the accrued special termination benefits for the years ended March 31, 2005, 2004 and 2003 is as follows:

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Balance at beginning of the year . . . . .	¥ 908	¥ –	¥114,266	\$ 8,486
New charges . . . . .	29,426	18,155	–	275,009
(employees to be terminated) . . . . .	3,714	2,143	–	–
Cash payments . . . . .	(15,939)	(17,247)	(114,213)	(148,962)
(employees actually terminated) . . . . .	2,334	2,037	10,077	–
Foreign currency exchange rate changes . . . . .	(6)	–	(53)	(56)
Balance at end of the year . . . . .	¥14,389	¥ 908	¥ –	\$134,477

The following represent significant restructuring activities for the year ended March 31, 2005 by business line:

1. Information & Telecommunication Systems division restructured in order to strengthen its business structure primarily in Japan. The accrued special termination benefits expensed during the year ended March 31, 2005 amounted to ¥16,666 million (\$155,757 thousand). The liabilities for special termination benefits amounting to ¥9,599 million (\$89,710 thousand) at March 31, 2005 will be paid by March 2006. Total restructuring charges during the year ended March 31, 2005 amounted to ¥16,708 million (\$156,150 thousand).
2. Digital Media & Consumer Products division restructured mainly its digital media plants in order to reorganize digital media operations primarily in Japan. The accrued special termination benefits expensed during the year ended March 31, 2005 amounted to ¥8,080 million (\$75,514 thousand). The liabilities for special termination benefits amounting to ¥2,696 million (\$25,196 thousand) will be paid by March 2006. Total restructuring charges during the year ended March 31, 2005 amounted to ¥9,685 million (\$90,514 thousand).

3. High Functional Materials & Components division restructured its magnetic materials operations and cable operations in order to strengthen its management structure. The accrued special termination benefits expensed during the year ended March 31, 2005 amounted to ¥1,711 million (\$15,991 thousand) and were paid by March 2005. Total restructuring charges during the year ended March 31, 2005 amounted to ¥3,945 million (\$36,869 thousand).

The following represent significant restructuring activities for the year ended March 31, 2004 by business line:

1. Power & Industrial Systems division restructured in order to address the general weakness in demand primarily in Japan. The accrued special termination benefits expensed during the year ended March 31, 2004 amounted to ¥1,414 million. The liabilities for special termination benefits amounting to ¥715 million were paid by March 2005. Total restructuring charges during the year ended March 31, 2004 consisted only of special termination benefits.
2. Digital Media & Consumer Products division restructured its consumer products plants and related distribution network in order to address the general weakness in consumer demand primarily, in Japan. The accrued special termination benefits expensed during the year ended March 31, 2004 amounted to ¥14,394 million. The liabilities for special termination benefits amounting to ¥26 million were paid by March 2005. Total restructuring charges during the year ended March 31, 2004 amounted to ¥17,760 million.
3. High Functional Materials & Components division restructured its semiconductor packaging materials operations because the business environment took a dramatic downturn in Japan. The accrued special termination benefits expensed during the year ended March 31, 2004 amounted to ¥2,347 million. The liabilities for special termination benefits amounting to ¥167 million were paid by March 2005. Total restructuring charges during the year ended March 31, 2004 amounted to ¥9,439 million.

## 20. OTHER INCOME AND OTHER DEDUCTIONS

The following items are included in other income or other deductions for the years ended March 31, 2005, 2004 and 2003.

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Net gain (loss) on securities . . . . .	<b>¥46,463</b>	¥130,175	¥ (660)	<b>\$434,234</b>
Equity in earnings (losses) of affiliated companies . . . .	<b>(162)</b>	10,120	(15,803)	<b>(1,514)</b>
Net gain (loss) on sale and disposal of rental assets and other property . . . . .	<b>(9,545)</b>	1,715	23,658	<b>(89,206)</b>
Exchange gain (loss) . . . . .	<b>4,389</b>	(17,484)	(18,262)	<b>41,019</b>

“Other income” for the year ended March 31, 2005 includes a net gain of ¥14,422 million (\$134,785 thousand) from issuance of stock by certain subsidiaries and affiliated companies which resulted in changes of the Company’s ownership interest.

“Other deductions” for the year ended March 31, 2003 includes a net periodic benefit cost of ¥24,857 million which was generated as the result of adopting EITF Issue No. 03-2, “Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities,” as described in note 12.

## 21. SALES OF STOCK BY SUBSIDIARIES OR AFFILIATED COMPANIES

In November 2004, Elpida Memory, Inc., an affiliated company which is a Japanese manufacturer of Dynamic Random Access Memory silicon chips, issued 29,150,000 shares of common stock at ¥3,325 (\$31) per share to third parties with the initial public offering. In December 2004, Elpida Memory, Inc. issued 2,700,000 shares of common stock at ¥3,325 (\$31) per share to a third party. As a result of the issuance of new shares, the Company's ownership interest of common stock decreased from 50.0% to 25.0% at March 31, 2005.

The Company provided deferred tax liability on this gain.

## 22. NET INCOME PER SHARE INFORMATION

The reconciliations of the numbers and the amounts used in the basic and diluted net income per share computations are as follows:

	Number of shares		
	2005	2004	2003
Weighted average number of shares on which basic net income per share is calculated . . . . .	<b>3,316,354,127</b>	3,303,624,737	3,351,624,705
Effect of dilutive securities:			
Series A zero coupon convertible bonds . . . . .	<b>22,265,365</b>	—	—
Series B zero coupon convertible bonds . . . . .	<b>22,265,365</b>	—	—
Stock options . . . . .	<b>215,813</b>	134,551	—
Number of shares on which diluted net income per share is calculated . . . . .	<b>3,361,100,670</b>	3,303,759,288	3,351,624,705

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Net income applicable to common stockholders . . .	<b>¥51,496</b>	¥15,876	¥27,867	<b>\$481,271</b>
Effect of dilutive securities:				
Series A zero coupon convertible bonds . . . . .	<b>1</b>	—	—	<b>9</b>
Series B zero coupon convertible bonds . . . . .	<b>1</b>	—	—	<b>9</b>
Other . . . . .	<b>(579)</b>	(192)	(402)	<b>(5,410)</b>
Net income on which diluted net income per share is calculated . . . . .	<b>¥50,919</b>	¥15,684	¥27,465	<b>\$475,879</b>

	Yen			U.S. dollars
	2005	2004	2003	2005
Net income per share:				
Basic . . . . .	<b>¥15.53</b>	¥4.81	¥8.31	<b>\$0.15</b>
Diluted . . . . .	<b>15.15</b>	4.75	8.19	<b>0.14</b>

The net income per share computations for the years ended March 31, 2004 and 2003 exclude 6th and 7th series convertible debentures because their effect would have been antidilutive. The net income per share computation for the year ended March 31, 2005 excludes 7th series convertible debentures because their effect would have been antidilutive. In addition, 6th and 7th series convertible debentures were redeemed in September 2003 and September 2004, respectively.

## 23. SUPPLEMENTARY INCOME INFORMATION

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Taxes other than income taxes consist of the following:				
Property .....	¥ 39,597	¥ 40,001	¥ 45,318	\$ 370,066
Welfare .....	192,763	199,630	203,196	1,801,523
Other .....	22,890	12,969	12,277	213,925
	<b>¥255,250</b>	<b>¥252,600</b>	<b>¥260,791</b>	<b>\$2,385,514</b>
Maintenance and repairs .....	¥ 73,952	¥ 69,084	¥ 83,660	\$ 691,140
Research and development expense .....	388,634	371,825	377,154	3,632,093
Advertising expense .....	53,405	48,512	52,165	499,112
Rent .....	137,179	142,649	156,552	1,282,047

## 24. SUPPLEMENTARY CASH FLOW INFORMATION

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Cash paid during the year for:				
Interest .....	¥ 30,706	¥32,128	¥35,932	\$ 286,972
Income taxes .....	123,541	93,858	94,013	1,154,589

Convertible debentures issued by the Company of ¥2 million (\$19 thousand) in 2005 and ¥1 million in 2004 were converted into common stock. Convertible debentures issued by subsidiaries of ¥11,054 million (\$103,308 thousand) in 2005, ¥6,769 million in 2004 and ¥4,728 million in 2003 were converted into subsidiaries' common stock. Capital lease assets of ¥2,109 million (\$19,710 thousand) in 2005, ¥3,998 million in 2004 and ¥4,050 million in 2003 were capitalized.

During the years ended March 31, 2005 and 2003, the Company acquired and merged some of its subsidiaries and affiliated companies through exchange of equity securities procedure as shown in note 28.

The proceeds from sale of securities classified as available-for-sale discussed in note 4 are included in both "(Increase) decrease in short-term investments" and "Proceeds from sale of investments and subsidiaries' common stock" on the consolidated statements of cash flows.

## 25. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

### *Overall risk profile*

The major manufacturing bases of the Company and its subsidiaries are located in Japan and Asia. The selling bases are located globally, and the Company and its subsidiaries generate approximately 35% of their sales from overseas. These overseas sales are mainly denominated in the U.S. dollar or Euro. As a result, the Company and its subsidiaries are exposed to market risks from changes in foreign currency exchange rates.

The Company's financing subsidiaries in London, New York and Singapore issue U.S. dollar denominated, variable rate, medium-term notes mainly through the Euro markets to finance its overseas long-term operating capital. As a result, the Company and its subsidiaries are exposed to market risks from changes in foreign currency exchange rates and interest rates.

The Company and its subsidiaries are also exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments, but it is not expected that any counterparties will fail to meet their obligations because most of the counterparties are internationally recognized financial institutions and contracts are diversified into a number of major financial institutions.

#### *Risk management policy*

The Company and its subsidiaries assess foreign currency exchange rate risk and interest rate risk by continually monitoring changes in these exposures and by evaluating hedging opportunities. It is the Company's principal policy that the Company and its subsidiaries do not enter into derivative financial instruments for speculation purposes.

#### *Foreign currency exchange rate risk management*

The Company and its subsidiaries have assets and liabilities which are exposed to foreign currency exchange rate risk and, as a result, they enter into forward exchange contracts and cross currency swap agreements for the purpose of hedging these risk exposures.

In order to fix the future net cash flows principally from trade receivables and payables recognized, which are denominated in foreign currencies, the Company and its subsidiaries on a monthly basis measure the volume and due date of future net cash flows by currencies. In accordance with the Company's policy, a certain portion of measured net cash flows is covered using forward exchange contracts, which principally mature within one year.

The Company and its subsidiaries enter into cross currency swap agreements with the same maturities as underlying debt to fix cash flows from long-term debt denominated in foreign currencies. The hedging relationship between the derivative financial instrument and its hedged item is highly effective in achieving offsetting changes in foreign currency exchange rates.

#### *Interest rate risk management*

The Company's and certain subsidiaries' exposure to interest rate risk is related principally to long-term debt obligations. Management believes it is prudent to minimize the variability caused by interest rate risk.

To meet this objective, the Company and certain subsidiaries principally enter into interest rate swaps to manage fluctuations in cash flows. The interest rate swaps entered into are receive-variable, pay-fixed interest rate swaps. Under the interest rate swaps, the Company and certain subsidiaries receive variable interest rate payments on long-term debt associated with medium-term notes and make fixed interest rate payments, thereby creating fixed interest rate long-term debt.

The Company and certain financing subsidiaries mainly finance a portion of their operations by long-term debt with a fixed interest rate and lend funds at variable interest rates. Therefore, such companies are exposed to interest rate risk. Management believes it is prudent to minimize the variability caused by interest rate risk. To meet this objective, the Company and certain financing subsidiaries principally enter into interest rate swaps converting the fixed rate to the variable rate to manage fluctuations in fair value resulting from interest rate risk. Under the interest rate swaps, the Company and certain financing subsidiaries receive fixed interest rate payments associated with medium-term notes and make variable interest rate payments, thereby creating variable-rate long-term debt.

The hedging relationship between the interest rate swaps and its hedged item is highly effective in achieving offsetting changes in cash flows and fair value resulting from interest rate risk.

#### ***Fair value hedge***

Changes in fair value of both recognized assets and liabilities, and derivative financial instruments designated as fair value hedges of these assets and liabilities are recognized in other income (deductions). Derivative financial instruments designated as fair value hedges include forward exchange contracts associated with operating transactions, cross currency swap agreements and interest rate swaps associated with financing transactions.

Interest charges for the years ended March 31, 2005 and 2004 include losses of ¥716 million (\$6,692 thousand) and ¥1,098 million, respectively, which represents the component excluded from the assessment of hedge effectiveness. The sum of the amount of hedge ineffectiveness is not material for the years ended March 31, 2005, 2004 and 2003.

### **Cash flow hedge**

#### *Foreign currency exposure*

Changes in fair value of forward exchange contracts designated and qualifying as cash flow hedges of forecasted transactions are reported in accumulated other comprehensive income (AOCI). These amounts are reclassified into earnings in the same period as the hedged items affect earnings.

Exchange gain for the year ended March 31, 2005 include losses of ¥351 million (\$3,280 thousand) which represents the component excluded from the assessment of hedge effectiveness. The sum of the amount of the hedging ineffectiveness is not material for the years ended March 31, 2005, 2004 and 2003.

It is expected that approximately ¥94 million (\$879 thousand) of gains recorded in AOCI relating to existing forward exchange contracts will be reclassified into other income and other deductions during the year ending March 31, 2006.

As of March 31, 2005, the maximum length of time over which the Company and its subsidiaries are hedging their exposure to the variability in future cash flows associated with foreign currency forecasted transactions is approximately 39 months.

#### *Interest rate exposure*

Changes in fair values of interest rate swaps designated as hedging instruments for the variability of cash flows associated with long-term debt obligations are reported in AOCI. These amounts subsequently are reclassified into interest charges as a yield adjustment in the same period in which the hedged debt obligations affect earnings.

Interest charges for the years ended March 31, 2004 and 2003 include losses of ¥356 million and ¥497 million, respectively, which represents the component excluded from the assessment of hedge effectiveness. Net gain or loss excluded from the assessment of hedge effectiveness is not material for the year ended March 31, 2005. Interest charges for the years ended March 31, 2005 and 2004 include losses of ¥202 million (\$1,888 thousand) and ¥257 million, respectively, which represents the component of the hedging ineffectiveness. Ineffectiveness was not material for the year ended March 31, 2003.

During the year ending March 31, 2006, approximately ¥175 million (\$1,636 thousand) of losses recorded in AOCI related to the interest rate swaps are expected to be reclassified into interest charges as a yield adjustment of the hedged debt obligations.

The contract or notional amounts of derivative financial instruments held as of March 31, 2005 and 2004 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Forward exchange contracts:			
To sell foreign currencies	<b>¥282,333</b>	¥235,750	<b>\$2,638,626</b>
To buy foreign currencies	<b>62,104</b>	29,462	<b>580,411</b>
Cross currency swap agreements:			
To sell foreign currencies	<b>91,732</b>	23,896	<b>857,308</b>
To buy foreign currencies	<b>148,007</b>	132,842	<b>1,383,243</b>
Interest rate swaps	<b>571,395</b>	445,609	<b>5,340,140</b>
Option contracts	<b>19,152</b>	8,708	<b>178,991</b>

## **26. CONCENTRATIONS OF CREDIT RISK**

The Company and its subsidiaries generally do not have significant concentrations of credit risk to any counterparties nor any regions because they are diversified and spread globally.

## 27. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions are used to estimate the fair values of financial instruments:

### *Investment in securities*

The fair value of investment in securities is estimated based on quoted market prices for these or similar securities.

### *Long-term debt*

The fair value of long-term debt is estimated based on quoted market prices or the present value of future cash flows using the Company's and its subsidiaries' incremental borrowing rates for similar borrowing arrangements.

### *Cash and cash equivalents, Trade receivables, Short-term debt and Trade payables*

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

### *Derivative financial instruments*

The fair values of forward exchange contracts, cross currency swap agreements, interest rate swaps and option contracts are estimated on the basis of the market prices of derivative financial instruments with similar contract conditions.

The carrying amounts and estimated fair values of the financial instruments as of March 31, 2005 and 2004 are as follows:

	Millions of yen				Thousands of U.S. dollars	
	2005		2004		2005	
	Carrying amounts	Estimated fair values	Carrying amounts	Estimated fair values	Carrying amounts	Estimated fair values
Investment in securities:						
Short-term investments . . . . .	¥ 146,568	¥ 146,568	¥ 177,949	¥ 177,949	\$ 1,369,794	\$ 1,369,794
Investments and advances . . . . .	315,129	315,143	312,484	312,489	2,945,130	2,945,262
Derivatives (Assets):						
Forward exchange contracts . . . . .	683	683	3,422	3,422	6,383	6,383
Cross currency swap agreements . . . . .	1,109	1,109	1,961	1,961	10,364	10,364
Interest rate swaps . . . . .	1,407	1,407	2,024	2,024	13,150	13,150
Option contracts . . . . .	-	-	3	3	-	-
Long-term debt . . . . .	(1,825,895)	(1,826,562)	(1,873,749)	(1,893,728)	(17,064,439)	(17,070,673)
Derivatives (Liabilities):						
Forward exchange contracts . . . . .	(5,211)	(5,211)	(353)	(353)	(48,701)	(48,701)
Cross currency swap agreements . . . . .	(6,478)	(6,478)	(8,610)	(8,610)	(60,542)	(60,542)
Interest rate swaps . . . . .	(5,603)	(5,603)	(3,669)	(3,669)	(52,364)	(52,364)
Option contracts . . . . .	(237)	(237)	(60)	(60)	(2,215)	(2,215)

It is not practicable to estimate the fair value of investments in unlisted common stock because of the lack of a market price and difficulty in estimating fair value without incurring excessive cost. The carrying amounts of these investments at March 31, 2005 and 2004 totaled ¥77,755 million (\$726,682 thousand) and ¥77,242 million, respectively.

## 28. MERGER AND ACQUISITION

On May 28, 2002, the Company signed a share exchange agreement with Hitachi Unisia Automotive, Ltd., former UNISIA JECS Corporation (UJ), to assume full ownership of UJ by exchanging 0.197 of the Company's common stock for each share of UJ common stock outstanding. The Company and UJ obtained third party valuations of the respective share prices which were used as a basis in negotiating the share exchange ratio. On October 1, 2002, the Company issued 25,143,245 shares of common stock, in the amount of ¥23,635 million based on the quoted market price of ¥940 per share as of the announcement date, April 18, 2002, for exchange with the UJ registered shareholders as of September 30, 2002.

UJ manufactures automotive systems and components that support every area of basic vehicle function. The Company has strategically targeted the automotive products business and the purpose of making UJ a wholly owned subsidiary is to further expand this business.

The effects of the acquisition to the balance sheet as of October 1, 2002 are as follows:

	Millions of yen
Current assets . . . . .	¥ 68,427
Non-current assets . . . . .	121,248
Goodwill . . . . .	10,435
Current liabilities . . . . .	(99,453)
Non-current liabilities . . . . .	(76,120)
Net assets acquired . . . . .	(23,635)
Net assets previously acquired . . . . .	(902)

The results of operations of UJ for the period from October 1, 2002 to March 31, 2003 are included in the accompanying consolidated statements of operations. On a pro forma basis, revenue, net income and the per share information of the Company, with an assumed acquisition date for UJ of April 1, 2002 would not differ materially from the amount reported in the accompanying consolidated financial statements as of and for the year ended March 31, 2003.

On May 25, 2004, the Company signed a merger agreement with TOKICO LTD. (TOKICO) and UJ and, on October 1, 2004, acquired full ownership of TOKICO by exchanging 0.521 of the Company's treasury stock for each of TOKICO's common stocks outstanding. Before the transaction, the Company and certain subsidiaries had owned approximately 42% of TOKICO, which had been accounted for under the equity method. The Company and TOKICO obtained third party appraisals of the respective share prices which were used as a basis of negotiation over the share exchange ratio. On October 1, 2004, the Company issued 33,937,141 shares of treasury stock, in the amount of ¥28,134 million (\$262,935 thousand) calculated by using the quoted market price of ¥829 (\$7.7) per share as of the announcement date, March 26, 2004, for the exchange with the TOKICO's shareholders registered as of September 30, 2004. As a result, ¥12,509 million (\$116,907 thousand) of gains on stock exchange upon the merger was credited to capital surplus.

TOKICO manufactures automotive components and pneumatic equipment. As described above, the Company has strategically targeted the automotive products business and the purpose of the merger with TOKICO is to further expand this business.

The effects of the merger to the Company's consolidated financial position as of October 1, 2004 were not material. On a pro forma basis, revenue, net income and the per share information of the Company with an assumed merger date for TOKICO of April 1, 2004 and 2003 would not differ materially from the amount reported in the accompanying consolidated financial statements as of and for the years ended March 31, 2005 and 2004.

On December 31, 2002, the Company purchased a majority ownership interest in a company to which the hard disk drive operations and related intellectual property portfolio had been transferred from International Business Machines Corp. (IBM) for a total cash purchase price (excluding acquisition costs) of ¥222,262 million, including certain purchase price adjustments subsequent to the initial purchase date. The purchase price and the amount of goodwill recorded upon acquisition may be reduced. The purchase price is payable in three installments, of which the first two installments were paid in the years ended March 31, 2003 and 2004, with the remaining payment due in December 2005.

On January 1, 2003, this company began operating as Hitachi Global Storage Technologies Netherlands B.V. (HGST). HGST offers a full array of hard disk drives and this acquisition will complement and expand the Company's product portfolio, production capacity, research and development and distribution channels globally.

Upon closing, the Company obtained full voting rights to HGST and, as a result, has consolidated all of its assets and liabilities in the consolidated balance sheet, with the remaining installment payments recorded as liabilities.

The amounts assigned to each major asset and liability caption of HGST at the acquisition date are as follows:

	Millions of yen
Current assets . . . . .	¥ 94,865
Non-current assets . . . . .	184,326
Goodwill . . . . .	15,138
Current liabilities . . . . .	(35,948)
Non-current liabilities . . . . .	(32,159)
Net assets acquired . . . . .	(226,222)

The purchase price upon closing is as follows:

	Millions of yen
Cash paid to IBM in the years ended March 31, 2003 and 2004 . . . . .	¥180,251
Cash to be paid to IBM . . . . .	42,011
Direct acquisition costs . . . . .	3,960
Total purchase price . . . . .	<u>¥226,222</u>

In-process research and development assets amounting to ¥2,787 million have been acquired as part of the purchase and have been written off at the date of acquisition as these assets are considered as not having alternative use. The write-off has been recorded as selling, general and administrative expenses.

The results of operations of the acquired company beginning on December 31, 2002 are included in the accompanying consolidated statements of operations. On a pro forma basis, revenue, net loss and the per share information of the Company, with an assumed acquisition date of April 1, 2002 are as follows:

	Unaudited Millions of yen 2003
Revenue . . . . .	¥8,541,202
Net loss . . . . .	(149,891)
	Yen 2003
Basic net loss . . . . .	¥(44.72)
Diluted net loss . . . . .	(44.84)

## 29. STOCK OPTION PLANS

The Company and certain subsidiaries have stock option plans. Under the Company's stock option plans, non-employee directors, executive officers and certain employees have been granted stock options to purchase the Company's common stock. Under these stock option plans, options were granted at prices not less than market value at the date of grant and are exercisable from one year after the date of grant and expire four or five years after the date of grant. The Company and certain subsidiaries recognized no material stock-based compensation expense for the years ended March 31, 2005, 2004 and 2003.

A summary of the Company's stock option plans activity for the years ended March 31, 2005, 2004 and 2003 is as follows:

	2005		2004		2003		2005
	Stock options (shares)	Weighted- average exercised price	Stock options (shares)	Weighted- average exercised price	Stock options (shares)	Weighted- average exercised price	Weighted- average exercised price
Outstanding at beginning of year . . .	<b>2,194,000</b>	<b>¥ 866</b>	1,165,000	¥1,314	1,437,000	¥1,314	<b>\$ 8</b>
Granted . . . . .	<b>1,278,000</b>	<b>780</b>	1,305,000	561	-	-	<b>7</b>
Exercised . . . . .	<b>(585,000)</b>	<b>561</b>	-	-	-	-	<b>5</b>
Forfeited . . . . .	<b>(196,000)</b>	<b>1,174</b>	(276,000)	1,315	(272,000)	1,311	<b>11</b>
Outstanding at end of year . . . . .	<b>2,691,000</b>	<b>¥ 869</b>	2,194,000	¥ 866	1,165,000	¥1,314	<b>\$ 8</b>

Weighted-average remaining

contractual life . . . . .	<b>2.5 years</b>	2.8 years	3.1 years
Options exercisable at end of year . .	<b>1,413,000 shares</b>	889,000 shares	1,165,000 shares

The exercise prices of the stock options outstanding as of March 31, 2005 are ¥1,451 (\$13.56), ¥1,270 (\$11.87), ¥561 (\$5.24), ¥782 (\$7.31) and ¥705 (\$6.59).

In addition, in April 2005, the Board of Directors decided to propose the adoption of stock option plans for non-employee directors, executive officers and certain employees to the general shareholders' meeting to be held in June 2005. In accordance with the proposals, up to 1,500,000 options to purchase of the Company's common stock will be granted at exercise prices not less than market value at the date of grant, and are exercisable from one year after the date of grant and expire four years after the date of grant.