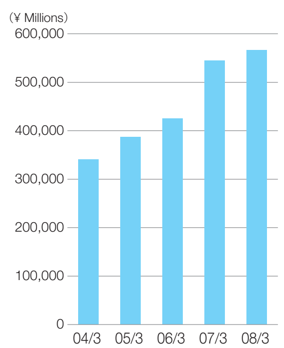
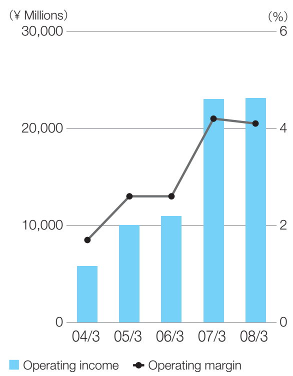
Financial Section

Contents

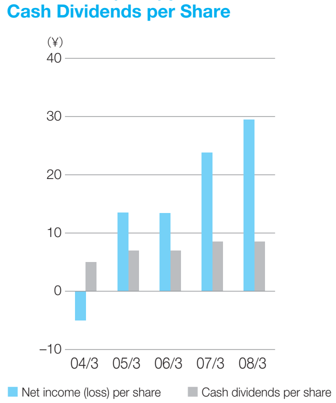
Net Sales



Operating Income/ Operating Margin



Net Income (Loss) per Share—Basic/ Cash Dividends per Share



OVERVIEW OF PERFORMANCE

Overall, although the global economy during the year ended March 31, 2008 continued to expand, driven primarily by growth in East Asia and particularly in China, uncertainty from the U.S. market subprime loan crisis affected the real economy. Factors such as the rising cost of energy and raw materials and the effects of an appreciating yen led to a greater slowdown in the Japanese economy in the second half of the fiscal year.

Charting the best course through these conditions, the Hitachi Cable Group continued with a range of measures intended to strengthen its business foundations in accordance with Plan BEGIN, its medium-term management plan. As a result, we achieved an increase in both sales and income, compared to the previous year.

Net Sales

Net sales increased by 4%, year on year to ¥565,994 million (US$5,659,940 thousand), driven by various factors, including higher prices for products such as wires, cables and copper products (attributable to the high price of copper, a primary raw material) and strong demand for products such as optical submarine cables.

Operating Income

In the year ended March 31, 2008, due to the rising price of raw materials, primarily copper, and crude oil, the cost of sales increased by 4.3%, year on year to ¥489,306 million (US$4,893,060 thousand). The cost of sales (to net sales) ratio was 86.4%, a 0.2 percentage point slip over the previous year. Meanwhile, due to our vigorous cost-cutting measures, selling, general and administrative expenses (SG&A) increased by only 2.6%, year on year to ¥53,571 million (US$535,710 thousand) and the SG&A (to net sales) ratio improved by a 0.1 percentage point, year on year to 9.5%. As a result, operating income was ¥23,117 million (US$231,170 thousand).

Net Income

Other expenses improved by ¥1,519 million, year on year to ¥5,521 million (US$55,210 thousand). This was primarily attributable to the equity in earnings of affiliated companies coming to ¥1,776 million (US$17,760 thousand), a large improvement of ¥2,055 million from the previous year. We also booked ¥3,679 million (US$36,790 thousand) of impairment losses for the manufacturing facilities of the unimetallic TAB (Kofu) business, etc., but restructuring costs, which included disposal of excess fixed assets and inventories, declined from the previous year to ¥456 million (US$4,560 thousand). Net financial expenses improved from ¥1,192 million in the previous year to ¥1,067 million (US$10,670 thousand) due to increased interest and dividends income, etc. As a result of the above, net income grew substantially by 23.6%, year on year to ¥10,708 million (US$107,080 thousand).

SEGMENT PERFORMANCE

In the wires and cables segment, net sales increased by 4%, year on year to ¥297,706 million (US$2,977,060 thousand), due to higher prices for our products attributable to the high price of copper, a primary raw material. Meanwhile, operating income decreased by 11%, year on year to ¥11,346 million (US$113,460 thousand), as the increase in operating expenses exceeded the increase in sales.

In the information and telecommunications networking segment, net sales grew by an impressive 20%, year on year to ¥88,893 million (US$888,930 million) due to substantial growth in sales of optical submarine cables, among other factors. Operating income increased by 204%, year on year to ¥6,990 million (US$69,900 thousand).

In the sophisticated materials segment, although we were able to achieve net sales of ¥204,815 million (US$2,048,150 thousand), roughly equal to the figure for the previous year, operating income decreased by 43%, year on year to ¥4,158 million (US$41,580 thousand), due to higher depreciation and other factors.

In other businesses segment (logistics, etc.) , net sales decreased by 2%, year on year to ¥17,386 million (US$173,860 thousand). Operating income increased by 9%, year on year to ¥653 million (US$6,530 thousand).

FINANCIAL POSITION

Assets

As of March 31, 2008, total assets increased by ¥8,235 million from the previous year-end to ¥370,127 million (US$3,701,270 thousand).

Current assets increased by ¥4,821 million from the previous year-end to ¥202,078 million (US$2,020,780 thousand). This was largely due to an increase of ¥5,589 million in inventories.

Fixed assets rose by ¥3,414 million from the previous year-end to ¥168,049 million (US$1,680,490 thousand). Property, plant and equipment increased by ¥1,559 million from the previous year-end to ¥117,242 million (US$1,172,420 thousand). This was due to capital expenditures of ¥27,823 million (US$278,230 thousand), which outweighed tangible fixed assets of ¥26,264 million mainly due to the recording of depreciation and impairment losses.

Investments and other assets increased by ¥1,017 million from the previous year-end to ¥42,963 million (US$429,630 thousand). This increase mainly reflected a rise of ¥1,049 million in deferred tax assets.

Liabilities

As of March 31, 2008, liabilities increased by ¥993 million from the previous year-end to ¥169,285 million (US$1,692,850 thousand). This mainly reflected increases in trade payables of ¥4,423 million and in retirement and severance benefits of ¥1,772 million, which were partly offset by a decrease in interest-bearing debt of ¥5,102 million.

Net Assets

Net assets increased by ¥7,242 million, year on year to ¥200,842 million (US$2,008,420 thousand). This mainly reflected an increase of ¥7,351 million in retained earnings due to net income of ¥10,708 million (US$107,080 thousand), while there was also a decrease in net unrealized holding gains on securities of ¥1,662 million. In addition, foreign currency translation adjustments increased by ¥1,062 million.

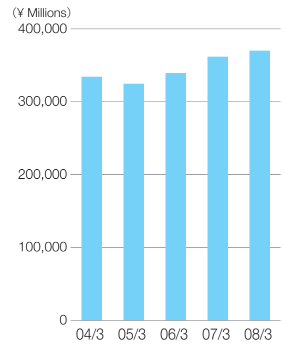
Cash Flows

As of March 31, 2008, cash and cash equivalents increased by ¥733 million from the previous year-end to ¥9,902 million (US$99,020 thousand). This increase was mainly attributable to net income of ¥10,708 million (US$107,080 thousand) and the recording of impairment losses, despite increases in trade receivables and inventories, and payment for the purchase of property, plant and equipment. Details of cash flows are as follows.

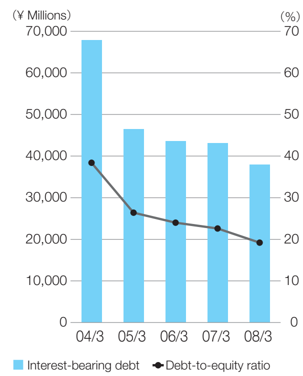
Cash Flows from Operating Activities

Cash flows from operating activities increased by ¥12,740 million from the previous year-end to ¥38,301 million (US$383,010 thousand).

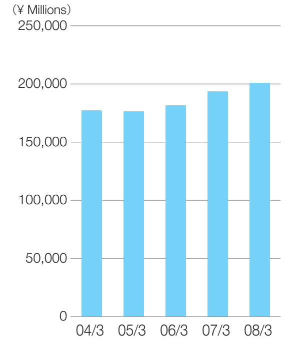
Total Assets



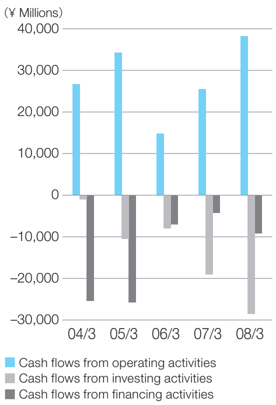
Interest-bearing Debt/ Debt-to-Equity Ratio



Net Assets



Cash Flows



This figure resulted from factors including net income of ¥10,708 million (US$107,080 thousand), as well as depreciation of ¥20,503 million (US$205,030 thousand), an increase of ¥4,423 million in trade payables and the booking of ¥3,679 million (US$36,790 thousand) in impairment losses. On the other hand, there was an increase of ¥5,589 million in inventories, and an increase of ¥1,192 million in trade receivables.

Cash Flows from Investing Activities

Cash flows used in investments increased by ¥9,436 million from the previous year-end to ¥28,484 million (US$284,840 thousand).

This figure resulted from factors including expenditures of ¥27,823 million (US$278,230 thousand) on purchases of property, plant and equipment, expenditures of ¥1,416 million (US$14,160 thousand) on investment in securities, and expenditures of ¥1,178 million (US$11,780 thousand) on investment in loans receivable. On the other hand, there were proceeds of ¥1,248 million (US$12,480 thousand) on the sale of property, plant and equipment, and proceeds of ¥513 million (US$5,130 million) on the sales of investments in securities.

Cash Flows from Financing Activities

Cash flows used in financing activities increased by ¥4,930 million from the previous year-end to ¥9,249 million (US$92,490 thousand).

This figure resulted from factors including expenditures of ¥5,842 million (US$58,420 thousand) on payment of short-term debt and payment of ¥3,362 million (US$33,620 thousand) in dividends.

RISK FACTORS AFFECTING OPERATIONS

The following are significant risk factors relating to the financial position, operating results and stock price of the Hitachi Cable Group (the "Group"). The forward-looking statements in this annual report are based on information available to the Group's management as of March 31, 2008.

1. Irregular Fluctuations in Financial Position and Operating Results

The Group uses hedging transactions to mitigate the effect of short-term changes in exchange rates on its results. Naturally, it is difficult to eliminate all risks associated with exchange rates through these hedging transactions. Accordingly, the Group's operating results may be affected by changes in exchange rates. Sales, expenses, assets and other items denominated in the local currency of each country or region are converted into Japanese yen for preparing consolidated financial statements. The value of these items after conversion into yen amounts may be adversely affected by the exchange rate prevailing at the date of conversion, which may in turn affect the Group's operating results.

Moreover, international commodity prices have a significant bearing on the price of copper, the main raw material for the Group's products. The Group strives to transfer increases in copper prices to sales prices to mitigate the effect of these changes on operating results. However, operating results may be affected in the event that the Group is unable to transfer an amount equivalent to any increase in the price of copper to sales prices. In the event that the price of copper falls rapidly, a loss on revaluation difference may be incurred and operating results may be affected. The Group's results may also be affected in a similar manner by increases in the prices of raw materials other than copper, including supplementary materials such as petrochemicals.

The Group's operating results may also be affected by decreases in the sales price of its products accompanying intensified competition or other factors.

In the event that the Group books extraordinary losses due to business realignment, withdrawal, restructuring of its asset portfolio or other reasons, the Group's operating results may be affected.

2. Product Development

The Group is involved in businesses characterized by rapid technological progress, where it is essential to launch products that are attractive to customers in a timely manner. In general, however, product development and sales harbor uncertainties. Regardless of the amount of time or financial resources channeled into these activities, there is no guarantee that the commercialization of new products will always succeed. In the event that new product development fails, the Group's growth prospects and profitability may be adversely affected, which may in turn affect the Group's operating results.

3. Laws and Regulations

The Group is subject to laws and regulations relating to commerce, environmental and recycling activities in each country and region where it operates, and holds permission to conduct business and investment in those countries. The Group acts in compliance with these laws and regulations. In the event of a breach in compliance, or a sudden and extreme tightening of these laws and regulations, or significant changes in the laws and regulations, including major changes in the taxation system, the Group's operating results may be affected by a loss of investment opportunities, cancellation of sales or an increase in various costs.

4. Material Lawsuits

As of March 31, 2008, the Group was not subject to any claims for damages or lawsuits, such as those pertaining to quality, product liability or patent infringement, that could have a material impact on its results, nor does it foresee at the present time any reason for such claims or lawsuits to be brought against it in the future. However, the Group's operating results could be affected if it were subject to claims for large damages or found liable for claims for large damages following a major lawsuit unforeseen at present, or if the Group is ordered to suspend the use of certain intellectual property rights.

5. Information Security

The Group uses a shared, group-wide network infrastructure. Various measures are taken to prevent risks related to information security, such as installation of firewalls and antivirus software, data and system backups, and training sessions. However, these measures cannot fully guarantee protection against various types of unauthorized access and new viruses via the Internet, as well as natural disasters. Therefore, the Group's operating results could be affected if the Company incurs expenses arising from the suspension of operations, recovery work in the event of an unforeseen loss or leakage of information, or system failures.

6. Overseas Operations

The Hitachi Cable Group operates globally. We own manufacturing and sales companies in Asia, primarily in China, as well as in North America and Europe. The Group's operating results could be affected if unstable political or economic conditions, differences in business practices, etc., in those countries (regions) hinder our business operations there.

Consolidated Balance Sheets

Hitachi Cable, Ltd. and consolidated subsidiaries
As of March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars
ASSETS	**2008**	2007	**2008**
Current assets:			
Cash and cash equivalents (Note 19)	¥ 9,902	¥ 9,192	$ 99,020
Trade receivables (Note 14)	115,241	114,049	1,152,410
Inventories (Note 4)	59,772	54,183	597,720
Other current assets (Note 6)	17,826	20,488	178,260
Less allowance for doubtful receivables	(663)	(655)	(6,630)
Total current assets	202,078	197,257	2,020,780
Property, plant and equipment, at cost (Note 7, 8 and 21)	405,955	396,890	4,059,550
Less accumulated depreciation	(288,713)	(281,207)	(2,887,130)
Net property, plant and equipment	117,242	115,683	1,172,420
Intangible assets	7,844	7,006	78,440
Investments and other assets:			
Investments in securities, including affiliated companies (Note 3)	20,161	21,016	201,610
Other assets (Note 6 and 9)	25,659	24,243	256,590
Less allowance for doubtful receivables	(2,857)	(3,313)	(28,570)
Total investments and other assets	42,963	41,946	429,630
Total assets	¥ 370,127	¥ 361,892	$ 3,701,270
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term debt (Note 5 and 8)	¥ 14,449	¥ 19,644	$ 144,490
Current portion of long-term debt (Note 8)	—	15,407	—
Trade payables	78,385	73,962	783,850
Accrued expenses and other current liabilities	31,271	31,054	312,710
Total current liabilities	124,105	140,067	1,241,050
Long-term debt (Note 8)	23,500	8,000	235,000
Retirement and severance benefits (Note 9)	20,042	18,270	200,420
Other liabilities (Note 6)	1,638	1,955	16,380
Total liabilities	169,285	168,292	1,692,850
Net Assets:			
Stockholders' equity:			
Common stock (Note 10 and 12)	25,948	25,948	259,480
Capital surplus (Note 12)	31,534	31,516	315,340
Retained earnings (Note 12)	141,090	133,739	1,410,900
Treasury stock, at cost (Note 13)	(4,356)	(4,403)	(43,560)
Valuation and translation adjustments:			
Net unrealized holding gains on securities	1,517	3,179	15,170
Net unrealized gains on hedge transaction	351	—	3,510
Foreign currency translation adjustments	1,354	292	13,540
Minority Interests	3,404	3,329	34,040
Total net assets	200,842	193,600	2,008,420
Commitments and contingencies (Note 15)			
Total liabilities and net assets	¥ 370,127	¥ 361,892	$ 3,701,270

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

Hitachi Cable, Ltd. and consolidated subsidiaries
For the year ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Net sales	¥ 565,994	¥ 544,244	$ 5,659,940
Cost of sales (Note 16)	(489,306)	(469,068)	(4,893,060)
Gross profit	76,688	75,176	766,880
Selling, general and administrative expenses (Note 16)	(53,571)	(52,193)	(535,710)
Operating income	23,117	22,983	231,170
Other income (expenses):			
Interest income	343	273	3,430
Dividend income	172	118	1,720
Interest expenses	(1,582)	(1,583)	(15,820)
Exchange gain (loss)	(2,268)	(303)	(22,680)
Equity in earnings (losses) of affiliated companies	1,776	(279)	17,760
Gain on sale of investments in securities	2	359	20
Gain on sale of scrap of raw material	830	907	8,300
Loss on disposal of fixed assets	(727)	(1,008)	(7,270)
Gain on sale of fixed assets	311	247	3,110
Loss on disposal of inventories	(711)	(415)	(7,110)
Restructuring charges	(456)	(1,337)	(4,560)
Impairment losses for fixed assets (Note 17)	(3,679)	(3,338)	(36,790)
Other, net	468	(681)	4,680
	(5,521)	(7,040)	(55,210)
Income before income taxes and minority interests	17,596	15,943	175,960
Income taxes (Note 6)	(6,232)	(6,830)	(62,320)
Income before minority interests	11,364	9,113	113,640
Minority interests	(656)	(451)	(6,560)
Net income	¥ 10,708	¥ 8,662	$ 107,080

	Yen		U.S. dollars
Basic net income per share (Note 18)	¥ 29.46	¥ 23.84	$ 0.29
Diluted net income per share (Note 18)	¥ 29.45	¥ 23.83	$ 0.29

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Hitachi Cable, Ltd. and consolidated subsidiaries
For the year ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Common stock: (Note 10)			
Balance at beginning of year	¥ 25,948	¥ 25,948	$ 259,480
Balance at end of year	25,948	25,948	259,480
Capital surplus:			
Balance at beginning of year	31,516	31,516	315,160
Reissuance of treasury stock	18	—	180
Balance at end of year	31,534	31,516	315,340
Retained Earnings:			
Balance at beginning of year	133,739	128,075	1,337,390
Net income	10,708	8,662	107,080
Cash dividends (Note 12)	(3,362)	(2,543)	(33,620)
Bonuses to directors (Note 12)	—	(53)	—
Reissuance of treasury stock	—	(1)	—
Net effect of inclusion and exclusion of consolidated subsidiaries	—	(8)	—
Net effect of inclusion and exclusion of affiliated companies under the equity method	—	(458)	—
Effect of change in functional currency by foreign subsidiaries	5	65	50
Balance at end of year	141,090	133,739	1,410,900
Treasury stock: (Note 13)			
Balance at beginning of year	(4,403)	(4,447)	(44,030)
Acquisition of treasury stock	(48)	(42)	(480)
Reissuance of treasury stock	95	91	950
Net effect of inclusion and exclusion of affiliated companies under the equity method	—	(5)	—
Balance at end of year	(4,356)	(4,403)	(43,560)
Net unrealized holding gain on securities:			
Balance at beginning of year	3,179	1,769	31,790
Net change during the year	(1,662)	1,410	(16,620)
Balance at end of year	1,517	3,179	15,170
Net unrealized gains on hedge:			
Balance at beginning of year	—	—	—
Net change during the year	351	—	3,510
Balance at end of year	351	—	3,510
Foreign currency translation adjustments:			
Balance at beginning of year	292	(1,319)	2,920
Net change during the year	1,062	1,611	10,620
Balance at end of year	1,354	292	13,540
Minority interests:			
Balance at beginning of year	3,329	2,638	33,290
Net change during the year	75	691	750
Balance at end of year	3,404	3,329	34,040
Total net assets	¥ 200,842	¥ 193,600	$ 2,008,420

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Hitachi Cable, Ltd. and consolidated subsidiaries
For the year ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Cash flows from operating activities: (Note 19)			
Net income	¥ 10,708	¥ 8,662	$ 107,080
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	20,503	19,008	205,030
Impairment losses	3,679	3,338	36,790
Deferred income taxes	1,746	2,648	17,460
Gain on sale of property, plant and equipment	(336)	(170)	(3,360)
Loss on disposal of property, plant and equipment	1,121	1,504	11,210
Equity in (earnings) losses of affiliated companies	(1,776)	279	(17,760)
Income applicable to minority interests	656	451	6,560
(Increase) decrease in trade receivables	(1,192)	(8,588)	(11,920)
(Increase) decrease in inventories	(5,589)	(6,991)	(55,890)
Increase (decrease) in trade payables	4,423	(916)	44,230
Increase (decrease) in retirement and severance benefits	1,772	4,656	17,720
(Increase) decrease in prepaid pension benefit cost	(534)	(3,725)	(5,340)
Other	3,120	5,405	31,200
Net cash provided by operating activities	38,301	25,561	383,010
Cash flows from investing activities:			
Purchases of property, plant and equipment	(27,823)	(21,455)	(278,230)
Proceeds from sale of property, plant and equipment	1,248	701	12,480
Collection of loans receivable	145	1,344	1,450
Purchases of investments in securities	(1,416)	(756)	(14,160)
Proceeds from sale of investments in securities	513	1,087	5,130
Investment in loans receivable	(1,178)	(9)	(11,780)
Other	27	40	270
Net cash used in investing activities	(28,484)	(19,048)	(284,840)
Cash flows from financing activities:			
Increase (decrease) in short-term debt (Note 5)	(5,842)	(1,590)	(58,420)
Proceeds from long-term debt	15,500	—	155,000
Payments on long-term debt	(15,407)	(108)	(154,070)
Acquisition of treasury stock	(48)	(42)	(480)
Dividends paid to stockholders	(3,362)	(2,543)	(33,620)
Dividends paid to minority stockholders of consolidated subsidiaries	(203)	(127)	(2,030)
Other	113	91	1,130
Net cash used in financing activities	(9,249)	(4,319)	(92,490)
Effect of exchange rate changes on cash and cash equivalents	104	293	1,040
Net increase in cash and cash equivalents	672	2,487	6,720
Cash and cash equivalents at beginning of year	9,169	5,731	91,690
Effect of acquisition and divestitures on cash and cash equivalents	61	951	610
Cash and cash equivalents at end of year (Note 19)	¥ 9,902	¥ 9,169	$ 99,020

See accompanying notes to consolidated financial statements.

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The accompanying consolidated financial statements of Hitachi Cable, Ltd. (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements (the "MOF" report) prepared by the Company as required by the Securities and Exchange Law of Japan.

In addition, for the convenience of readers outside Japan, the consolidated financial statements, including the notes to the consolidated financial statements, include certain reclassifications and additional information which is not required under accounting principles generally accepted in Japan.

(b) Principles of Consolidation

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

Most of the investments in affiliated companies are stated at their underlying equity value, and the appropriate portion of the earnings of such companies is included in earnings. The investments in affiliated companies which do not materially affect earnings and equity are stated at cost.

The cost in excess of net assets or excess of net assets over cost, based on the fair value, acquired by the Company is being amortized on a straight-line basis over its estimated useful period, not exceeding twenty years, or, if the amount is not material, charged immediately to earnings.

(c) Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in Japan requires management to make estimates and assumptions that affect the amounts reported in the Company's Consolidated Financial Statements and accompanying notes. Actual results could differ materially from those estimates.

(d) Cash and Cash Equivalents

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

(e) Allowance for Doubtful Receivables

General provision for doubtful receivables is provided by applying a certain reserve percentage of the receivables based on experience from past transactions. A specific reserve is provided for the estimated amounts to be uncollectable based on the customers' financial conditions or other pertinent factors.

(f) Investments in Securities

Securities are to be classified into one of the following three categories and accounted for as follows:

- Securities that are held for generating profits on short-term differences in price are classified as trading securities and measured at fair value, with unrealized holding gains and losses included in earnings.
- Securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and measured at amortized cost.
- Securities classified as neither trading securities nor held-to-maturity securities are classified as other securities. Unrealized holding gains and losses of other securities with fair values are reported as a net amount in a separate component of net assets until realized. Other securities without fair values are carried at cost.

In computing realized gain or loss, cost of other securities is principally determined by the moving-average method.

(g) Inventories

Inventories are mainly stated at the lower of cost or market and determined by the periodic average method.

(h) Property, Plant and Equipment

Property, plant and equipment are stated at cost and depreciated over the estimated useful lives of the respective assets by the declining-balance method, except for certain buildings of the Company and domestic consolidated subsidiaries, placed in service after April 1, 1998, which are depreciated by the straight-line method.

In accordance with the revised Japanese Corporation Tax Law and its regulation, the Company and its domestic subsidiaries have changed the depreciation method for tangible fixed assets acquired on or after April 1, 2007. As a result, operating income decreased by ¥561 million, and ordinary income and net income before income taxes each decreased by ¥594 million.

For the tangible fixed assets held at March 31, 2007, the Company and its domestic subsidiaries also, in conjunction with the revision of the tax law, have changed their estimates of residual values of those assets at the end of their useful lives. The reduction in residual values of those assets is allocated over 5 years. As a result, operating income decreased by ¥926 million, and ordinary income and net income before income taxes each decreased by ¥941 million.

(i) Intangible Assets

Intangible assets are amortized on a straight-line basis. Cost incurred for computer software for internal use is capitalized and amortized on a straight-line basis over its estimated useful life of five years.

(j) Leases

Finance leases, except those where the legal title of the underlying property is transferred from the lessor to the lessee at the end of the lease term, are mainly accounted for as operating leases.

(k) Impairment of Fixed Assets

Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When amounts of undiscounted future cash flows of fixed assets are less than the carrying amounts, the fixed assets are determined to be impaired. Then, an amount by which the carrying amount exceeds the recoverable amount is recognized as an impairment loss in earnings. The recoverable amount of fixed assets is the greater of the net selling price or the present value of the future cash flows expected to be derived from the fixed assets. The Company and consolidated subsidiaries identify groups of assets by their business units as the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

(l) Retirement and Severance Benefits

Allowance for retirement and severance benefits for employees is provided based on the estimated retirement benefit obligation and the fair value of pension assets.

Prior service benefits and costs are recognized as income or expense mainly when incurred. Actuarial gains and losses are recognized as income or expense on a straight-line basis from the next year over certain years, principally over 10 years, not exceeding the expected average remaining working lives of the employees participating in the plans.

A retirement allowance for directors and executive officers has been provided for the benefits to which they are entitled if they were to retire or sever immediately at the balance sheet date. On March 28, 2008, the compensation committee made a decision to terminate the retirement benefit program for directors and executive officers. In connection with the decision, retirement benefits are no longer accrued after June 27, 2008 for directors and March 31, 2008 for executive officers.

(m) Derivative Financial Instruments

In principle, net assets or liabilities arising from derivative financial instruments are measured at fair value, with unrealized gains or losses included in earnings. Hedging instruments that meet the criteria of hedge accounting as prescribed in “Accounting Standard for Financial Instruments”, are accounted for using deferral hedge accounting, which requires the unrealized gain or loss to be deferred as net unrealized gains or losses hedging instruments as a component of net assets until gains or losses relating to the hedged items are realized.

When the Company enters into interest rate swap agreements to hedge interest rate risks and the agreements meet certain criteria, the interest rate swap agreements are not measured at fair value but are accounted for as if the debt had an interest rate under the interest swap agreement, instead of the original interest rate in the debt agreement.

Commodity swaps are accounted for under the deferral hedge accounting method, as key terms and conditions of the commodity swaps and the hedged forecast transactions are identical.

(n) Foreign Currency Translations

Foreign currency transactions are translated into yen on the basis of the exchange rates in effect at the transaction date. At year-end, monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rates in effect at the balance sheet date. Gains or losses resulting from the translation of foreign currencies, including gains and losses on settlement, are credited or charged to earnings as incurred.

The financial statements of the consolidated foreign subsidiaries are translated into the reporting currency of yen. All assets and liabilities of such subsidiaries are translated at the exchange rates in effect at the balance sheet date. Stockholders' equity accounts are translated at historical rates. Income and expenses are translated at an average of the exchange rates in effect during the year. Foreign currency translation adjustments resulting from the translation of assets, liabilities and stockholders' equity are included in minority interests and valuation and translation adjustments as a separate component of net assets.

(o) Appropriation of Retained Earnings

On May 1, 2006, the Japanese Corporate Law (JCL) became effective and replaced the Japanese Commercial Code. Under the JCL, the Company is able to appropriate retained earnings by a resolution of the Board of Directors, provided that certain criteria are met. Upon meeting these criteria, the Company amended its Articles of Incorporation upon the approval of a resolution at the annual general stockholders' meeting on June 28, 2006, the first general stockholders' meeting held under the JCL.

(p) Income Taxes

Deferred income taxes are accounted for under the asset and liability method, and deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is provided for the amount that is not considered to be realizable.

(q) Treasury Stock

Treasury stock is recorded at cost as a deduction of stockholders' equity. When the treasury stock is reissued as common stock, the difference between the issuance price and the cost of the treasury stock is credited or charged to retained earnings.

(r) Stock-Based Compensation

Effective for the year ended March 31, 2007, the Company has adopted a new accounting standard, "Accounting Standard for Share-based Payment" (Accounting Standard No. 8, Accounting Standards Board of Japan, December 27, 2005) and the related guidance, "Guidance on Accounting Standard for Share-based Payment" (Accounting Implementation Guidance No. 11, Accounting Standards Board of Japan, May 31, 2006). The new standard and the related guidance require all share-based payments, which are granted after the Japanese Corporate Law became effective, to employees to be recognized as expense in the income statement based on their fair values. The adoption of this standard and guidance did not have a material impact on consolidated financial statements.

(s) Net Income per Share

Basic net income per share is computed by dividing income available to common stockholders by the weighted average number of common shares 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 entity.

(t) Reclassifications

Certain reclassifications have been made to the prior years' consolidated financial statements in order to conform to the current year presentations.

2. 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 U.S. dollars at the rate ¥100=US$1, the approximate exchange rate prevailing at the Tokyo Foreign Exchange Market as of March 31, 2008. This translation should not be construed as a representation that any amounts shown could be converted into U.S. dollars.

3. INVESTMENTS IN SECURITIES

The following is a summary of the amortized cost basis, gross unrealized holding gains or losses and aggregate fair value of other securities by major security types as of March 31, 2008 and 2007:

	Millions of yen					
	Amortized cost basis	Gross unrealized gains or losses	Aggregate fair value	Amortized cost basis	Gross unrealized gains or losses	Aggregate fair value
	2008			2007		
Other securities with gross unrealized holding gains:						
Equity securities	¥ 2,382	¥ 2,715	¥ 5,097	¥ 2,677	¥ 5,396	¥ 8,073
	2,382	2,715	5,097	2,677	5,396	8,073
Other securities with gross unrealized holding losses:						
Equity securities	645	(123)	522	195	(18)	177
Debt securities	—	—	—	35	—	35
	645	(123)	522	230	(18)	212
	¥ 3,027	¥ 2,592	¥ 5,619	¥ 2,907	¥ 5,378	¥ 8,285

	Thousands of U.S. dollars		
	Amortized cost basis	Gross unrealized gains or losses	Aggregate fair value
	2008		
Other securities with gross unrealized holding gains:			
Equity securities	$ 23,820	$ 27,150	$ 50,970
	23,820	27,150	50,970
Other securities with gross unrealized holding losses:			
Equity securities	6,450	(1,230)	5,220
Debt securities	—	—	—
	6,450	(1,230)	5,220
	$ 30,270	$ 25,920	$ 56,190

The Company recognized ¥120 million ($1,200 thousand) and ¥82 million of impairment losses mainly on non-marketable securities for the year ended March 31, 2008 and 2007, respectively, due to other-than-temporary decline of the fair value. Except for the impaired securities, the aggregate carrying amount of cost-method investments which were not evaluated for impairment as of March 31, 2008 and 2007 were ¥5,680 million ($56,800 thousand) and ¥2,328 million, respectively, mainly because it is not practicable to estimate the fair value of investments in non-marketable securities due to lack of a market price and difficulty in estimating fair value without incurring excessive cost and the Company did not identify any events or changes in circumstances that might have had a significant adverse effect on their fair value.

4. INVENTORIES

Inventories as of March 31, 2008 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Finished goods	¥ 13,990	¥ 11,867	$ 139,900
Work in process	33,434	30,371	334,340
Raw materials	12,348	11,945	123,480
	¥ 59,772	¥ 54,183	$ 597,720

5. RELATED PARTY TRANSACTIONS

The Company's balances with Hitachi, Ltd., the parent company, as of March 31, 2008 and 2007, and related transactions for the year ended March 31, 2008 and 2007 are summarized as follows:

Balances:	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Short-term debt from Hitachi group cash management fund	¥ —	¥ 6,728	$ —
Short-term loans from Hitachi group cash management fund	¥ 1,375	¥ —	$ 13,750
Transactions:	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Net cash received from Hitachi group cash management fund	¥ 1,375	¥ 2,845	$ 13,750

6. INCOME TAXES

The income tax expenses reflected in the consolidated statements of income for the years ended March 31, 2008 and 2007 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Current tax expenses	¥ 4,486	¥ 4,182	$ 44,860
Deferred tax expense	1,746	2,648	17,460
	¥ 6,232	¥ 6,830	$ 62,320

The Company is subject to a national corporate tax of 30%, an inhabitant tax of 20.5%, and a deductible business tax of 7.2%, which, in the aggregate, resulted in a combined statutory income tax rate of approximately 40.4% for the years ended March 31, 2008 and 2007.

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

	2008	2007
Normal statutory income tax rate	40.4%	40.4%
Entertainment expenses not deductible for tax purposes	1.3	1.3
Equity in earnings of affiliated companies	(4.1)	0.7
Change in valuation allowance	(2.3)	1.6
Other	0.1	(1.2)
Effective income tax rate	35.4%	42.8%

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

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Total gross deferred tax assets:			
Retirement and severance benefits	¥ 8,953	¥ 8,447	$ 89,530
Net operating loss carry forwards	—	3,719	—
Accrued bonus	2,731	2,697	27,310
Restructuring cost	—	232	—
Impairment losses	2,908	2,177	29,080
Net intercompany profit on inventories	378	307	3,780
Other	5,221	5,080	52,210
	20,191	22,659	201,910
Valuation allowance	(1,533)	(1,944)	(15,330)
	18,658	20,715	186,580
Total gross deferred tax liabilities:			
Net unrealized holding gains on securities	(1,054)	(2,181)	(10,540)
Gain on contribution to pension fund trusts	(1,283)	(1,396)	(12,830)
Tax purpose reserves regulated by Japanese tax law	(701)	(954)	(7,010)
Other	(486)	(286)	(4,860)
	(3,524)	(4,817)	(35,240)
Net deferred tax assets	¥ 15,134	¥ 15,898	$ 151,340

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

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Other current assets	¥ 5,052	¥ 6,844	$ 50,520
Other assets	10,461	9,412	104,610
Other liabilities	(379)	(358)	(3,790)
Net deferred tax assets	¥ 15,134	¥ 15,898	$ 151,340

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, at cost as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Land	¥ 9,143	¥ 9,329	$ 91,430
Buildings and structures	109,697	108,272	1,096,970
Machinery, vehicle and equipment	279,240	272,530	2,792,400
Construction in progress	7,875	6,759	78,750
	¥ 405,955	¥ 396,890	$ 4,059,550

8. SHORT-TERM AND LONG-TERM DEBT

Long-term debt as of March 31, 2008 and 2007 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Unsecured debentures:			
4th series, due 2010, interest 0.78%	¥ 5,000	¥ 5,000	$ 50,000
Loans, principally from banks and insurance companies:			
Unsecured, maturing 2008-2015, weighted-average interest 1.1%	18,500	18,407	185,000
	23,500	23,407	235,000
Less current portion	—	15,407	—
	¥ 23,500	¥ 8,000	$ 235,000

The aggregate annual maturities of long-term debt after March 31, 2009 are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2010	¥ 8,000	$ 80,000
	¥ 8,000	$ 80,000

The assets pledged as collateral for short-term and long-term debt at March 31, 2008 are as follows:

	Millions of yen	Thousands of U.S. dollars
Land	¥ 100	$ 1,000
Buildings and structures	30	300
Machinery and equipment	15	150
	¥ 145	$ 1,450

As is customary in Japan, both short-term and long-term bank loans are made under general agreements which provide that security 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 default, to offset cash deposits against such obligations due the bank.

Generally, 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 security or mortgages on property, plant and equipment.

9. RETIREMENT AND SEVERANCE BENEFITS

Defined Benefit Plans:

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

Under noncontributory 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. The liability under these plans is partially funded by contributions to pension fund trusts.

The Company and certain domestic subsidiaries also have cash balance pension plans. Under the plans, each participant has a notional account which is credited yearly based on the current rate of contribution and market-related interest rate.

Funded status of the Company's and subsidiaries' plans as of March 31, 2008 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Projected benefit obligations	¥ (88,734)	¥ (89,210)	$ (887,340)
Plan assets at fair value	60,021	70,087	600,210
Funded status	(28,713)	(19,123)	(287,130)
Unrecognized actuarial loss	12,920	4,563	129,200
Unrecognized prior service benefit	10	15	100
Net amount recognized in the consolidated balance sheets	¥ (15,783)	¥ (14,545)	$ (157,830)
Amounts recognize in the consolidated balance sheets consist of:			
Prepaid pension benefit cost	¥ 4,259	¥ 3,725	$ 42,590
Retirement and severance benefits	(20,042)	(18,270)	(200,420)
	¥ (15,783)	¥ (14,545)	$ (157,830)

Net periodic benefit costs for the Company's and subsidiaries' plans for the years ended March 31, 2008 and 2007 consisted of the following components:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Service cost, net of employees' contributions	¥ 2,857	¥ 2,914	$ 28,570
Interest cost	2,187	2,159	21,870
Expected return on plan assets	(1,533)	(1,459)	(15,330)
Amortization of unrecognized actuarial loss	1,785	1,955	17,850
Amortization of prior service benefit	5	38	50
Net periodic benefit cost	¥ 5,301	¥ 5,607	$ 53,010

Actuarial assumptions used in the accounting for the Company's and subsidiaries' plans are principally as follows:

	2008	2007
Discount rate	2.5%	2.5%
Expected return rate on plan assets	2.5%	2.5%

10. COMMON STOCK

Issued shares, changes in shares and the amount of common stock for the years ended March 31, 2008 and 2007 are summarized as follows:

		Millions of yen	Thousands of U.S. dollars
	Issued shares	Amount	Amount
Balance as of March 31, 2006	374,018,174	¥ 25,948	
Balance as of March 31, 2007	374,018,174	25,948	$ 259,480
Balance as of March 31, 2008	**374,018,174**	**¥ 25,948**	**$ 259,480**

11. STOCK-BASED COMPENSATION

As of March 31, 2008, the Company has six 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 approximately two years after the date of grant and expire five to ten years after the date of grant.

A summary of the Company's stock option plans activity for the year ended March 31, 2008 and 2007 are as follows:

	Shares	Yen	Shares	Yen	U.S.dollars
	Stock options	Weighted-average exercise price	Stock options	Weighted-average exercise price	Weighted-average exercise price
	2008		2007		2008
Outstanding at beginning of year	**1,538,000**	**¥ 701**	1,756,000	¥ 665	**$ 7.01**
Exercised	**(217,000)**	**482**	(218,000)	410	**4.82**
Outstanding at end of year	**1,321,000**	**¥ 737**	1,538,000	¥ 701	**$ 7.37**

The weighted average remaining contractual life is 2.7 years, and the number of exercisable stock options is 1,321,000 shares as of March 31, 2008.

12. NET ASSETS AND CASH DIVIDENDS

The Company's common stock has no par value in accordance with the Japanese Corporate Law (JCL). Under JCL, at least 50% of the amount actually paid in or provided in consideration for newly issued stocks is designated as stated common stock and proceeds in excess to the amount designated as stated common stock are credited as capital surplus.

The JCL requires an amount equal to at least 10% of distributions of retained earnings to be appropriated as legal reserve, which are included in capital surplus and retained earnings, until legal reserve equals 25% of stated common stock. In addition, common stock, capital surplus and retained earnings, including legal reserves, can generally be transferred to each other upon a resolution of the shareholders' meeting.

Cash dividends and bonuses to directors during the years ended March 31, 2008 and 2007 in the consolidated statements of changes in net assets, represent dividends and bonuses resolved during those years. The accompanying consolidated financial statements do not include any provision for the dividends of ¥4.25 ($0.04) per share totaling ¥1,545 million ($15,450 thousand), which were subsequently resolved by the Board of Directors in respect of the year ended March 31, 2008.

13. TREASURY STOCK

The Japanese Corporate Law (JCL) allows a company to acquire treasury stock upon shareholders' approval to the extent that sufficient distributable funds are available. If the Board of Directors' authority is stated in the articles of incorporation, a company is allowed to acquire treasury stock not upon shareholders' approval but Board of Directors' approval. In this connection, acquisition of treasury stock is allowed under the Company's articles of incorporation.

Pursuant to the provisions of the JCL, shareholders may request the Company to acquire their shares less than a minimum trading lot as shares less than a minimum trading lot cannot be publicly traded and such a shareholder holding less than a minimum trading lot cannot exercise a voting right and other shareholders' rights except as provided in the JCL or the articles of incorporation. The JCL also states that a shareholder holding shares less than a minimum trading lot may request the company to sell its treasury stock, if any, to the shareholder up to a minimum trading lot if entitled under the articles of incorporation. In this connection, sale of treasury stock is allowed under the Company's articles of incorporation.

14. SECURITIZATIONS

The Company transfers trade notes receivable and trade accounts receivable under several securitization programs. Trade notes receivables and trade accounts receivables that are securitized and off-balance sheet as of March 31, 2008 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Notes	¥ 15,865	¥ 18,807	$ 158,650
Accounts	16,912	20,537	169,120

15. COMMITMENTS AND CONTINGENCIES

The Company and its subsidiaries are contingently liable for loan guarantees to its affiliates in the amount of ¥4,759 million ($47,590 thousand) and ¥4,376 million at March 31, 2008 and 2007, respectively. The Company is also contingently liable for a letter of awareness to its affiliate in the amount of ¥556 million ($5,560 thousand) and ¥652 million at March 31, 2008 and 2007, respectively.

It is 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 transfer them by endorsement to suppliers in the settlement of accounts payable. The Company and its subsidiaries are contingently liable for trade notes endorsed, which amounted to ¥1,474 million ($14,740 thousand) and ¥2,387 million at March 31, 2008 and 2007, respectively.

16. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses included in general and administrative expenses and gross production cost for the years ended March 31, 2008 and 2007 amounted to ¥10,526 million ($105,260 thousand) and ¥10,000 million, respectively.

17. IMPAIRMENT LOSSES FOR FIXED ASSETS

For the year ended March 31, 2008, the Company recognized impairment losses of ¥395 million ($3,950 thousand) on buildings, machinery and equipment, related to the bimetal TAB tape business located at the Densen Works in Hitachi city, Ibaraki Prefecture, and of ¥3,059 million ($30,590 thousand) on buildings, machinery and equipment, related to the TAB (Kofu) tape business located at the Kofu Plant in Kai city, Yamanashi Prefecture, as the business environment is expected to deteriorate. These fair values were estimated based on the market values. The Company also recognized impairment losses of ¥22 million ($220 thousand) on dormant assets as their market values are less than their respective carrying values. The fair value was estimated based on the assessed value of fixed assets. Furthermore, foreign and domestic subsidiaries recognized impairment losses of ¥58 million ($580 thousand) and ¥145 million ($1,450 thousand), respectively, on fixed assets, such as buildings, machinery and equipment, due to the management's decision on the disposals. These fair values were estimated based on the market values.

For the year ended March 31, 2007, the Company recognized ¥2,183 million of impairment losses on fixed assets, such as buildings, machinery and equipment, related to the bimetal TAB tape business located at the Densen Plant in Hitachi city, Ibaragi Prefecture, as the business is expected to decrease as life cycles of the main products end. The fair value was estimated based on the future cash flows discounted at 4.5%. Foreign subsidiaries also recognized impairment losses of ¥348 million on buildings and machinery related to the automotive wiring (AV wiring) business located in Philippines and ¥137 million on land and machinery related to the magnet wire business located in Malaysia, respectively, due to a decline in the profitability corresponding to a change in the business environment. These fair values were estimated based on the market values. Furthermore, the Company and domestic subsidiaries recognized impairment losses of ¥446 million and ¥224 million, respectively, on dormant assets as the Company has no intent to use these assets and their market values are less than their respective carrying values. These fair values were estimated based on the real-estate appraisal values or the market values.

18. PER SHARE INFORMATION

The reconciliation of the number of shares and the amounts used in the basic and diluted net income per share computations is as follows:

	Thousands of shares	
	2008	2007
Weighted average number of shares on which basic net income per share is calculated	363,474	363,278
Effect of dilutive securities;		
Stock option	153	172
Number of shares on which diluted net income per share is calculated	363,627	363,450

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Net income	¥ 10,708	¥ 8,662	$ 107,080
Net income not applicable to common stockholders	—	—	—
Net income on which basic net income per share is calculated	10,708	8,662	107,080
Effect of dilutive securities	—	—	—
Net income on which diluted net income per share is calculated	¥ 10,708	¥ 8,662	$ 107,080

	Yen		U.S. dollars
	2008	2007	2008
Net income per share:			
Basic	¥ 29.46	¥ 23.84	$ 0.29
Diluted	29.45	23.83	0.29

Net assets, excluding minority interests, per share as of March 31, 2008 and 2007 are as follows:

	Yen		U.S. dollars
	2008	2007	2008
Basic	¥ 543.09	¥ 523.60	$ 5.43

19. SUPPLEMENTARY CASH FLOW INFORMATION

Cash paid for interest and income taxes is as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Cash paid during the year for:			
Interest	¥ 1,573	¥ 1,574	$ 15,730
Income taxes	5,052	2,559	50,520

For the purpose of the statements of cash flows, the Company considers all highly liquid investments with insignificant risk of changes in value that have maturities of generally three months or less when purchased to be cash equivalents. Cash and cash equivalents at March 31, 2008 classified by account on the balance sheets were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Cash on hand and at bank	¥ 9,902	¥ 9,192	$ 99,020
Bank deposit with maturity over 3 months	—	(23)	—
Cash and cash equivalents	9,902	9,169	99,020

20. FINANCIAL INSTRUMENTS AND DERIVATIVE FINANCIAL INSTRUMENTS

The Company and certain subsidiaries operate globally and are exposed to market risks arising from fluctuations in foreign currency exchange rates, interest rates and commodity prices. In order to manage those risks, the Company and certain subsidiaries enter into various agreements on derivative financial instruments, including forward exchange contracts, currency option contracts, interest rate swap agreements and commodity swap agreements. Forward exchange contracts and currency option contracts are utilized to manage risks arising from foreign currency receivables from export of finished goods and foreign currency payables from the import of raw materials. Interest rate swap agreements are utilized to manage interest rate risk for debts. Commodity swap agreements are utilized to manage the commodity price fluctuation risk on purchased raw materials. The Company and its subsidiaries have no derivative financial instruments for speculation purposes. In addition, the Company and its subsidiaries are exposed to potential credit-related losses in the event of non-performance by counterparties to financial instruments and derivative financial instruments, but it is not expected that any counterparties will fail to meet their obligations, because most of the counterparties are authentic financial institutions.

The Company and its subsidiaries have also developed hedging policies to control various aspects of derivative financial transactions including authorization levels and transaction volumes. Based on these policies, the Company and its subsidiaries hedge, within certain scopes, risks arising from changes in foreign currency exchange rates, interest rates and commodity prices. The Company and its subsidiaries review periodically the effectiveness of all the hedge policies to take account of the cumulative cash flows and any changes in the market.

The estimated fair values of the derivative financial instruments by major instrument types as of March 31, 2008 and 2007 are as follows:

	Millions of yen					
	Notional amounts	Estimated fair values	Unrealized gains (losses)	Notional amounts	Estimated fair values	Unrealized gains (losses)
		2008			2007	
Forward exchange contracts:						
To sell foreign currencies						
U.S. dollar	¥ 6,526	¥ 6,518	¥ 8	¥ 9,464	¥ 9,423	¥ 41
Singapore dollar	157	155	2	—	—	—
	6,683	6,673	10	9,464	9,423	41
To buy foreign currencies						
U.S. dollar	¥ 17	¥ 15	¥ (2)	¥ —	¥ —	¥ —
Japan Yen	274	281	7	—	—	—
	291	296	5	—	—	—

	Thousands of U.S. dollars		
	Notional amounts	Estimated fair values	Unrealized gains (losses)
		2008	
Forward exchange contracts:			
To sell foreign currencies			
U.S. dollar	$ 65,260	$ 65,180	$ 80
Singapore dollar	1,570	1,550	20
	66,830	66,730	100
To buy foreign currencies			
U.S. dollar	170	150	(20)
Japan Yen	2,740	2,810	70
	2,910	2,960	50

21. LEASES

Lessee

Finance leases (without transfer of legal title) are mainly accounted for as operating leases. For the years ended March 31, 2008 and 2007, lease payments of ¥634 million ($6,340 thousand) and ¥640 million, respectively, under such finance leases were included in earnings. On a pro forma basis, leased property, lease obligation and the related expenses with assumed capitalization of such finance leases are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Leased property:			
Equipment, at cost	¥ 3,521	¥ 3,635	$ 35,210
Less accumulated depreciation	(1,527)	(1,430)	(15,270)
Less accumulated impairment losses	(428)	(428)	(4,280)
Net equipment	¥ 1,566	¥ 1,777	$ 15,660
Depreciation expenses	¥ 574	¥ 581	$ 5,740
Lease obligation:			
Within one year	¥ 587	¥ 603	$ 5,870
After one year	1,485	1,776	14,850
Total	¥ 2,072	¥ 2,379	$ 20,720
Interest expense	¥ 42	¥ 41	$ 420

Leased property is depreciated over the lease term by the straight-line method with no residual value. Excess of total lease payments over the assumed acquisition costs is regarded as assumed interest payable and is allocated to each period using the interest method.

22. SEGMENT INFORMATION

The Company and its subsidiaries' operations were organized into four business segments: "Wires and cables," "Information and telecommunications networking," "Sophisticated materials," and "Other businesses." The main products of each business segment are as follows:

Segment	Major products
Wires and cables	Industrial cables, magnet wires, electronic wires, wiring devices, cables for power use (aluminum wires, constructions), etc.
Information and telecommunications networking	Information networks (information network equipment, network integration, optical components), wireless systems, telecommunications cables (optical submarine cables, fiber optic cables, metal telecommunications cables.), etc.
Sophisticated materials	Compound semiconductors, auto parts (hoses, sensors, etc.), semiconductor packaging materials (TAB, lead frames), copper products (copper tubes, copper strips, copper products for electrical use), etc.
Other businesses	Logistics, etc.

Business segment information:

	Millions of yen						
	2008						
	Wires and cables	Information and telecommunications networking	Sophisticated materials	Other businesses	Total	Eliminations	Consolidated
Sales to outside customers	¥ 285,051	¥ 80,934	¥ 196,561	¥ 3,448	¥ 565,994	¥ —	¥ 565,994
Intersegment sales	12,655	7,959	8,254	13,938	42,806	(42,806)	—
	297,706	88,893	204,815	17,386	608,800	(42,806)	565,994
Operating expenses	286,360	81,903	200,657	16,733	585,653	(42,776)	542,877
Operating income	¥ 11,346	¥ 6,990	¥ 4,158	¥ 653	¥ 23,147	¥ (30)	¥ 23,117
Assets	¥ 154,957	¥ 61,098	¥ 147,861	¥ 3,426	¥ 367,342	¥ 2,785	¥ 370,127
Depreciation and amortization of tangible and intangible fixed assets	5,646	3,361	11,290	206	20,503	—	20,503
Impairment losses	151	9	3,519	—	3,679	—	3,679
Capital expenditures	7,819	3,145	16,700	159	27,823	—	27,823

	Millions of yen						
	2007						
	Wires and cables	Information and telecommunications networking	Sophisticated materials	Other businesses	Total	Eliminations	Consolidated
Sales to outside customers	¥ 275,116	¥ 69,871	¥ 195,140	¥ 4,117	¥ 544,244	¥ —	¥ 544,244
Intersegment sales	11,402	4,322	8,953	13,685	38,362	(38,362)	—
	286,518	74,193	204,093	17,802	582,606	(38,362)	544,244
Operating expenses	273,728	71,897	196,799	17,204	559,628	(38,367)	521,261
Operating income	¥ 12,790	¥ 2,296	¥ 7,294	¥ 598	¥ 22,978	¥ 5	¥ 22,983
Assets	¥ 152,150	¥ 58,298	¥ 146,434	¥ 3,128	¥ 360,010	¥ 1,882	¥ 361,892
Depreciation and amortization of tangible and intangible fixed assets	5,275	3,107	10,457	169	19,008	—	19,008
Impairment losses	294	—	3,044	—	3,338	—	3,338
Capital expenditures	5,521	2,513	13,296	125	21,455	—	21,455

	Thousands of U.S. dollars						
	2008						
	Wires and cables	Information and telecommunications networking	Sophisticated materials	Other businesses	Total	Eliminations	Consolidated
Sales to outside customers	$2,850,510	$ 809,340	$1,965,610	$ 34,480	$5,659,940	$ —	$5,659,940
Intersegment sales	126,550	79,590	82,540	139,380	428,060	(428,060)	—
	2,977,060	888,930	2,048,150	173,860	6,088,000	(428,060)	5,659,940
Operating expenses	2,863,600	819,030	2,006,570	167,330	5,856,530	(427,760)	5,428,770
Operating income	$ 113,460	$ 69,900	$ 41,580	$ 6,530	$ 231,470	$ (300)	$ 231,170
Assets	$1,549,570	$ 619,980	$1,478,610	$ 34,260	$3,673,420	$ 27,850	$3,701,270
Depreciation and amortization of tangible and intangible fixed assets	56,460	33,610	112,900	2,060	205,030	—	205,030
Impairment losses	1,510	90	35,190	—	36,790	—	36,790
Capital expenditures	78,190	31,450	167,000	1,590	278,230	—	278,230

Geographic segment information:

	Millions of yen				
	2008				
	Japan	Others	Total	Eliminations	Consolidated
Sales to outside customers	¥ 443,765	¥ 122,229	¥ 565,994	¥ —	¥ 565,994
Intersegment sales	39,809	7,969	47,778	(47,778)	—
	483,574	130,198	613,772	(47,778)	565,994
Operating expenses	463,671	126,966	590,637	(47,760)	542,877
Operating income	¥ 19,903	¥ 3,232	¥ 23,135	¥ (18)	¥ 23,117
Assets	¥ 329,137	¥ 77,666	¥ 406,803	¥ (36,676)	¥ 370,127

	Millions of yen				
	2007				
	Japan	Others	Total	Eliminations	Consolidated
Sales to outside customers	¥ 421,230	¥ 123,014	¥ 544,244	¥ —	¥ 544,244
Intersegment sales	39,703	6,804	46,507	(46,507)	—
	460,933	129,818	590,751	(46,507)	544,244
Operating expenses	440,840	126,915	567,755	(46,494)	521,261
Operating income	¥ 20,093	¥ 2,903	¥ 22,996	¥ (13)	¥ 22,983
Assets	¥ 329,223	¥ 68,282	¥ 397,505	¥ (35,613)	¥ 361,892

	Thousands of U.S. dollars				
	2008				
	Japan	Others	Total	Eliminations	Consolidated
Sales to outside customers	$ 4,437,650	$ 1,222,290	$ 5,659,940	$ —	$ 5,659,940
Intersegment sales	398,090	79,690	477,780	(477,780)	—
	4,835,740	1,301,980	6,137,720	(477,780)	5,659,940
Operating expenses	4,636,710	1,269,660	5,906,370	(477,600)	5,428,770
Operating income	$ 199,030	$ 32,320	$ 231,350	$ (180)	$ 231,170
Assets	$ 3,291,370	$ 776,660	$ 4,068,030	$ (366,760)	$ 3,701,270

Overseas sales:

Overseas sales, which include export sales by the Company and its domestic subsidiaries and sales (other than exports to Japan) by the foreign consolidated subsidiaries, are summarized as follows:

	Millions of yen				Thousands of U.S. dollars
	2008		2007		2008
	Amount	Percentage of consolidated net sales	Amount	Percentage of consolidated net sales	Amount
Overseas sales:					
Asia	¥ 117,487	20.8%	¥ 118,322	21.7%	$ 1,174,870
North America	37,148	6.6%	30,774	5.7%	371,480
Others	7,133	1.2%	9,022	1.7%	71,330
	¥ 161,768	28.6%	¥ 158,118	29.1%	$ 1,617,680
Consolidated net sales	¥ 565,994	100.0%	¥ 544,244	100.0%	$ 5,659,940

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Report of Independent Auditors

The Board of Directors and Stockholders
Hitachi Cable, Ltd.

We have audited the accompanying consolidated balance sheets of Hitachi Cable, Ltd. and consolidated subsidiaries as of March 31, 2007 and 2008, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hitachi Cable, Ltd. and consolidated subsidiaries at March 31, 2007 and 2008, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

June 27, 2008

Ernst & Young ShinNihon

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