

3. Financial Condition

Summary of Cash Flows

(Billion Yen)

	FY 2005	Change from FY 2004
Cash Flows from Operating Activities	405.5	128.3
[Internal Reserve]	[372.3]	[98.8]
[Increase/Decrease in Working Capital]	[33.2]	[29.5]
Cash Flows from Investing Activities	-234.6	-219.5
[From business operations]	[-234.6]	[-51.2]
Free Cash Flow	170.8	-91.2
[From business operations]	[170.8]	[77.1]

Net cash provided by operating activities during fiscal 2005 was 405.5 billion yen, exceeding 400.0 billion yen for the first time in five years. This represents an increase of 128.3 billion yen compared with the previous fiscal year, resulting from an increase in internal reserve due to the recovery in principal business operations, and greater efficiency in the use of assets through an improvement in working capital.

Net cash used in investing activities was 234.6 billion yen, an increase in outflows of 219.5 billion yen compared with the previous fiscal year. Excluding the impact of the sale of marketable securities in fiscal 2004, outflows increased by 51.2 billion yen. The increase was primarily attributable to higher capital expenditures, including for the 300mm wafer semiconductor production facility (Building No. 1) at the Mie Plant.

Free cash flow, the sum of operating and investment cash flows, was positive 170.8 billion yen. Excluding the impact of the sale of marketable securities in fiscal 2004, this represents an increase in free cash flow of 77.1 billion yen over fiscal 2004.

Net cash used in financing activities was 207.8 billion yen, as free cash flow was used to repay borrowings.

As a result of the above factors, cash and cash equivalents at the end of the fiscal year were 420.8 billion yen.

Assets, Liabilities and Shareholders' Equity

(Billion Yen, except for D/E Ratio)

	FY 2005	Change from FY 2004
Total Assets	3,807.1	166.9
Interest-Bearing Loans	928.6	-154.1
[Net Interest-Bearing Loans]	[507.2]	[-120.7]
Shareholders' Equity	917.0	60.0

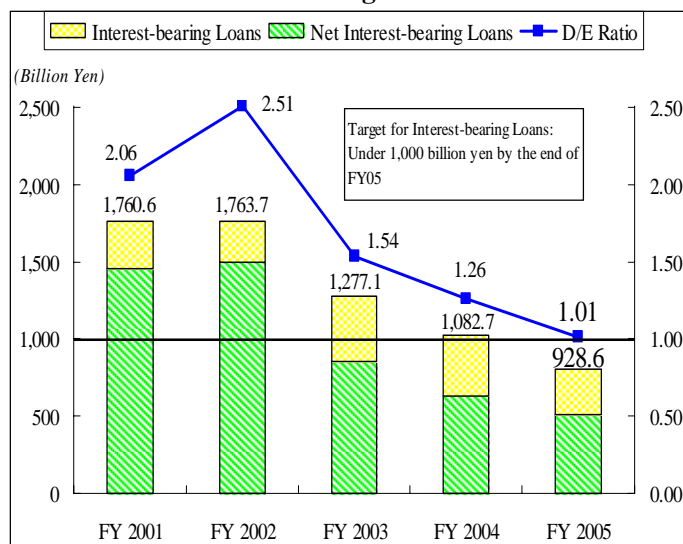
D/E Ratio	1.01	-0.25
[Net D/E Ratio]	[0.55]	[-0.18]

Total assets at the end of fiscal 2005 were 3,807.1 billion yen, an increase of 166.9 billion yen from the end of the previous fiscal year.

Total current assets were 1,932.7 billion yen, a decrease of 48.7 billion yen from the end of the last fiscal year. Total fixed assets increased to 1,874.3 billion yen, up 215.7 billion yen compared to the end of the last fiscal year. This was primarily due to an increase in property, plant and

equipment less accumulated depreciation from capital expenditures and an increase in the market value of marketable securities. Even excluding the impact of a 59.3 billion yen reduction relating to the change in accounting policies and a 9.3 billion yen reduction due to restructuring during the period, inventories decreased 1.2 billion yen from the end of the previous fiscal year.

Trends in Interest-bearing Loans and D/E Ratio



Total liabilities were 2,717.0 billion yen, an increase of 98.0 billion yen compared to the end of the previous fiscal year. There was a large one-time increase in accrued severance benefit associated with the change in pension accounting for our UK subsidiaries, whereby unrecognized pension obligations were recorded as liabilities. The balance of interest-bearing loans totaled 928.6 billion yen at fiscal year-end, achieving the target of 1,000 billion yen or less as a result of loan repayments.

Total shareholders' equity was 917.0 billion yen, an increase of 60.0 billion

yen over the end of fiscal 2004. The increase was primarily attributable to increased profits and unrealized gains on marketable securities as a result of the rise in the stock market.

As a result of the foregoing, the D/E ratio nearly reached our mid-range target level of 1.0 and the shareholders' equity ratio rose to 24.1%, reflecting the continuing improvement in the company's overall financial condition.

For Reference: Major Financial Indices

(Billion Yen, except for ratio and period items)

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Net Sales	5,006.9	4,617.5	4,766.8	4,762.7	4,791.4
Operating Income Margin	-1.5%	2.2%	3.2%	3.4%	3.8%
Inventories	635.9	595.9	521.1	478.5	408.7
(Inventory Turnover Ratio)	(6.53)	(7.50)	(8.53)	(9.53)	(10.80)
(Monthly Inventory Turnover)	(0.50 times)	(0.59 times)	(0.64 times)	(0.71 times)	(0.88 times)
Total Assets	4,595.8	4,225.3	3,865.5	3,640.1	3,807.1
(Total Assets Turnover Ratio)	(1.02)	(1.05)	(1.18)	(1.27)	(1.29)
Shareholders' Equity	853.7	702.3	827.1	856.9	917.0
(Shareholders' Equity Ratio)	(18.6%)	(16.6%)	(21.4%)	(23.5%)	(24.1%)
Market Value-based Shareholders' Equity Ratio	43.8%	15.2%	34.4%	36.6%	53.9%

Interest-Bearing Loans	1,760.6	1,763.7	1,277.1	1,082.7	928.6
Net Interest-Bearing Loans	1,460.0	1,500.5	861.2	628.0	507.2
D/E Ratio	2.06	2.51	1.54	1.26	1.01
Net D/E Ratio	1.71	2.14	1.04	0.73	0.55

Cash Flows from Operating Activities	306.5	117.7	304.0	277.2	405.5
Free Cash Flow	-102.8	53.3	371.4	262.1	170.8

Debt Repayment Period	5.7 years	15.0 years	4.2 years	3.9 years	2.3 years
Interest Coverage Ratio	7.1	3.9	13.0	15.2	21.3

Note:

Inventory Turnover Ratio:

Monthly Inventory Turnover:

Total Assets Turnover Ratio:

Shareholders' Equity Ratio:

Market Value-based Shareholders' Equity Ratio:

Net Interest-Bearing Loans:

D/E Ratio:

Net D/E Ratio:

Debt Repayment Period:

Interest Coverage Ratio:

Net Sales ÷ {(Beginning Balance of Inventories + Ending Balance of Inventories) ÷ 2}

Net Sales ÷ Average Inventories during Period ÷ 12

Net Sales ÷ {(Beginning Balance of Total Assets + Ending Balance of Total Assets) ÷ 2}

Shareholders' Equity ÷ Total Assets

Market Capitalization ÷ Total Assets

Interest-Bearing Loans – Cash Equivalents

Interest-Bearing Loans ÷ Shareholders' Equity

(Interest-Bearing Loans – Cash Equivalents) ÷ Shareholders' Equity

Interest-Bearing Loans ÷ Cash Flows from Operating Activities

Cash Flows from Operating Activities ÷ Interest Expense