

3. Financial Condition

Summary of Cash Flows

	(Billion Yen)	
	FY 2004	Change from FY 2003
Cash flows from operating activities	277.2	-26.8
(Internal reserve)	(273.5)	(77.2)
(Decrease in working capital)	(3.7)	(-104.0)
Cash flows from investing activities	-15.1	-82.5
(From business operations)	(-183.4)	(31.4)
Free cash flow	262.1	-109.3
(From business operations)	(93.7)	(4.6)

Net cash provided by operating activities during the fiscal year was 277.2 billion yen, roughly in line with the approximately 300 billion yen recorded in fiscal 2003. Internal reserve increased due to a significant increase in profit before extraordinary items, and working capital decreased due to such factors as the payment of accounts payable in our domestic Solutions/Systems Integration business.

Net cash used in investing activities was 15.1 billion yen. Outflows for capital expenditures roughly balanced out inflows from sales of marketable securities.

Free cash flow was a positive 262.1 billion yen and was used to redeem corporate bonds and repay borrowings. Net cash used in financing activities was 212.0 billion yen. Excluding extraordinary items such as gains from the sales of marketable securities, free cash flow from our business operations was positive 93.7 billion yen, an increase in cash inflows of 4.6 billion yen over the previous fiscal year.

Cash and cash equivalents stood at 454.5 billion yen at the end of the period, 40.6 billion yen more than at year-end in fiscal 2003.

Assets, Liabilities and Shareholders' Equity

	(Billion Yen)	
	As of March 31, 2005	Change from March 31, 2004
Total assets	3,640.1	-225.3
(Cash and cash equivalents and short-term investments)	(457.1)	(40.2)
Interest-bearing loans	1,082.7	-194.3
Total shareholders' equity	856.9	29.8

Total assets at the end of fiscal 2004 were 3,640.1 billion yen, a reduction of 225.3 billion yen from the end of the previous fiscal year.

Total current assets were 1,981.5 billion yen, a reduction of 34.0 billion yen from the end of the last fiscal year. Increased efforts in manufacturing innovation helped to reduce inventories.

Total fixed assets decreased by 191.3 billion yen from the end of the prior fiscal year, to 1,658.6 billion yen. Property, plant, and equipment less accumulated depreciation decreased by 75.1 billion yen, due to such factors as the shift to the equity method of accounting for our compound

semiconductor business and the transfer of our plasma display panel operations, and investments and long-term loans were reduced by 120.5 billion yen as a result of sales of marketable securities and the posting of a valuation allowance for deferred tax assets.

Total liabilities were 2,619.0 billion yen, a reduction of 228.9 billion yen compared to the end of the prior fiscal year. Reflecting primarily corporate bond redemptions and repayment of borrowings, interest-bearing loans were reduced by 194.3 billion yen. Along with this, we improved our D/E ratio by 0.28 to 1.26.

Total shareholders' equity increased by 29.8 billion yen, to 856.9 billion yen. In addition to recording a net profit for the fiscal year, capital surplus increased in conjunction with making Fujitsu Support and Service Inc. a wholly owned subsidiary via an exchange of shares. The shareholders' equity ratio increased by 2.1 percentage points to 23.5%.

(For Reference) Financial Index

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	(Billion Yen) Change from FY 2000
Net sales	5,484.4	5,006.9	4,617.5	4,766.8	4,762.7	-721.6
Operating margin	4.4%	-1.5%	2.2%	3.2%	3.4%	-1.0%
Total assets	5,200.0	4,595.8	4,225.3	3,865.5	3,640.1	-1,559.8
(Total assets turnover ratio)	(1.07 times)	(1.02 times)	(1.05 times)	(1.18 times)	(1.27 times)	(0.20 times)
Shareholders' equity	1,214.3	853.7	702.3	827.1	856.9	-357.3
(Shareholders' equity ratio)	(23.4%)	(18.6%)	(16.6%)	(21.4%)	(23.5%)	(0.1%)
Shareholders' equity ratio at market value	63.5%	43.8%	15.2%	34.4%	36.6%	-26.9%
Debt repayment period	2.7 years	5.7 years	15.0 years	4.2 years	3.9 years	1.2 years
Interest coverage ratio	12.2	7.1	3.9	13.0	15.2	3.0
Interest-bearing loans	1,636.2	1,760.6	1,763.7	1,277.1	1,082.7	-553.4
Ending balance of net interest-bearing loans	1,347.2	1,460.0	1,500.5	861.2	628.0	-719.1
D/E ratio	1.35	2.06	2.51	1.54	1.26	-0.09
Cash flows from operating activities	596.4	306.5	117.7	304.0	277.2	-319.2
Free cash flow	129.6	-102.8	53.3	371.4	262.1	132.4

Note 1:

- Total assets turnover ratio: net sales / {(ending balance of total assets in current period + ending balance of total assets in previous period) / 2}
- Shareholders' equity ratio: balance of shareholders' equity / balance of total assets
- Shareholders' equity ratio at market value: total market capitalization / total assets
- Debt repayment period: balance of interest-bearing loans / cash flows from operating activities
- Interest coverage ratio: cash flows from operating activities / interest paid
- Ending balance of net interest-bearing loans: ending balance of interest-bearing loans – ending balance of cash and cash equivalents
- D / E ratio: balance of interest-bearing loans / balance of shareholders' equity

Note 2: The above are all calculated based on consolidated financial data.