

4. Financial Condition

Assets, Liabilities and Shareholders' Equity

(Billion Yen)		
	End of First Half FY 2004	Change from End of FY 2003
Total assets [Cash and cash equivalents and short-term investments]	3,561.4 [216.9]	- 304.1 [- 199.9]
Interest-bearing loans	1,124.9	- 152.2
Shareholders' equity [Shareholders' equity ratio]	803.0 [22.5%]	- 24.1 [+ 1.1%]
D/E ratio	1.40	- 0.14

Total assets at the end of the first half were 3,561.4 billion yen, a decrease of 304.1 billion yen compared to the end of fiscal 2003.

Total current assets were 1,727.4 billion yen, down 288.1 billion yen from the end of the previous fiscal year. While inventories increased to support higher anticipated sales in the second half and beyond, trade receivables that had resulted from the concentration of sales at the end of the prior fiscal year decreased, and cash on hand was drawn down for bond redemptions as well as the payment of trade payables and operating expenses.

Total fixed assets were 1,833.9 billion yen, a decrease of 16.0 billion yen compared to the end of the last fiscal year. This was primarily due to a decrease in property, plant and equipment less accumulated depreciation resulting from the reorganization of our compound semiconductor business.

Total liabilities were 2,572.6 billion yen, a reduction of 275.2 billion yen compared to the end of the previous fiscal year. This was largely because interest-bearing loans were reduced by 152.2 billion yen due to the redemption of bonds and because trade payables from the end of the previous fiscal year were paid down. As a result of the decrease in interest-bearing loans, the D/E ratio improved by 0.14 from the end of fiscal 2003 to 1.40, bringing it below the 1.50 mark.

Total shareholders' equity declined to 803.0 billion yen as a result of the net loss for the half and a decrease in the unrealized gains on marketable securities and other assets held. Nevertheless, because of the degree to which the reduction in total assets exceeded the decline in shareholders' equity, the shareholders' equity ratio improved 1.1% over the end of the prior fiscal year to 22.5%.

Summary of Cash Flows

(Billion Yen)		
	First Half FY 2004	Change from First Half FY 2003
Cash flows from operating activities	50.1	12.7
Cash flows from investing activities	- 55.6	- 25.3
Free cash flow	- 5.4	- 12.5

Net cash provided by operating activities in the first half was 50.1 billion yen. Profits from business operations exceeded the requirements for working funds. Compared to the same period in

the preceding fiscal year, this represented an improvement of 12.7 billion yen, resulting from improved earnings.

Net cash used in investing activities was 55.6 billion yen, related primarily to expenditures in plant and equipment. This represented increased outflow of 25.3 billion yen from the same period in the prior fiscal year, when there was an 85.5 billion yen inflow of cash as a result of the sales of investment securities.

Free cash flow was negative 5.4 billion yen. Excluding the impact of last year's sales of investment securities, this represented an improvement of 73.0 billion yen over the same period in fiscal 2003.

As a result of applying cash on hand to the redemption of bonds and other payments, cash flows from financing activities were negative 184.8 billion yen.

Combining the effect of all of the above factors, cash and cash equivalents at the end of the half stood at 212.8 billion yen, a decrease of 200.9 billion yen from the end of the prior fiscal year.