

4. Financial Condition

Assets, Liabilities and Shareholders' Equity

(Billion Yen)

	First Quarter FY 2004	Change from FY 2003 Year-End
Total Assets	3,607.5	- 258.0
(Cash, Deposits and Marketable Securities)	(249.8)	(- 167.0)
Interest-Bearing Loans	1,230.8	- 46.2
Shareholders' Equity	815.2	- 11.9

Debt/Equity Ratio	1.51	- 0.03
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Total assets at the end of the first quarter were 3,607.5 billion yen, a decrease of 258.0 billion yen compared to the end of the previous fiscal year, as we further increased asset utilization efficiency. During this period we moved our compound semiconductor business to a joint venture with Sumitomo Electric Industries and now account for that business under the equity method.

Total current assets were 1,730.9 billion yen, down 284.6 billion yen from the end of the last fiscal year. While inventories increased to support higher anticipated sales in the second quarter 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 payment of trade payables and operating expenses.

Total fixed assets were 1,876.6 billion yen, an increase of 26.5 billion yen from the end of the prior fiscal year. While property, plant and equipment decreased, investments and other assets increased because of higher market prices for marketable securities and other factors.

Total liabilities were 2,610.6 billion yen, a reduction of 237.2 billion yen compared to the end of the previous fiscal year. This was largely because trade payables were paid and corporate bonds were redeemed. Interest-bearing loans totaled 1,230.8 billion yen, a reduction of 46.2 billion yen from the end of the preceding fiscal year. The debt/equity ratio also continued to improve toward the targeted ratio of 1.0, ending the first quarter at 1.51. Net interest-bearing loans (total interest-bearing loans less cash and cash equivalents) increased, however, by 121.0 billion yen because the reduction of cash on hand exceeded the amount of bond redemptions.

Total shareholders' equity declined by 11.9 billion yen from the end of the preceding fiscal year, to 815.2 billion yen as a result of the net loss for the quarter. Because the reduction in total assets exceeded the decrease in equity, however, the shareholders' equity ratio improved 1.2% over the end of the prior fiscal year, to 22.6%.

Summary of Cash Flows

(Billion Yen)

	First Quarter FY 2004	Change from First Quarter FY 2003
Cash Flows from Operating Activities	- 53.6	+ 32.2
Cash Flows from Investing Activities	- 35.1	- 40.6
Free Cash Flow	- 88.7	- 8.4

Net cash used in operating activities in the first quarter of fiscal 2004 was 53.6 billion yen. Although there was an increase in cash flow as a result of the collection of trade receivables booked at the end of the preceding fiscal year, this was offset by the outflow due to the expansion of inventories in anticipation of higher sales starting in the second quarter. Compared to the same period last year, this marked an improvement of 32.2 billion yen, resulting from the greater profitability of business operations and higher efficiency in the management of working capital, particularly inventories.

Net cash used in investing activities was 35.1 billion yen, related primarily to expenditures in plant and equipment. This represented a deterioration of 40.6 billion yen from the same period in the preceding fiscal year when there was an inflow of cash as a result of the sales of investment securities, including shares in Fanuc Ltd.

Free cash flow, the sum of operating and investing cash flows, was a negative 88.7 billion yen, representing an increase in outflows of 8.4 billion yen over the same period last year. If, however, the effects of prior gains from the sales of investment securities are factored out, there was an improvement of 53.0 billion yen.

As a result of applying cash on hand to the redemption of bonds and the payment of dividends, net cash used in financing activities was 67.0 billion yen.

Combining the effect of all of the above factors, total cash and cash equivalents at the end of the quarter were 246.5 billion yen, a decrease of 167.2 billion yen from the end of the prior fiscal year.