

6. Financial Condition

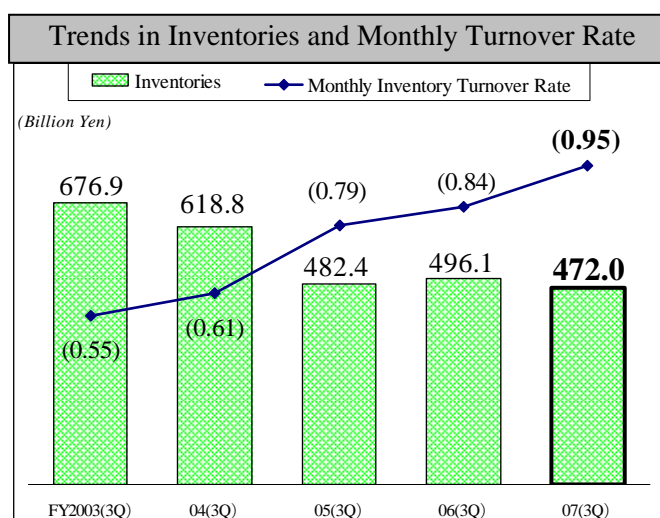
Assets, Liabilities, and Net Assets

(Billion Yen)

	Third Quarter FY 2007	Change from Third Quarter FY 2006	First Half FY 2007	Change from First Half FY 2006
Total assets	4,041.4	253.6	4,200.1	-158.6
[Inventories]	[472.0]	[-24.1]	[431.9]	[40.1]
Interest-bearing loans	1,032.8	178.7	1,117.0	-84.2
[Net interest-bearing loans]	[464.5]	[-146.1]	[331.3]	[133.2]
Net assets	1,114.1	-5.7	1,125.8	-11.7
[Capital surplus]	[249.0]	[-248.9]	[249.0]	[-]
[Retained earnings]	[284.4]	[325.9]	[285.5]	[-1.0]
D/E ratio	1.11	0.19	1.17	-0.06
[Net D/E ratio]	[0.50]	[-0.15]	[0.35]	[0.15]

Total assets at the end of the third quarter were 4,041.4 billion yen (US\$36,084 million), an increase of 253.6 billion yen compared to the same period in fiscal 2006, primarily resulting from an increase in current assets. The increase in current assets reflected a larger cash position and holdings of investment securities resulting from the issuance of convertible bonds in August to redeem convertible bonds maturing in 2009. In addition, there was an increase in trade receivables associated with the higher level of sales. Inventories stood at 472.0 billion yen, a reduction of 24.1 billion yen compared to the end of the same period in the preceding fiscal year. The monthly inventory turnover ratio, which is an indication of asset efficiency, improved by 0.11 to 0.95 times. In non-current assets, the value of holdings of investment securities decreased as a result of a decline in market prices and sales of shares in Fanuc Ltd. during the fourth quarter of the last fiscal year.

Total liabilities were 2,927.3 billion yen (US\$26,137 million), an increase of 259.3 billion yen over the end of the same period of the prior fiscal year, mainly as a result of an increase in interest-bearing debt. The balance of interest-bearing debt totaled 1,032.8 billion yen at the end of the third quarter, and the D/E ratio was 1.11 times. The net balance of interest-bearing debt at the end of the quarter after deducting the balance of cash and cash-equivalents, however, was 464.5 billion yen and the net D/E ratio was 0.50 times.



Net assets were 1,114.1 billion yen (US\$9,947 million), about the same level as at the end of the same quarter in fiscal 2006. Shareholders' equity increased, but valuation and translation adjustments decreased due to the impact of lower share prices of listed securities and other factors. In accordance with a resolution by the Board of Directors, capital surplus of 240.4 billion yen has been transferred from "other capital surplus" to "other retained earnings."

Summary of Cash Flows

(Billion Yen)

	Third Quarter FY 2007	Change from Third Quarter FY 2006	Total from First 9 Months of FY 2007	Change from First 9 Months of FY 2006	<i>Change excluding impact of settlement dates falling on non- trading days</i>
Cash flows from operating activities	-31.8	47.8	120.1	15.8	73.6
Cash flows from investing activities	-84.7	-31.7	-216.6	-44.7	-14.0
Free cash flow	-116.6	16.1	-96.5	-28.8	59.6
Cash flows from financing activities	-99.7	-58.5	215.5	330.2	

Net cash used in operating activities during the third quarter was 31.8 billion yen (US\$285 million), primarily as a result of higher inventories in anticipation of higher sales in the fourth quarter. Compared to the same period in fiscal 2006, this represents an increase in cash flow of 47.8 billion yen due primarily to the increase in operating income.

Net cash used in investing activities was 84.7 billion yen (US\$756 million), primarily relating to capital expenditures. Although the level of capital expenditures was roughly equivalent to spending in the same period last year, in last year's third quarter there was an inflow of 33.6 billion yen resulting from the sale of investment securities, so in this period there was an increase in net cash outflow of 31.7 billion yen on a year-over-year basis.

Free cash flow, the sum of operating and investing cash flows, was negative 116.6 billion yen (US\$1,041 million), which represents an improvement of 16.1 billion yen compared to the same period in fiscal 2006.

Net cash flow provided by financing activities was negative 99.7 billion yen (US\$890 million), primarily as the result of the redemption of 100.0 billion yen in corporate bonds.

Combining the effects of all of the above factors, cash and cash-equivalents at the end of the third quarter totaled 568.2 billion yen (US\$5,074 million), a decrease of 217.4 billion yen from the end of the first half of this fiscal year.