Total liabilities at the end of fiscal 2003 increased ¥59.4 billion, up 6.8% from the end of the previous fiscal year. The bulk of this amount was accounted for by ¥48.9 billion in the consolidation adjustment account, which was recorded as a long-term liability. Most of the amount in the consolidation adjustment account was a result of making SIA a wholly owned subsidiary. FHI will sequentially amortize this account starting in the fiscal year ending March 31, 2004 (see Notes to Consolidated Financial Statements), with ¥6.7 billion scheduled for amortization in that fiscal year. The amortized amount in the consolidated adjustment account in each year will be recognized as non operating income (see attached chart describing this financial procedure). A total of ¥18.7 billion in convertible bonds that had been included under long-term liabilities in the previous fiscal year are now due in less than one year. Consequently, a nearly identical amount has been moved to the item "current portion of convertible bonds" under current liabilities. Total interest-bearing debt was ¥389.1 billion, down ¥7.6 billion from ¥396.7 billion in the previous fiscal year, due mainly to a reduction in straight bonds outstanding.

Shareholders' equity rose ¥15.1 billion, or 3.8%, to ¥411.2 billion, mainly reflecting a ¥25.8 billion increase in retained earnings. On the other hand, translation adjustment accounts, items subtracted from shareholders' equity, increased ¥8.6 billion, compared with the previous fiscal year, as a result of yen appreciation. Because of the smaller increase in shareholders' equity compared with that of total assets, the shareholders' equity ratio declined 0.6 point, to 30.6%, from 31.2%. However, owing to the decline in interest-bearing debt, the debt/equity ratio fell to 0.95, from 1.0.

The net debt (interest-bearing debt less cash and time deposits)/shareholders' equity ratio improved to 0.78, from 0.86.

CAPITAL EXPENDITURES

The FHI Group's capital expenditures totaled ¥64.6 billion in fiscal 2003 and were concentrated in the Automobile division. This represents a decline from expenditures of ¥70.6 billion in the previous fiscal year, principally due to cuts in some outlays for capital expenditures to maximize automobile manufacturing and sales efficiency as part of the total cost reduction program CSR-1 (Cost Structure Revolution-1), which mainly focuses on domestic operations.

In the Automobile division, FHI invested a total of ¥57.5 billion, accounting for 89.0% of total capital expenditures during the fiscal year, with ¥37.7 billion allocated to manufacturing, ¥5.8 billion to R&D, and ¥14.0 billion to sales. Outside of the Automobile division, FHI invested ¥1.0 billion in the Aerospace division, ¥3.3 billion in the Industrial Products division, and ¥2.8 billion in the Eco Technologies and the Other division.

The plan for the fiscal year ending March 31, 2004, targets a 50.2% increase in capital expenditures, to ¥97.0 billion. This increase is expected to be funded by accelerating the production of Legacy models in the North American division and strengthening the domestic sales network. Though some costs will be reduced under the CSR-1 program, this amount will be nearly the same as the ¥99.0 billion capital expenditures originally targeted in the FDR-1 medium-term management plan.

CASH FLOWS

Cash and cash equivalents (hereinafter "cash") at year-end totaled ¥169.9 billion, up ¥36.2 billion from the previous fiscal year-end. Free cash flow, defined as net cash provided by operating activities plus net cash provided by (used in) investing activities, increased ¥63.3 billion. This increase resulted from the accumulation of liquid assets in light of an increasingly uncertain outlook, including the fallout from the conflict in Iraq toward the end of the term. The effect of exchange rates on cash and cash equivalents was an outflow of ¥4.0 billion.

Cash flows from operating activities increased ¥22.3 billion, to ¥108.0 billion. The increase in cash inflow reflected primarily ¥46.9 billion in income before income taxes and minority interest, adjustments for ¥67.8 billion in depreciation and amortization, ¥5.3 billion in losses on the sale or disposal of fixed assets, ¥3.8 billion in appraisal losses on investment securities, ¥1.8 billion in losses on withdrawal of unprofitable business, a ¥2.6 billion decline in accounts receivable and a ¥16.5 billion increase in accounts payable, a ¥13.4 billion increase in inventories, and ¥31.0 billion paid in income tax.

Cash flows from investing activities declined ¥40.9 billion from the previous year-end, to ¥56.0 billion. Net outflows for the acquisition and disposal of fixed assets totaled ¥89.5 billion, while net outflows for the purchase and sales of marketable and investment securities amounted to ¥32.9 billion, and net outflows on the extension and collection of loans receivables amounted to ¥13.0 billion. Along with this, the acquisition of Isuzu's share of Subaru of Indiana Automotive, Inc., added ¥12.9 billion to the total.

Cash flows from financing activities declined ¥31.4 billion from the previous year-end, to ¥11.6 billion. Short-term borrowings increased ¥1.7 billion, commercial paper climbed ¥9.0 billion, long-term borrowings grew ¥3.1 billion, and the net amount on the redemption and the issuance of bonds was ¥12.0 billion, while the payment of cash dividends amounted to ¥6.6 billion.

OUTLOOK

The global economy is vulnerable to several uncertainties, including the unclear prognosis for business conditions in the United States and fallout from the situation in the Middle East. Amid this situation, economic recovery in Japan has come to a standstill, and the outlook remains unclear and harsh. In the automobile industry, there are indications that sales in the U.S. market, the largest in the world, are slowing. In Japan, the automobile sales environment is expected to become severe because of further weakness in the domestic economy. Taking these conditions into account, the FHI Group forecasts consolidated net sales of ¥1,450.0 billion, up 5.7%, operating income of ¥68.7 billion, up 1.7% (including consolidated adjustment profit of ¥6.7 billion related to SIA), and net income of ¥35.0 billion, up 4.5%.