

## Listed Company Name: Nihon Inter Electronics Corp.

(URL: <http://www.niec.co.jp>)

TSE Code No: 6974

Listed exchange: Tokyo

Head Office Location

Kanagawa Prefecture

Representative: President and CEO

Name: Takeshi Yasuda

Officer in charge of enquiries: General Manager of Accounting

Name: Fumio Inoue

Phone: +81-463-84-8015

Accounts Settlement Board of Directors Meeting: May 14, 2004

Parent Company Name - (TSE Code No.: - )

Ratio of stock held by parent company: - %

United States accounting standards: Not applied

## 1. Consolidated results for fiscal 2004 (April 1, 2003 to March 31, 2004)

## (1) Consolidated business results

Note: Stated figures are rounded down to the nearest million

	Net sales		Operating income (loss)		Ordinary profit (loss)	
	¥ million	%increase (decrease)	¥ million	%increase (decrease)	¥ million	%increase (decrease)
Fiscal year ending March 31, 2004	30,715	14.5	3,157	74.7	2,586	142.5
Fiscal year ending March 31, 2003	26,822	17.3	1,807	-	1,066	-

	Net income (loss)		Net income (loss) per share	Net income per share after dilution adjustment for shares, undiluted	Return on Equity margin	Ordinary profit / total capital margin	Ordinary profit / net sales margin
	¥ million	%increase (decrease)	¥	¥	%	%	%
Fiscal year ending March 31, 2004	1,194	165.5	36.91	36.68	13.3	9.3	8.4
Fiscal year ending March 31, 2003	449	-	14.71	-	5.5	3.9	4.0

Note:

\* Equity method investment gain (loss) Year ended March 31, 2004: - Year ended March 31, 2003: -

\*\* Average number of shares (consolidated) Year ended March 31, 2004: 31,107,972

Year ended March 31, 2003: 30,586,165

\*\*\* Changes to accounting methods: none

\*\*\*\* Percentages appended to net sales, operating income, ordinary profit, and net income are the rate of increase (decline) compared with the same period of the previous year.

## (2) Consolidation financial position

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	¥ million	¥ million	%	¥
Fiscal year ending March 31, 2004	28,029	9,588	34.2	307.63
Fiscal year ending March 31, 2003	27,768	8,353	30.1	269.08

Note:

\* No. of issued shares at period-end (consolidated)

Year ended March 31, 2004: 31,169,398

Year ended March 31, 2003: 31,046,374

## (3) Consolidated cash flows

	Cash generated by (used in) operating activities	Cash generated by (used in) investment activities	Cash generated by (used in) financing activities	Cash and cash equivalents balance at period-end
	¥ million	¥ million	¥ million	¥ million
Fiscal year ending March 31, 2004	2,754	-851	-2,260	2,303
Fiscal year ending March 31, 2003	3,722	-575	-2,197	2,631

## (4) Items pertaining to scope of consolidation and equity method application

No. of consolidated subsidiaries: 5 No. of non-consolidated equity method subsidiaries: - No. of equity method affiliates: -

## (5) Changes to scope of consolidation and equity method application

No. of newly consolidated subsidiaries: - ; No. of deconsolidated subsidiaries: - ; No. of newly added equity method subsidiaries: - ; No. of subsidiaries removed from equity method application: -

## 2. Projected consolidated results for fiscal 2005 (ending March 31, 2005)

	Net sales	Ordinary income (loss)	Net Income
Six months ended Sep. 30, 2004	16,000	1,600	850
Fiscal year ended March 31, 2005	33,400	3,600	1,900

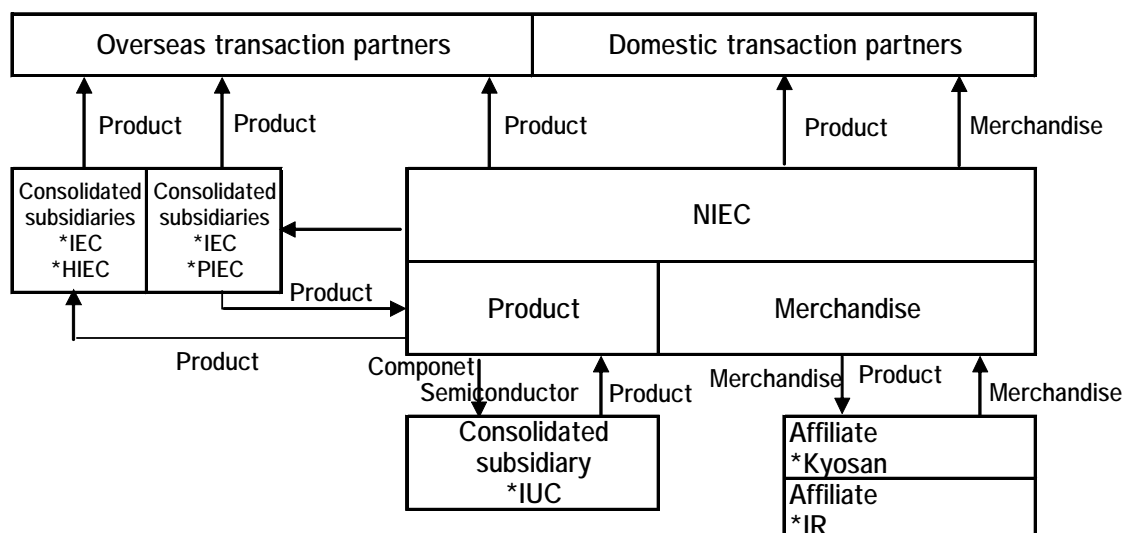
Remarks: Projected net income (loss) per share (for the fiscal year):      ¥ 60.96

## Group Overview

The Nihon Inter Electronics Group (“The Company”) consists of the parent company, one domestic subsidiary, four overseas subsidiaries, and one affiliate and conducts its business activities with a primary focus on the manufacture and sale of power semiconductors. Products and merchandise handled by Nihon Inter and its subsidiaries and affiliate as well as their respective functions are as follows:

Segment		Principal products and merchandise	Company
Products	Semiconductor elements	Schottky barrier diodes (SBD), and fast recovery epitaxial diodes (FRED), rectifying diodes for small power applications	Nihon Inter (mfg., sales) IEC (mfg., sales) PIEC (mfg.) IES (sales) HIEC (sales) IR (sales, supply)
		Rectifying diodes for medium to large power applications, thyristors, others	Nihon Inter (mfg., sales)
	Semiconductor-applied products	Power modules, stacks	Nihon Inter (mfg., sales) Inter Unit Corp. (mfg.)
Merchandise		Semiconductors, electronic components, LCD devices, power sources, others	Nihon Inter (mfg., sales) Kyosan Electric (supply)

The following is a flow chart of the Company’s operations.



- \*IEC: International Electronics Corp., Ltd.
- \*PIEC: Philippine Inter Electronics Corporation
- \*IES: Inter Electronics Singapore Pte. Ltd.
- \*HIEC: Hong Kong Inter Electronics Co., Ltd.
- \*IR: International Rectifier Corporation
- \*Kyosan Electric: Kyosan Electric Mfg. Co., Ltd

## **Management Policies**

### **(1) Basic Management Policy**

Nihon Inter Electronics Corporation (NIEC)'s guiding principle is to fulfill the expectations of its shareholders and all other stakeholders in the Company. With a focus on markets and applications with high growth potential, Nihon Inter is one of the leaders of its industry in the development, manufacture, and sale of power semiconductors, devices that enable high-efficiency power conversion and power management.

Nihon Inter's mission is to contribute to society in terms of energy conservation and environmental protection by efficient use of electricity through power management solutions. Therefore, the Company's basic management policy is to develop industry-leading high-value-added products while continually augmenting its cost competitiveness, improving financial performance, and taking the leadership role in its industry.

### **(2) Basic Policy Regarding Profit Sharing**

One of our basic policies is to maintain stable distribution of our dividends to our shareholders. With a view to strengthening our competitive position in the power management market, we plan to effectively utilize our retained earnings towards reinforcement of our business infrastructure through research and development and capital expenditures. At the same time, we shall endeavor further to meet the expectations of our shareholders by distributing appropriate dividends commensurate with our business results.

### **(3) Targeted Management Benchmarks**

Having identified, as our targeted management benchmarks, sales increase rate, gross margin, ratio of net income to total assets (Return on Assets), we set individual targets for these benchmarks and are striving to achieve such targets every business year.

### **(4) Mid and Long term Management Strategy**

The efficient use of electricity is a global issue. Environmental and social issues are preventing developed economies from creating the additional supply required to meet the growing demand and infrastructure development costs are prohibitive in the developing economies. In addition, today's electronics need to use electricity more efficiently to improve features and functionality. The need to use electricity more efficiently is a trend that will become more critical

with the passage of time.

Over the last several years, power management companies have spearheaded the effort to use electricity more efficiently. Power management is a group of technologies that work together to refine electricity into a format that can be consumed more efficiently. Nihon Inter is a power management company and holds the #1 market share in SBD, a key building block technology in power management.

In our current 3-year plan, we continue to emphasize the “Focus on the Market” principle. The “Focus on the Market” principle entails identifying the markets that have the most potential for Nihon Inter and our customers and then focusing our resources on that market to become a leader in key power management applications.

We have identified 3 long term power management market trends to focus our 3-year plan on,

- The convergence of IT and consumer electronics,
- The electronification of the car, and
- The migration of industrial and home white goods to inverter driven motors.

We have organized our company to support these trends and focus our sales, manufacturing and R&D activities to continuously and profitably improve our position in these market.

In order to support the “Focus on the Market” principle, we established a matrix organization last April. The matrix includes the traditional functional reporting relationship but then organizes teams of managers from each functional organization to focus on our selected markets. These teams work together to quickly react to individual market conditions and then ensure that we are maximizing our position in that market. The teams’ incentive programs are based upon achieving agreed-to targets in the market segment.

#### **(5) Company’s goals and issues**

The Company is focused on improving its market position in IT and consumer electronics, automotive, digital white goods and industrial markets. Within each of these broad market categories we will select specific applications to target. The Company-wide goals include:

- To increase our share of SBD/FRED and other discrete devices in selected applications
- To increase our share of power management modules in selected applications

- To improve manufactured product gross profit
- To improve merchandize cash flow
- To improve ROA

For our sales activity, we will strengthen our sales force and infrastructure in Asia as we expect the continuous shift of manufacturing to Asia. We believe that this approach will allow us to more broadly participate in the North American and European markets because manufacturing historically performed there is continuously moving to Asia.

In order to improve gross margin, our manufacturing team will focus on material cost reduction, improving manufacturing yields, and reducing overhead costs. We also plan to increase our manufacturing capacity at subcontractors and foundries. At the same time we will increase our internal assembly and wafer capacity in a cost effective fashion. In order to strengthen our financial structure, we target a shorter working capital turnover period. We target to improve operating cash flow along with increased profitability. During this time, investments in equipment and facilities will be financed as appropriate with a combination of operating cash flow, bank borrowings, and equity funding. Our current foreign currency account is relatively small but as foreign revenues grows, our exposure to foreign currency fluctuations may increase.

#### **(6) Basic Philosophy on Corporate Governance and Action Progress**

In view of the importance of corporate governance, we separate the execution of our daily business operations from the Board of Directors which is responsible for acting as our managerial decision-making organ and supervising the execution of the daily business operations.

Our Board of Directors consists of the Representative Director and Chairman, the Representative Director and President, a full-time Director who serve as Executive Officers, and part-time External Directors. Furthermore, the Management Committee is in place with the function to support the Board of Director to ensure flexibility in deliberating on important strategic management matters as required. As organs of executing business operations, the following six business divisions are in place: production, sales, research and development, distribution, business strategy and administration. The system of Executive Officers is also in place where the heads of these six business divisions serve as Executive Officers, thereby ensuring to clarify the individual responsibility and accountability of such business divisions. In addition, the Operating Committee is in place as an organ responsible for control the operational execution of

our business.

The Operating Committee consists of the President, the Executive Officers and Statutory Auditors, and conducts operations in accordance with the decisions on important matters made by the Board of Directors. Also, in addition to the conventional system of Auditors, we have further enhanced our internal control system and are aiming towards achievement of corporate governance and compliance.

**(7) Our Philosophy and Policy regarding Reduction of Investment Unit**

Our corporate group recognizes the expansion of our individual shareholder base and the improvement of our share liquidity as important corporate agenda. Therefore, we intend to pursue the possibility of reducing the minimum trading unit of share, taking comprehensively into consideration such factors as our share price level, the number of shares and financial conditions and so on. However, specific measures and timing of implementing them are still undecided at this time.

## Operational Results and Financial Conditions

- Revenue grow 15% on the strength of digital home appliances and advanced individual applications
- Nihon Inter reports record ordinary profit of ¥2.586 billion up 143%, and record net income of ¥1.194 billion up 166%
- Next year earnings forecast to grow over 50%

### 1. Operational Results

#### Overview

The first half of this fiscal year (53FY), the economy of our country was unclear due to the increased tension against Iraq's threatening situation and the epidemic of SARS. However, as the business climate in foreign countries such as US and China was improving after the summer, exports (business) increased. As for domestic demand, capital investments and digital home appliances became the engine of growth, which caused general business condition to improve.

In the electrical and electronic industry where we belong to, the demand for semiconductors for digital home appliances, consumer electronics and advanced industrial applications was strong.

In such conditions, our consolidated revenues for this year were ¥30.715 billion, which is 14.5% increase from last year (Y-o-Y). The break down is ¥19.783 billion (+15.3%) from product and ¥10.931 billion (+13.1%) from merchandise. As for profit, we continue to drive gross margin expansion with improved product mix and aggressive cost reductions. Gross margins for our manufactured product were 30% in the second half of fiscal year. Increasing gross margins and controlled operating expense resulted in record profitability. In fiscal 2003 ordinary profit of ¥2.568 billion yen increased 142.5% from the previous year and net income of ¥1.194 billion increased 165.5% from last year.

As analog consumer electronics become digital, demand for our SBD and FRED products were strong across the board. Nihon Inter continues its strong position in PDP applications and Y-o-Y revenues grew 69%. Demand for other digital consumer electronics such as DVD recorder, Digital Still Camera (DSC), and LCD TVs, was also strong. Overall digital consumer electronics were up 41%. Automotive revenues were up 13% and our computer and peripheral business was up 3 %

Our power module business grew 34% in the current year. These modules are used in industrial products such as multi-purpose inverter, machines/tools and semi conductor

manufacturing equipments. Growth in this market was driven by the improving capital expenditures in Chinese and Japanese markets.

Our merchandise revenues grew 13% principally from the sale of optical devices and LCD devices.

### **Outlook for the Present Fiscal Year**

We expect that the conditions of our industry will show continued growth supported by exports of consumer electronics, IT, and automotive and domestic capital investment. However, since there are some causes for concern, such as the situation in Iraq, the appreciation of yen, increased prices of materials, the stability of US and Chinese economies etc, we expect we will continue to monitor these concerns and try to minimize their impact on our business. As for Nihon Inter, we have commenced a new 3-year plan this year, keeping the fundamental principal of “Focus on The Markets” in mind. We will continue to execute focused strategies to satisfy our customers needs and improve profitability.

Our manufactured product market strategy for our 3-year plan is supported by three long term trends: the convergence of IT and consumer electronics, the electronification of the car, and the migration of industrial and home white goods to inverter driven motors. Our 3-year plan focuses on improving our market position by better supporting these trends. We have organized our company to support these trends and focus our sales, manufacturing and R&D activities to continuously and profitably improve our position in these markets.

For merchandise, the main focus is especially to improve cash flow by improving gross margin and reduce working capital. Other important focuses are on the sales activity mainly for OPT device, the amusement market, the picture/imaging and information device market and industrial market.

We forecast and project the following achievement for the next fiscal year: manufactured product sales of ¥ 22.4 billion (13.2% Y-o-Y), merchandise sales of ¥11 billion (0.6% Y-o-Y), total sales of ¥33.4 billion (+8.7% Y-o-Y), ordinary profit ¥3.6 billion (+39.2%) and net income ¥1.9 billion (+59.1%).

## **2. Financial Conditions**

Inventory and deferred tax assets decreased by ¥431 million and ¥471 million, respectively, due to increased earnings, while trade receivables increased by ¥2.162 billion reflecting increased sales. As a result, current assets as of the closing of the current consolidated

accounting fiscal year increased by ¥1.018 billion.

Fixed assets decreased by ¥736 million including ¥660 million in tangible fixed assets. Capital expenditures for the current term amounted to ¥780 million primarily as a result of reinforcements in our manufacturing equipment. Total assets showed a Y-o-Y increase of ¥ 261 million to reach ¥28.029 billion.

Total liabilities decreased by ¥973 million (Y-o-Y) to ¥18.441 billion as notes and accounts payable rose by ¥785 million reflecting the increased purchases in step with increased production while borrowings declined by ¥2.212 billion as we endeavored to reduce interest-bearing debts.

Shareholders' equity reached ¥9.588 billion, representing a Y-o-Y increase of ¥1.235 billion that was attributable to the increased earned surplus coming from earnings recovery. Shareholders' equity ratio also improved by 4.1%, year on year, to 34.2%.

With respect to cash flow during the current consolidated accounting term, cash and cash equivalents (hereinafter referred to as "Funds") decreased by ¥328 million (in contrast to the Y-o-Y increase of ¥958 million for the previous term), and consequently Funds outstanding were ¥2.33 billion as of the closing of the current consolidated accounting term.

The conditions of specific categories of cash flow and the underlying factors were as follows:

Cash flow from operating activities increased by ¥2.754 billion (as compared to the increase of ¥3.722 billion for the previous consolidated accounting term). This increase was attributable mainly to ¥2.17 billion in net profit before taxes and other adjustments, the increase of ¥2.24 billion in trade receivables, the decrease of ¥340 million in inventory, the increase of ¥950 million in notes and accounts payables and ¥1.207 billion in depreciation of fixed assets.

Cash flow from Investing activities decreased by ¥851 million (as compared to the decrease of ¥575 million for the previous consolidated accounting term) mainly as a result of capital expenditures of ¥459 million in acquiring tangible fixed assets (as compared to ¥423 million for the previous consolidated accounting term).

Cash flow from financing activities decreased by ¥2.26 billion (as compared to the decrease of ¥2.197 billion for the previous consolidated accounting term), reflecting the increase of ¥416 million in short-term borrowings, repayment of ¥2.542 billion of long-term debt, payment of ¥154 million of dividends, etc.

## Consolidated Financial Statements

### Consolidated balance sheet

( Assets )

(Millions of yen)

Item	Fiscal year ended March 31, 2004 (A)	Fiscal year ended March 31, 2003 (B)	Gain (loss) (A) - (B)
Current assets	19,677	18,659	1,018
Cash and deposits in banks	2,313	2,651	-338
Notes and accounts receivable	11,093	8,931	2,162
Inventory assets	5,641	6,072	-431
Deferred tax assets	265	736	-471
Other	396	273	123
Allowances for doubtful accounts	-33	-8	-25
Fixed assets	8,351	9,087	-736
Tangible fixed assets	5,709	6,369	-660
Buildings and structures	2,437	2,620	-183
Machinery and vehicles	2,017	2,400	-383
Land	658	658	-
Construction in process	360	411	-51
Other	235	278	-43
Intangible fixed assets	49	55	-6
Land lease rights	7	7	-
Software	22	27	-5
Other	19	20	-1
Investments and other assets	2,593	2,662	-69
Investment securities	878	500	378
Long-term prepaid expenses	508	822	-314
Deferred tax assets	917	1,032	-115
Other	312	331	-19
Allowances for doubtful accounts	-23	-23	-
Deferred assets	-	22	-22
Business commencement expenses experiment and research expenses	-	1	-1
	-	20	-20
<b>Total assets</b>	<b>28,029</b>	<b>27,768</b>	<b>261</b>

( Liabilities, minority interest, and shareholders' equity )

(Millions of yen)

Item	Fiscal year ended March 31, 2004 (A)	Fiscal year ended March 31, 2003 (B)	Gain (loss) (A) - (B)
Current liabilities	13,172	9,845	3,327
Trade notes and accounts payable	5,680	4,895	785
Short-term loans	5,747	3,510	2,237
Other payable	142	629	-487
Income taxes payable	514	25	489
Accrued expenses	404	278	126
Allowance for employee bonuses	373	278	95
Other	308	227	81
Fixed liabilities	5,268	9,569	-4,301
Long-term loans	2,614	7,064	-4,450
Allowances for retirement benefits	2,613	2,467	146
Other	40	37	3
Total liabilities	18,441	19,414	-973
Minority interest	-	-	-
Shareholders' equity	3,998	3,979	19
Capital surplus	3,967	3,955	12
Revenue surplus	1,814	768	1,046
Appraisal differences on marketable securities	230	6	224
Equity adjustment from foreign currency translation	-399	-351	-48
Treasury stock	-23	-6	-17
Total shareholders' equity	9,588	8,353	1,235
Liabilities, minority interest, and shareholders' equity	28,029	27,768	261

# Statement of consolidated income and retained earnings

(Millions of yen)

Item	Fiscal year ended March 31, 2004 (A)		Fiscal year ended March 31, 2003 (B)		Gain (loss) (A) - (B)	
	Sum	Percentage	Sum	Percentage	Sum	Percentage
Net sales	30,715	100.0	26,822	100.0	3,893	
Cost of sales	23,885	77.8	21,586	80.5	2,299	-2.7
Gross profit	6,829	22.2	5,236	19.5	1,593	2.7
Selling, general and administrative expenses	3,671	12.0	3,428	12.8	243	-0.8
Operating income (loss)	3,157	10.3	1,807	6.7	1,350	3.5
Non-operating income	108	0.4	103	0.4	5	0.0
Interest received/Dividends received	9		10		-1	
Other	98		93		5	
Non-operating expenses	679	2.2	844	3.1	-165	-0.9
Interest expense	145		163		-18	
Loss on foreign currency exchange	191		307		-116	
Write-off of fees for technologies acquisition	173		121		52	
Write off of deferred experiment and research expenses	20		67		-47	
Other	148		183		-35	
Recurring income (loss)	2,586	8.4	1,066	4.0	1,520	4.4
Extraordinary income	-	-	8	0.0	-8	0.0
Loss on retirement of fixed assets	-		5		-5	
Other	-		3		-3	
Extraordinary loss	415	1.3	119	0.4	296	0.9
Loss on disposal of obsolete inventories	270		-		270	
Director retirement bonuses	137		-		137	
Other	7		119		-112	
Net income (loss) before income taxes	2,170	7.1	954	3.6	1,216	3.5
Corporate, residence, and business taxes	551	1.8	34	0.1	517	1.7
Income tax and other adjustments	424	1.4	470	1.8	-46	-0.4
Net income (loss)	1,194	3.9	449	1.7	745	2.2

## Consolidated surplus statement

(Millions of yen)

Item	Fiscal year ended March 31, 2004		Fiscal year ended March 31, 2003	
(Capital Surplus)				
Consolidated capital surplus balance at beginning of period		3,955		3,880
Increase				
New issue of stock	18	18	75	75
Decrease				
Transfer to retained earnings	7	7	-	-
Balance at end of period		3,967		3,955
(Retained Earnings)				
Consolidated Revenue surplus balance at beginning of period		768		394
Increase				
Net Income (Interim)	1,194		449	
Transfer from capital surplus	7	1,201	-	449
Decrease				
Dividend	155	155	75	75
Balance at end of period		1,814		768

# Statement of consolidated cash flows

(Millions of yen)

Item	Fiscal year ended March 31, 2004 (A)	Fiscal year ended March 31, 2003 (B)	Gain (loss) (A) - (B)
<b>I. Cash flows from operating activities</b>			
Loss before provision for income taxes	2,170	954	1,216
Depreciation and amortization	1,001	1,150	-149
Deferred asset depreciation	205	197	8
Increase (decrease) in allowances for doubtful accounts	25	0	25
Increase in reserve for retirement benefits	160	199	-39
Interest and dividend loss	-9	-10	1
Interest expense	145	163	-18
Loss (gain) on foreign currency exchange	6	126	-120
Loss on retirement of fixed assets	7	14	-7
Loss on valuation of investment securities	-	90	-90
Decrease (increase) in notes and accounts receivable	-2,240	-881	-1,359
Increase (decrease) in inventories	340	252	88
Increase (decrease) in notes and accounts payable	905	1,548	-643
Increase (decrease) in Allowance for employee bonuses	97	146	-49
Other	127	-66	193
Subtotal	2,945	3,885	-940
Receipt of interest and dividends	5	8	-3
Payment of interest	-135	-170	35
Payment of income taxes	-61	-16	-45
Receipt of tax refund	0	14	-14
Net cash provide from (used in) operating activities	2,754	3,722	-968
<b>II. Cash flows from investing activities</b>			
Expenditures in term deposits	0	-1	1
Proceeds from refunds on term deposits	10	40	-30
Expenditures for the acquisition of tangible fixed assets	-459	-423	-36
Proceeds from the acquisition of tangible fixed assets	-	12	-12
Expenditures for the acquisition of technologies	-409	-206	-203
Other	7	3	4
Net cash used in investing activities	-851	-575	-276
<b>III. Cash flows from financing activities</b>			
Net increase(decrease) in short-term bank loans	416	-1,964	2,380
Proceeds from long-term debt	-	2,490	-2,490
Payments on long-term debt	-2,542	-2,792	250
Proceeds from issue of new stock	37	150	-113
Expenditures for the repurchase of company stock	-16	-5	-11
Dividends paid to stockholders	-154	-75	-79
Net cash proved by (used in) financing activities	-2,260	-2,197	-63
<b>IV. Foreign exchange differential on cash and cash equivalents</b>	29	9	20
<b>V. Net decrease in cash and cash equivalents</b>	-328	958	-1,286
<b>VI. Cash and cash equivalents at beginning of period</b>	2,631	1,673	958
<b>VII. Cash and cash equivalents at end of period</b>	2,303	2,631	-328

## Basis for Presenting Consolidated Financial Statements

### 1. Scope of Consolidation

NIEC had five subsidiaries consisting of International Electronics Corp., Ltd., Inter Units Corporation, Philippine Inter Electronics Corporation, Inter Electronics Singapore Pte. Ltd., and Hong Kong Inter Electronics Co., Ltd.

### 2. Equity Method Application

N/A

### 3. Account Settlement Dates

The account settlement date for all consolidated subsidiaries is March 31, the same date as the settlement of the parent company's consolidated accounts.

### 4. Accounting Principles

#### (1) Standards and Methods for the Valuation of Principal Assets

Marketable securities

##### Items with cash value

Marked to market based on the market price at the closing date (Net unrealized gains or losses are reported directly in shareholders' equity on a net-of-tax basis. Selling costs are calculated using the gross average method.)

##### Inventories

At cost, based on the moving average method

#### (2) Depreciation and Amortization Methods for Fixed Assets

##### Tangible fixed assets

The declining balance method is the principal method used for the parent company and its domestic consolidated subsidiaries, and for overseas subsidiaries are straight-line method. However, as for the buildings (including fixtures) in us and our domestic consolidated subsidiaries are accounted for using the straight-line method. Regarding depreciable assets with small acquisition costs of over ¥100,000 and under ¥200,000, depreciation is calculated in

equal portions over a three-year period.

Depreciation periods for major assets are as follows:

Buildings and structures: 3-50 years

Machinery and vehicles: 5-15 years

#### Intangible fixed assets

The straight-line method is used. However, software used internally by NIEC is amortized on a straight-line basis over a five-year period, the estimated useful life of the software.

### (3) Methods of amortization of deferred assets

New stock issuance costs: Full amount amortized at time of expenditure

Business development costs: Annual average amortized over five years

Testing and research expenses: Annual average amortized over five years

### (4) Recording Standards for Allowances

#### Allowance for doubtful accounts

The allowances for the avoidance of bad debt losses on receivables, loans and others is primarily recorded according to the rate of previous bad debt occurrence. In the case of particularly doubtful accounts and other specific claims, the projected nonrecoverable amounts, based on an individual calculation of recoverability, are budgeted.

#### Allowance for employee bonuses

To allocate funds to bonuses paid to employees, the estimated sum to be paid during the given period is recorded.

#### Allowance for retirement benefits

To prepare employee retirement benefits, the liability was calculated as the difference between expected future retirement payments and the related assets retained to meet said payments.

Actuarial differences are treated as expenses for the consolidated fiscal year in which they occur and are amortized using the straight-line method over 10 years, within the average remaining consolidated term of employment, following the year in which they arise.

### (5) Accounting Methods for Principal Lease Transactions

Finance leases (with the exception of those whose property ownership rights have been designated for transfer to the lessee) are accounted for in the same way as ordinary operating leases.

#### (6) Principal Accounting Methods for Hedge Accounting

1. Hedge accounting methods

The appropriation method is used for foreign currency denominated debt with exchange contracts.

2. Hedging method and items to be hedged

Hedging method: exchange contracts

Items to be hedged: foreign currency denominated debt

3. Hedging method

The policy regarding hedging is to limit the total amount of the exchange contracts entered into to the actual amount of currency available and only apply hedging to items within the designated range of items to be hedged, so as to avoid risks associated with fluctuations in exchange rates.

4. Method of evaluation of effectiveness of hedging

Evaluation of hedge effectiveness is not considered necessary as the terms and notional amounts of hedge instruments used are the same as those of related transactions, and therefore they are assumed to be highly effective in offsetting fluctuations in exchange rates and interest rates at their inception as well as during their term and at their termination.

#### (7) Other important items

##### Accounting Methods for Sales Taxes

Net-of-tax formulas are applied to sales taxes and local sales taxes.

## 5. Scope of Capital in Statement of Consolidated Cash Flows

Capital (cash and cash equivalents) in the statements of consolidated cash flows is composed of cash on hand, payable-on-demand deposits and short-term investments with maturity dates within three months of acquisition date with high liquidity and that are easily converted to cash and carry only slight price fluctuation risks.

[Notes]

### Consolidated Balance Sheets

	<u>Fiscal year ended</u> <u>March 31, 2004</u>	<u>Fiscal year ended</u> <u>March 31, 2003</u>
1. Accumulated depreciation of tangible fixed assets (consolidated)	¥15,640 million	¥15,020 million
2. Pledged assets and mortgages (consolidated)		
Assets pledged as collateral:		
Land	¥387 million	¥387 million
Buildings and structures	¥366 million	¥395 million
Machinery and vehicles	¥80 million	¥82 million
Other (tools, appliances and fixtures)	¥1 million	¥1 million
Total	¥836 million	¥867 million
Mortgages		
Long-term loans	¥1,611 million	¥2,079 million
Short-term loans (Long-term loans repayable within one year)	¥768 million	¥361 million
Total	(¥399 million)	(¥128 million)
Total	¥2,380 million	¥2,440 million
3. Treasury stock	60,152 shares	33,176 shares

The Company's outstanding stock volume is 31,229,550 shares of common stock.

### Statement of Consolidated Income and Retained Earnings

1. Principal selling, general and administrative expenses

	<u>Fiscal year ended</u> <u>March 31, 2004</u>	<u>Fiscal year ended</u> <u>March 31, 2003</u>
Salaries and bonuses	¥1,473 million	¥1,412 million
Freight costs	¥293 million	¥247 million
Travel and transportation expenses	¥140 million	¥133 million

Rental expenses	¥135 million	¥107 million
Expenditure for subcontracting	¥211 million	¥197 million
Depreciation and amortization	¥68 million	¥58 million
Deferred allowance for employee bonuses	¥181 million	¥144 million
Deferred allowance for retirement benefits	¥149 million	¥150 million

### Statement of Interim Consolidated Cash Flows

#### 1. Balance of cash and cash equivalents and term-end and consolidated balance sheet items

	<u>Fiscal year ended</u> <u>March 31, 2004</u>	<u>Fiscal year ended</u> <u>March 31, 2003</u>
Cash and deposits	¥2,313 million	¥2,651 million
Time deposits longer than three month maturity	¥ -10 million	¥-20 million
Cash and cash equivalents	<u>¥2,303 million</u>	<u>¥2,631 million</u>

## Segment Information

### 1. Segment information per individual business category

The primary business of the Nihon Inter Group is the development, manufacture and sale of electronic components. These products are widely used in such applications as IT devices, automobile electronic components, office equipment and machinery.

However, because of the similarity and overlap among products used in each market that result from the wide-ranging nature of the markets in which Nihon Inter operates, it does not manage its businesses as separate independent segments. In terms of products categories, properties, and manufacturing methods as well, it is the opinion of Nihon Inter that the state of its operations is most appropriately represented by consideration as a single business segment. Hence, segment information according to individual business category has been omitted.

### 2. Geographical segment data

Year ended March 31, 2004 (consolidated)

Millions of yen

	Japan	Asia	Subtotal	Elimination & corporate assets	Total
I. Net sales and operating income (loss)					
(1) Customer sales	25,928	4,786	30,715	-	30,715
(2) Intersegment sales	4,666	4,741	9,408	-9,408	-
Total sales	30,595	9,528	40,123	-9,408	30,715
Operating costs and expenses	26,744	9,395	36,139	-8,582	27,557
Operating income (loss)	3,850	133	3,983	-826	3,157
II. Capital	27,267	3,547	30,814	-2,784	28,029

Note: 1. Country and regional segments are determined according to geographic proximity.

2. Primary country and region segments outside of Japan:

Asia: Taiwan, the Philippines, Singapore, China

3. Nonabsorbable operating costs and expenses included in elimination & corporate assets consist primarily of ¥862 million in parent company head office expenses.

4. Assets included in Elimination & Corporate Assets amounted to ¥904 million. These assets consisted primarily of surplus funds held by the parent company (cash and marketable securities), long-term investments (investment securities), or assets connected to the Administration Department.

Year ended March 31, 2003 (consolidated)

Millions of yen

	Japan	Asia	Subtotal	Elimination & corporate assets	Total
I. Net sales and operating income					
(1) Customer sales	23,162	3,660	26,822	-	26,822
(2) Intersegment sales	3,588	4,318	7,907	-7,907	-
Total sales	26,750	7,978	34,729	-7,907	26,822
Operating costs and expenses	24,388	7,802	32,190	-7,175	25,015
Operating income (loss)	2,362	175	2,538	-731	1,807
II. Capital	27,388	3,639	31,028	-3,259	27,768

Note: 1. Country and regional segments are determined according to geographic proximity.

2. Primary country and region segments outside of Japan:

Asia: Taiwan, the Philippines, Singapore

3. Nonabsorbable operating costs and expenses included in elimination & corporate assets consist primarily of ¥824 million parent company head office expenses.

4. Assets included in Elimination & Corporate Assets amounted to ¥613 million. These assets consisted primarily of surplus funds held by the parent company (cash and marketable securities), long-term investments (investment securities), or assets connected to the Administration Department.

### 3. Overseas net sales

Year ended March 31, 2004 (consolidated)

Millions of yen

	Asia	North America	Europe	Total
I. Overseas net sales	6,585	146	122	6,855
II. Consolidated net sales				30,715
III. Percentage of consolidated net sales accounted for by overseas net sales	21.4%	0.4%	0.4%	22.3%

Notes 1. Country and regional segments are determined according to geographic proximity.

2. Primary country and region segments outside of Japan:

Asia: Taiwan, South Korea, Singapore, China

North America: United States, Canada, Mexico

Europe: Holland, Hungary, Sweden

3. Overseas net sales consist of net sales of NIEC and its consolidated subsidiaries generated in countries or regions other than Japan.

Year ended March 31, 2003 (consolidated)

Millions of yen

	Asia	North America	Europe	Total
I. Overseas net sales	6,036	136	97	6,270
II. Consolidated net sales				26,822
III. Percentage of consolidated net sales accounted for by overseas net sales	22.5%	0.5%	0.4%	23.4%

Notes 1. Country and regional segments are determined according to geographic proximity.

2. Primary country and region segments outside of Japan:

Asia: Taiwan, South Korea, Singapore

North America: United States, Mexico

Europe: Sweden, United Kingdom, Finland

3. Overseas net sales consist of net sales of NIEC and its consolidated subsidiaries generated in countries or regions other than Japan.

## Lease Transactions

### 1. Value of leased property acquisition prices; depreciation, total, and term-end balance

	Millions of yen	
	<u>Year ended March 31, 2004</u>	<u>Year ended March 31, 2003</u>
Leased property acquisition prices	1,390	657
Depreciation, total	391	381
Term-end balance	999	276

### 2. Value of unearned lease fees balance at the end of term

	Millions of yen	
	<u>Year ended March 31, 2004</u>	<u>Year ended March 31, 2003</u>
One year or less	191	94
More than one year	815	187
Total	1,007	281

### 3. Value of Payable Lease Fees; Depreciation, Total, and Interest Payment

	Millions of yen	
	<u>Year ended March 31, 2004</u>	<u>Year ended March 31, 2003</u>
Payable Lease Fees	178	110
Depreciation, Total	164	102
Interest Payment	17	7

## Transactions with related parties

### (1) Parent company and major corporate shareholders

Company name	Kyosan Electric Mfg. Co., Ltd.	
Status	Affiliate	
Location	Tsurumi-ku, Yokohama-shi, Kanagawa-ken	
Capital or investment	¥6,270 million	
Business content or profession	Manufacture, sales, and repair of railway signal safety devices	
Percentage ownership	20.2%	
Relations:		
Shared directors	One shared director	
Business relations	Sale of Nihon Inter products and purchase of merchandise	
Type of transactions	Sale of Nihon Inter products	Purchase of affiliate's products
Amount of transactions	¥1,040 million	¥155million
Term-end balance	Trade notes receivable: ¥ 295 million	Accounts payable: ¥8 million

Company name	International Rectifier Corporation	
Status	Affiliate	
Location	United States	
Capital or investment	US\$ 65 million	
Business content or profession	Manufacture and sales of electronic components	
Percentage ownership	17.7%	
Relations:		
Shared directors	One shared director	
Business relations	license affiliation	
Type of transactions	licensing of technology	
Amount of transactions	¥7 million	
Term-end balance	Accounts payable: ¥ - million	

(Transaction conditions and policies for determining transaction conditions)

All products sold and merchandise purchased are traded at prices calculated from market prices.

### (2) Directors and major individual shareholders

N/A Not Applicable

### (3) Subsidiaries

N/A Not Applicable

### (4) Fellow subsidiaries

Company name	Kyosan Seiki Co., Ltd.	Kyosan Kogyo Co., Ltd.
Status	Subsidiary of affiliate	Subsidiary of affiliate
Location	Tsurumi-ku, Yokohama-shi, Kanagawa-ken	Tsurumi-ku, Yokohama-shi, Kanagawa-ken
Capital or investment	¥ 87 million	¥ 11 million
Business content or profession	Manufacture of electric machinery	Manufacture of electric machinery
Percentage ownership	0%	0%
Relations		
Shared directors	None	None
Business relations	Sale of electric machinery components	Purchase of office supplies
Type of transactions	Sales of Nihon Inter products	Purchase of office supplies
Amount of transactions	¥34 million	¥0 million
Term-end balance	Trade notes receivable: ¥ 8 million	Accounts payable: ¥ 0 million

## Tax effect accounting

### 1. Breakdown of principal causes of deferred tax assets and deferred tax liabilities

(Millions of yen)

Principal causes	Fiscal year ended March 31, 2004	Fiscal year ended March 31, 2003
Deferred tax assets		
Excess accrued employee bonuses	148	98
Accrued enterprise tax benefits	48	-
Overseas taxes	1,028	971
Excess of provision for doubtful accounts	54	52
Investment related tax reduction	4	6
Losses carried over from previous years	17	20
Other	39	628
Other	10	6
Total deferred tax assets	1,351	1,784
Deferred tax liabilities		
Special reserve for write-down of fixed assets	-10	-11
Gain on valuation of marketable securities	-157	-4
Total deferred tax liabilities	-168	-15
Net deferred tax assets	1,183	1,768

## Securities

Year ended March 31, 2004 (Consolidated)

### 1. Other securities with market value

(Millions of yen)

Category	Year ended March 31, 2004			Year ended March 31, 2003		
	Acquisition cost	Balance sheet amount	Gain (loss)	Acquisition cost	Balance sheet amount	Gain (loss)
Items whose acquisition costs exceed amounts listed in consolidated balance						
1. Equity securities	434	819	385	55	77	22
2. Bonds and debentures						
National and local government bonds	-	-	-	-	-	-
Corporate bonds and debentures	-	-	-	-	-	-
Other bonds and debentures	52	56	3	-	-	-
3. Other securities	-	-	-	-	-	-
Subtotal	487	876	389	55	77	22
Items whose acquisition costs do not exceed amounts listed in consolidated balance						
1. Equity securities	2	1	-1	381	373	-7
2. Bonds and debentures						
National and local government bonds	-	-	-	-	-	-
Corporate bonds and debentures	-	-	-	-	-	-
Other bonds and debentures	-	-	-	52	49	-2
3. Other securities	-	-	-	-	-	-
Subtotal	2	1	-1	433	423	-10
Total	489	878	388	489	500	11

### 2. Other marketable securities sold during the term (April 1, 2003 to March 31, 2004)

N/A Not Applicable

### 3. Principal marketable securities that were not given mark-to-market valuation

N/A Not Applicable

### 4. Other marketable securities with maturity dates

N/A Not Applicable

## Derivative transactions, market value, and valuation gains (losses)

Year ended March 31, 2004

No corresponding items other than forward exchange rate contracts to which hedge accounting has been applied

Year ended March 31, 2003

No corresponding items other than forward exchange rate contracts to which hedge accounting has been applied

## Retirement benefits

### 1 Summary of retirement benefits policy

Nihon Inter and its domestic consolidated subsidiaries employ a defined benefit type pension plan consisting of approved retirement annuities and retirement allowances. One of overseas subsidiaries has retirement allowance plan.

### 2 Breakdown of retirement benefit obligation (as of March 31, 2004)

	(Millions of yen)
a. Projected benefit obligation	-3,439
b. Plan assets	460
c. Funded status (a+b)	-2,979
d. Unrecognized transition obligation	-
e. Unrecognized actuarial loss	366
f. Net funds listed in consolidated balance sheets (c+d+e)	-2,613
g. Prepaid plan expenses	-
h. Accrued pension and severance costs (f-g)	-2,613

Note: Simplified method is applied to calculate the projected benefit obligation for part of subsidiaries

### 3 Breakdown of retirement benefit costs for the year ending March 31, 2004

	(Millions of yen)
a. Service cost	168 *
b. Interest cost	73
c. Expected return on retirement plan assets	-2
d. Amortization of net unrecognized actuarial loss	56
e. Pension cost (a+b+c+d)	295

Note: Projected benefit obligations of the subsidiaries which adopted the simplified method are allocated to a. Service cost

\* Pension contributions for the approved retirement annuities plan have been deducted.

### 4 Actuarial assumptions used in accounting for pension plans as of March 31, 2004

a. Method of amortization for gross retirement benefit projected at the end of average remaining service period	Straight-line
b. Discount rate	2.5%
c. Expected long-term rates of return on plan assets	0.3%
d. Number of years past service liabilities are charged	-
e. Period of amortization of net actuarial loss	10 years

## Status of Purchase Orders and Sales

### 1. Net sales by product category

(Millions of yen)

Segment	Fiscal year ended March 31, 2004	Percentage (%)	Fiscal year ended March 31, 2003	Percentage (%)	Increase (decrease) (A) - (B)
Semiconductor discrete products	14,524	47.3	13,402	50.0	1,122
Applied semiconductor products	5,258	17.1	3,750	14.0	1,508
Subtotal	19,783	64.4	17,153	64.0	2,630
Merchandise	10,931	35.6	9,669	36.0	1,262
Total	30,715	100.0	26,822	100.0	3,892

### 2. Net purchase orders and purchase order balance

(Millions of yen)

Segment	Fiscal year ended March 31, 2004		Fiscal year ended March 31, 2003	
	Net purchase orders	Purchase order balance	Net purchase orders	Purchase order balance
Semiconductor discrete products	14,919	849	13,294	454
Applied semiconductor products	5,264	391	3,813	385
Subtotal	20,184	1,240	17,107	840
Merchandise	11,249	700	9,707	382
Total	31,433	1,941	26,815	1,222