

# Fiscal year 3/2005 Full Year flash Report(Consolidated)

5/19/2005

issued

Listed company name: Nihon Inter Electronics Corporation  
TSE code No: 6974

Listed exchange: Tokyo  
Headoffice location: Kanagawa pref.

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

Representative President (CEO) Name: Takeshi Yasuda

Officer in charge of inquiry

Name: Fumio Inoue, General Manager Accounting Dept.

TEL: 81-463-84-8015

Date of Board of Directors for closing account: May 19, 2005

Majyor shareholders: Kyosan Electric Mfg. Co., Ltd (TSE code No: 6742 )

Its share of voting rights 19.9%

Use of American accounting principle : No

1,Consolidated business performance for full fiscal year ended March 31, 2005

(1)Consolidated business performance result (Note) figures rounded down less than millions yen

	Revenues		Operating Profit		Ordinary profit	
	Millions yen	%	Millions yen	%	Millions yen	%
Year 3/2005	32,852	7.0	2,886	8.6	2,367	8.5
Year 3/2004	30,715	14.5	3,157	74.7	2,586	142.5

	Net income		Net income per share	Net income per share after adjustment for shares undilluted	Ratio of net income/ net equity	Ratio of ordinary profit/ total assets	Ordinary profit / total revenues
	Millions yen	%	yen	yen	%	%	%
Year 3/2005	1,291	8.1	40.13	39.78	12.7	7.9	7.2
Year 3/2004	1,194	165.5	36.91	36.61	13.3	9.3	8.4

(Note) 1,Equity method investment gain: year 3/2005 – million yen , year 3/2004 – millions yen

2,Average number of shares: Year 3/2005 : 31,186,512 shares, Year 3/2004: 31,109,118 shares

3,Change in accounting methods: Yes

4,Percentage(%) appended to revenues,operating profit, ordinary profit and net income are the rate of increase(decline) compared with the same period of the previous year

(2)Consolidated financial position

	Total assets	Net equity	Net equity ratio	Net equity per share
	Millions yen	Millions yen	%	yen
3/31/2005	31,994	10,676	33.4	340.82
3/31/2004	28,029	9,588	34.2	306.15

(Note) Number of issued shares at fiscal year end: 3/31/2005: 31,207,598 shares,  
3/31/2004: 31,169,398 shares

(3)Consolidated cash flow

	Operating cash flow	Investment cash flow	Finacial cash flow	Cash & cash equivqlent year end balance
	Millions yen	Millions yen	Millions yen	Millions yen
3/31/2005	2,409	2,300	365	2,735
3/31/2004	2,754	851	2,260	2,303

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

Number of consolidated subsidiaries : 5

Number of non-consolidated equity method subsidiaries :None

Number of equity method subsidiaries : None

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

Newly consolidated: None , and disconsolidated: None

Newly added equity method subsidiaries: None, and removed from equity method subsidiaries:None

2, Forecast of fiscal year 3/2006 ( Period: 4/2005-3/2006)

	Revenues	Ordinary profit	Net income
	millions yen	miillions yen	Millions yen
First half	16,200		
Full Year	34,000	2,500	1,500

(Note) Forecast of earning per share for full year 3/2006 48.07 yen

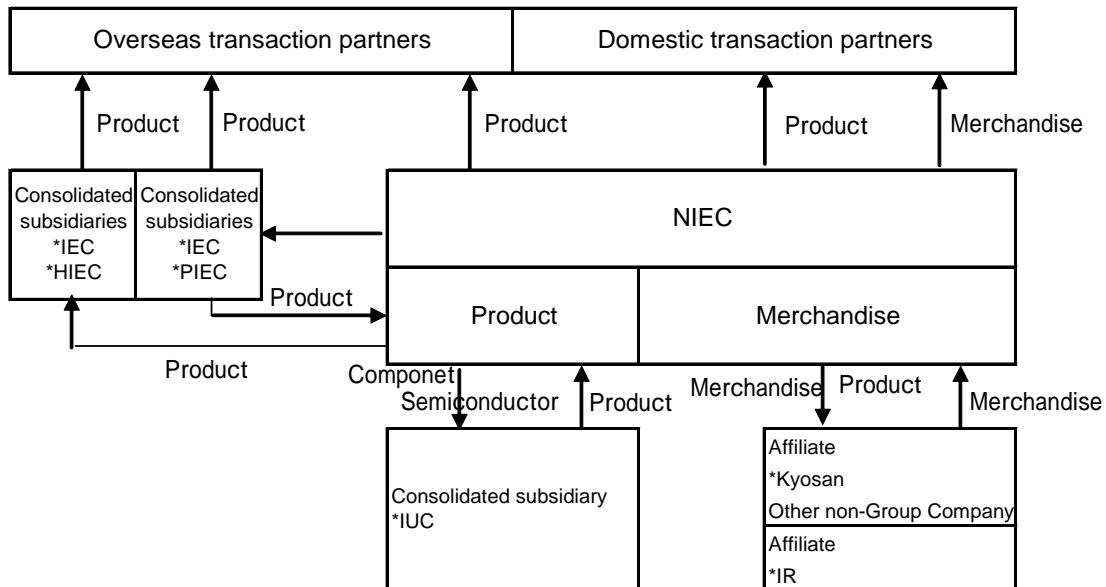
The figures shown above are forecasted, based on the information which at this moment, we are obtainable for forecasting and included not a little uncertainty. Actually realized performance etc. might be changed from the forecasted figures above, depending on business and market environment changes and so on. More details of the forecast are described on page 7.

## Group Overview

The Nihon Inter Electronics Group (“The Company”) consists of the parent company, one domestic subsidiary, four overseas subsidiaries, and two 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 discrete products	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 (U.S)
- \*IUC: Interunits Corporation

## **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 rate, 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 this interim period, we have launched 8-inch wafer process facility project which will double our wafer processing capacity and of which full operation is scheduled from April 2005. 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 and our exposure to foreign currency fluctuations may increase, we will strengthen the measures to minimize foreign exchange risk.

## **6. Basic Philosophy on Corporate Governance and Action Progress**

### **(1) Basic thought regarding corporate government**

We think it contributable to improvement of corporate value to maintain and level up management system in order to secure the fairness, transparency and soundness from the viewpoint of our stakeholders and deploy management operation effectively with agile decision making.

### **(2) Various practices for corporate government implementation**

#### **Organization, internal governance system and risk management system**

Since we consider corporate governance important, We organizationally separate the roles of daily business execution from the Board of Directors' roles of corporate substantial managerial decision making.

Our Board of Directors consists of the Representative Director and Chairman, the Representative Director and President, full-time Directors who also 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 controlling 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.

Statutory auditors play an auditing roles in attending Board of Directors and Operating

Committee, looking into proposal documents of internal decision, in cooperation with auditing firms and president office which shares jobs of internal auditing of operation practice

Regarding risk management, Safety and hygiene's committee and Security and Export Control Committee

Casualty defense committee and Environment Preservation Committee etc are established through which our risk is controlled not to break out.

**Internal operation auditing, Statutory Auditors' auditing and Audition firm's( CPA's) auditing**

Regarding internal auditing, president office which directly belongs to president is established and does internal auditing by checking each department's compliance situation of internal rules and regulations and

governmental laws throughout the Nihon Inter group. The internal auditing activities are scheduled to be made by not only inspecting but also instructing the advice to improve the operation and practice from the viewpoint of compliance. The president office and statutory auditors by linking together try to reinforce our organizational systems appropriately managing corporate governance and compliance concepts.

Accounting auditing is contracted to be managed by "Kainan Accounting and Auditing Firm". Based on the commercial law , security acts and associated legislations, accounting auditing is proceeded by it.

The certified accountants who are in charge of our accounting audition are as follows.

> Mr. Ryoichi Kawakami, Mr. Masaru Saito, Kainan Accounting and auditing firm.

Remuneration for directors and statutory auditors

The remuneration for directors and statutory auditors for this fiscal year is as follows,

- > For directors in total                    84 million yen
- > For statutory auditors in total    29 million yen
- > For both in total                        114 million yen

In addition, fee for accounting and auditing firm is 17 million yen,

**Disclosure system of company-related information.**

Matters of important corporate decisions and events is promptly and appropriately disclosed by the department in charge of disclosing, based on the process that internally designated disclosure responsible person judges the need of disclosure in accordance with Disclosure rules of Tokyo Stock Exchange investor relations meeting are in principle, half- yearly held, inviting institutional investors such as security analysts and fund managers and press people. Various information which we think should be disclosed is placed on our web site. Through these activities, we try to deploy very actively IR activities in order to gain an appropriate evaluation from market.

**(3) Conflict of interest between our external directors and statutory auditors, and our company**

We have two part-time external directors and two part time external statutory auditors. We do not have any conflict of interests between our company and both.

**7. Our Philosophy and Policy regarding Reduction of Investment Unit**

We recognizes the expansion of our individual shareholder base and the improvement of our share liquidity as important corporate agenda. From October 1, 2004,we reduced the minimum trading unit of share from 1,000 shares to 100 shares, taking comprehensively into consideration such factors as our share price level, the number of shares and financial conditions and so on.

**8. Major shareholders etc. information**

Name of companies	Relationship	Shares of holding voting rights	Listed at stock exchange etc.
Kyosan Electric Mfg. Co., Ltd	Major shareholder	19.9%	Tokyo Stock Exchange Osaka Stock Exchange
International Rectifier Corporation	Major shareholder	17.5%	New York Stock Exchange

## **Operational Results and Financial Conditions**

### **1. Operational Results**

#### **(1) Overview of the first half fiscal year**

The Japanese economy continued to move toward recovery in the first half of FY2004, despite continuing concerns about unemployment, as consumer spending edged upward and export and capital expenditure increased. Overseas, the US economy continued to expand, as did China and other Asian economies, while Europe saw slow recovery.:

As a result, total net sales in the interim period increased by 23.1% to 17,826 million from previous year. Product sales is 10,445 million yen, up by 11.1% y-o-y and merchandise revenue is 7,380 million yen, up by 45.1% y-o-y.

In the first quarter, consumer products (mainly SBD/FRED devices) expanded grew 8%, led by digital home appliances such as digital TV (PDP and LCD), and digital cameras. General economic conditions and growth in China drove 14% growth in our Industrial products (Modules) led by invertors and UPS system applications In our fiscal second quarter, revenues were negatively impacted by inventory adjustments in consumer electronics and a slow down in capital expenditures related in China

Our distribution business revenues grew 45.1%. reflecting strength in the amusement equipment business. We believe that the amusement revenue will revise back to historical norms in the second half.

First half profitability was at record levels reflecting higher revenues, improved product mix and continued cost reduction activities. The consolidated operating profit is 1,775 million yen, up by 25.5% y-o-y, ordinary profit is 1,541 million yen, up by 34.6% y-o-y and net income is 903 million yen, up by 74.1% y-o-y.

Regarding Interim Dividends, we decided to pay out the interim dividend of three yen per share which is 0.5 yen per share increase from previous year. This represents a 6 yen per share dividend on the yearly basis

As a special Event, on September 1, 2004, we were listed on Tokyo Stock Exchange, Section 1.

#### **(2) Outlook for the Full Fiscal Year**

During the latter half of the current interim period, oil prices increase substantially and the

impact on corporate sector and consumer spending is uncertain. In addition to increased oil prices, rising interest rates in the United States and slower growth in China cast some uncertainty on global economic growth rates. We believe that the growth of the Japanese economy will be impacted by global economic conditions.

As for the results for the full-year, we expect consolidated net sales of 33,000 million yen, ordinary income of 2,740 million yen, net income of 1,570 million yen.

Our forecast reflects a significant inventory correction in consumer electronics market as well as slow down in Chinese economy. Although we believe our forecast is prudent, we acknowledge that it is conservative. In the event our assumptions are overly conservative then upside to this forecast may exist.

## **2. Financial Conditions**

### **(1) Assets, Liabilities and Shareholders' equity**

Current assets as of the end of the first half of consolidated accounting fiscal year increased by

1,154 million yen y-o-y to 20,752 million yen due to the increased sales receivables reflecting increased sales and so on. Fixed assets increased by 1,003 million yen y-o-y to 9,241 million yen, mainly due to the acquisition of the land and facility for 8 inch wafer process fab project in Tsukuba. As a result, total assets amounted to 30,041 million yen, increased by 2,200 million yen y-o-y.

Total liabilities increased by 733 million yen y-o-y to 9,724 million yen. Shareholders' equity reached 10,317 million yen, representing a y-o-y increase of 1,467 million yen that was attributable to the increased earned surplus. Shareholders' equity ratio also improved by 2.5%, y-o-y, to 34.3%.

### **(2) Cash flow**

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

Cash flow from operating activities increased by 1,170 million yen (as compared to the increase of 1,201 million yen for the previous consolidated accounting term). This increase was attributable mainly to 1,491 million yen in net profit before taxes and other adjustments and increase of inventories by 583 million yen which caused decreased cash flow..

Cash flow from Investing activities decreased by 1.582 billion yen (as compared to the decrease of 147 million yen for the previous consolidated accounting term) mainly as a result of capital expenditures of 1.563 billion yen in acquiring 8 inch wafer process fab and other tangible fixed assets

Cash flow from financing activities increased by 512 million yen (as compared to the decrease of 1,008 million yen for the previous consolidated accounting term), reflecting the repayment of 3,843 million yen in long-term borrowings, increase of 2,451 million yen by issuing private placement bonds and increase of 2,009 million yen by short and long term borrowing.

In the end, cash and deposits outstanding balance were 2,399 million yen, increased by 259 million yen y-o-y as of the closing of the current consolidated accounting term.

Disclaimer: The business result report contains forward-looking statements concerning Nihon Inter's future plans, strategies and performance. These statements are based on management's assumptions and beliefs in light of economic, financial and competitive data currently available. Further more, they are subject to a number of risks and uncertainties. Nihon Inter therefore wishes to caution readers that actual results may differ materially from our expectations.

## **Business performance review of this fiscal year and prospect of next fiscal year**

### **1 . Business Performance Review of fiscal year ended Mar. 2005**

#### **General review**

As to economic situation in Japan during our consolidated accounting fiscal year, in the first half, export and capital investment continued to grow as well as in the previous fiscal year. Individual consumption also increased especially supported by the ad hoc demands which Athena Olympic games and very hot summer brought. Companies' business performance was improved and Japanese economy in total, showed the symptom of improvement as well. In the second half, Export slow down, inventory adjustment of digital electric appliance which took place from the mid summer and material price increase caused the economy in total to change into down-trend. In the end , economy as a full year in total showed and kept some degree of steadiness with not so much decline. At the end of the fiscal year, some phenomena was to some extent recognized that inventory correction was almost finished and economy might be changing into up-turn..

In the electric and electronics industry, in the first half, Demands related to digital electric appliance such as flat panel TV and DVD recorder increased a lot and industry related products did so due to continuous growth of capital investment in China and Japanese domestic market. From the mid summer, digital electric appliance fell into inventory adjustment process and export declined due to slow down of US economy and financial constraint policy implemented by China government so that in the second half, the market which continued to had grown but turned into down trend.

Under such situation, we deployed sales promotions focusing the growth-expected application markets and reinforced our production system by rationalizing manufacturing process , making low cost and more efficient processes and expanding our wafer processing capacity. Especially, in order to strengthen our future leadership in power management sector, last June we started 8-inch wafer processing fab project in Tsukuba city, Ibaragi prefecture, north to Tokyo, which is the first trial as discrete device manufacturing in the world so that we will be able to double the current wafer capacity and realize more efficient and cost competitive facility and address growth of demand expansion in the mid-term future. In addition, we actively made research and development of new products with more improved electric features and new package forms and in merchandise business as well ,increase more value-added solution business ( sales with technology development )

Our consolidated revenues of this fiscal year was in total 32 billion 852 million yen, increased by 2.137 billion yen, 7.0% y-o-y. and became historical record high

Our product revenue increased 0.8% y-o-y to 19.947 billion yen. As to discrete product revenues, first, our major products, Shottkey Barrier Diode(SBD) and First Recovery Epitaxial Diode(FRED) in the first half, grew a lot, led by strong demand of flat panel TV such as PDP and LCD TV but in the second half, joined inventory correction of mainly digital electric appliance and stagnant situation in sales unite so that its full year revenue amounted to 14.359 billion yen, 1.1% decrease y-o-y. However, we could realize historically high revenues toward continuously growing Korean PDP manufactures from which we received new products orders. It is a good result which is expected to bring us more growth of business in the future.

Power module products showed the same trend as discrete, due to the strong first half, led by growing capital investment related to China and automobile and increased in air conditioner demand caused by very hot summer and slow-downed second half, led by China constraint economic policy. In the end, its full year revenue increased 6.2% y-o-y to 5.587 billion yen, led by strong demands for applications of general-use inverter and NC machineries etc.

Merchandise revenues in the first half, grew due to growth of AV and optical devices demand and ad hoc large demand for amusement added but in the second half, returned to normal pattern of business. In the end, full year revenues became 12.905 billion yen, increased by 1.974 billion yen, 18.1% y-o-y

As to profitability, although we implemented cost reduction and product-mix improvement in order to overcome negative factors such as slow growth of product revenues and price reduction, in addition Japanese yen appreciation and relatively high amount of preceding expenses related 8 inch wafer process project, in the end operating profit declined 8.6% y-o-y to 2.886 billion yen and ordinary profit declined as well 8.5% y-o-y to 2.367 billion yen. However net income improved 8.1% y-o-y due to year-on-yearly decreased extraordinary loss and effective tax rate decline brought from tax benefit of R&D etc. and showed historical high record.

#### **Profit appropriation for this fiscal year.**

Taking into account this year's profit performance and future cash requirement etc., as a profit appropriation, we declare that dividend for full year will be 6.0 yen, increased by 0.5 yen from 5.5 yen last year.

#### **2. Prospect of next year business performance.**

The business environment is still in the unforeseeable situation. Inventory adjustment in digital electric appliance is getting close to final stage and expected to turn the corner to growth. However these positive factors still carry uncertainty such as additional material price hikes led by crude oil price again, which affect manufacturing cost. and consumer's gas expenses. and export declining due to the slowdown of US and China economy

Based on basic policy of our 3 year plan, we join its second year and deploy the strategy further focusing three expectedly fast growing applications, consumer electronics with digitalization, automobile with electronification and industrial related including white electric appliances with inverterization. In order to appropriately utilize these business opportunities from three applications, we steadily progress R&D of the products through the sensitive study of applications' requirement and timely provide market with competitively priced and featured products. As to production, In the price-competitive market, much comprehensive manufacturing cost reduction operations and more profitable product-mix strategy should be implemented so that gross margin rate goal as one of three year plan' objectives could be realized even under not fast growing market situation.

In the meantime, it is one of the most important fiscal year goals that 8 inch wafer process fab. which could brought us much more cost effective production system and much more price competitive strength is completed on schedule. As to sales promotion, we will try to deploy more expanded operations for sales and production as well in China market through our Shanghai representative office and strengthen our sales promotion in Asian district through Hong Kong and Singapore affiliates. In addition, we will place more emphasis on European sales growth in the future.

As to merchandise distribution business, more cash flow focused strategy is continuously implemented not relying on simply increasing revenues but on improving gross margin and reducing inventories and receivables.

As to profit for next fiscal year, total revenue is expected to grow 3.5% y-o-y to 34 billion yen. Out of total, regarding product revenue, in the first half, it is expected to be flat, compared with previous first half and in the second half, to grow due to the market coming back and in full year, to increase 8.8% y-o-y. As to merchandise revenue, although it is expected to decline by 4.6% y-o-y, however if excluding this year's ad hoc and one time amusement revenue growth, it would be 5.0% y-o-y yearly increase.

Ordinary profit will be 2.5 billion yen, 5.6% y-o-y increase and net income is forecasted to be 1.5 billion yen, 16.2% y-o-y increase. This profit forecast will be taken, including 8 inch wafer fab related expenses accrued preceding to starting full production next year and both cost and expenses reduction efforts to offset.

#### **Prospect of profit appropriation for next fiscal year**

Dividend declaration for the next fiscal year is forecasted to be 6.0 yen as well as this year', based on next year profit and cash requirement forecast.

## 2. Financial Conditions

### (1) Assets, Liabilities and Shareholders' equity

On consolidated balance sheet, total assets as of end of this fiscal year, March 31, 2005 increased 3.965 billion yen y-o-y to 31,994 billion yen. Current assets of this year end increased 2.644 billion yen y-o-y to 22.321 billion yen due partly to building up the inventory of the products which are decided to terminated production and increase in the assets which are related to 8inch wafer fab project and will be leased back within one year and so on. Fixed assets increased by 1.288 billion yen y-o-y to 9.639 billion yen, mainly due to the acquisition of the land and facility for 8 inch wafer fab project as well in Tsukuba city.. deferred assets is 32 million yen due to corporate private placement bond issuing expenses last September. Total liabilities increased 2.877 billion yen y-o-y to 21.318 million yen. Current liabilities increased 1.361 billion yen y-o-y to 14.533 billion yen due mainly to purchase payables including note payable firstly issued for 8 inch fab related capital investment. Fixed liabilities increased 1.516 billion yen y-o-y to 6.784 billion yen due to corporate private bond issuing. In the end, Shareholders' equity reached 10.676 billion yen , increased by 1.088 billion yen y-o-y.

## **(2) Cash flow**

Cash and deposits outstanding balance were 2.735 billion yen, increased by 432 million yen y-o-y as of the closing date 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 2.409 billion yen (as compared to the increase of 2.754 billion yen for the previous consolidated accounting term). This increase was attributable mainly to 2.275 billion yen in net profit before taxes , depreciation, changes in working capital and. Increase in assets to be leased back within one year related to 8 inch wafer project and so on...

Cash flow from Investing activities decreased by 2.3 billion yen (as compared to the decrease of 851 million yen for the previous consolidated accounting term) mainly as a result of capital expenditures of 2.209 billion yen in acquiring 8 inch wafer process fab and other tangible fixed assets

Cash flow from financing activities increased by 365 million yen (as compared to the decrease of 2.26 billion yen for the previous consolidated accounting term), reflecting the repayment of 4.299 billion yen in long-term borrowings, increase of 2,451 million yen by issuing private placement bonds and 2.411 billion yen from short and long term borrowing and so on.

Disclaimer: The business result report contains forward-looking statements concerning Nihon Inter's future plans, strategies and performance. These statements are based on management's assumptions and beliefs in light of economic, financial and competitive data currently available. Further more, they are subject to a number of risks and uncertainties. Nihon Inter therefore wishes to caution readers that actual results may differ materially from our expectations.

## Full-Year Consolidated Financial Statements

### Consolidated balance sheet

( Assets )

(Millions of yen)

Item	Full year period ended Mar. 31, 2005		Full year period ended Mar. 31, 2004		Variance y-o-y	
	Amount	%	Amount	%	Amount	%
Current assets	22,321	69.8	19,677	70.2	2,644	13.4
Cash and deposits in banks	2,835		2,313		522	
Notes and accounts receivable	10,161		11,093		932	
Inventory assets	6,935		5,641		1,294	
Deferred tax assets	204		265		61	
Assets to be leased back within one year	1,641		-		1,641	
Other	571		396		175	
Allowances for doubtful accounts	27		33		6	
Fixed assets	9,639	30.1	8,351	29.8	1,288	15.4
Tangible fixed assets	7,053	22.0	5,709	20.3	1,344	23.5
Buildings and structures	2,416		2,437		21	
Machinery and vehicles	1,776		2,017		241	
Land	1,310		658		652	
Construction in process	1,294		360		934	
Other	255		235		20	
Intangible fixed assets	55	0.2	49	0.2	6	13.7
Land lease rights	7		7		-	
Software	15		22		7	
Other	32		19		13	
Investments and other assets	2,530	7.9	2,593	9.3	63	2.4
Investment securities	889		878		11	
Long-term prepaid expenses	388		508		120	
Deferred tax assets	976		917		59	
Other	297		312		15	
Allowances for doubtful accounts	22		23		1	
Deferred assets	32	0.1	-	-	32	-
Bond issue costs	32		-		32	
Total assets	31,994	100.0	28,029	100.0	3,965	14.1

**( Liabilities, minority interest, and shareholders' equity )**

(Millions of yen)

Item	Full year period ended Mar. 31, 2005		Full year period ended Mar. 31, 2004		Variance y-o-y	
	Amount	%	Amount	%	Amount	%
Current liabilities	14,533	45.4	13,172	47.0	1,361	10.3
Trade notes and accounts payable	7,479		5,680		1,799	
Short-term loans	5,067		5,747		680	
Other account payable	81		142		61	
Income taxes payable	777		514		263	
Accrued expenses	415		404		11	
Allowance for employee bonuses	290		373		83	
Other	421		308		113	
Fixed liabilities	6,784	21.2	5,268	18.8	1,516	28.8
Bonds and debentures	2,500		-		2,500	
Long-term loans	1,451		2,614		1,163	
Allowances for retirement benefits	2,676		2,613		63	
Reserve for directors' retirements allowances	123		-		123	
Other	33		40		7	
Total liabilities	21,318	66.6	18,441	65.8	2,877	15.6
Minority interest	-	-	-	-	-	-
Shareholders' equity	4,005	12.5	3,998	14.3	7	
Capital surplus	3,974	12.4	3,967	14.1	7	
Revenue surplus	2,871	9.0	1,814	6.5	1,057	
Appraisal differences on marketable securities	237	0.7	230	0.8	7	
Equity adjustment from foreign currency translation	368	1.1	399	1.4	31	
Treasury stock	44	0.1	23	0.1	21	
Total shareholders' equity	10,676	33.4	9,588	34.2	1,088	11.3
Total liabilities & shareholders' equity	31,994	100.0	28,029	100.0	3,965	14.1

## Statement of consolidated income and retained earnings

in millions yen

	This fiscal year Fr. 4/1/2004 To 3/31/2005		Previous fiscal year Fr. 4/1/2003 To 3/31/2004		y-o-y variance	
	Amount	%	Amount	%	Amount	%
Sales	32,852	100.0	30,715	100.0	2,137	7.0
Merchandise sales	12,905	39.3	10,931	35.6	1,974	18.1
Product sales	19,947	60.7	19,783	64.4	164	0.8
Cost of sales	25,922	78.9	23,885	77.8	2,037	8.5
Merchandise cost of sales	11,585	89.8	9,963	91.1	1,622	16.3
Product cost of sales	14,336	71.9	13,922	70.4	414	3.0
Gross margin	6,929	21.1	6,829	22.2	100	1.5
Merchandise gross margin	1,319	10.2	968	8.9	351	36.3
Product gross margin	5,610	28.1	5,861	29.6	251	4.3
Sales Admini. And R&D exper	4,043	12.3	3,671	12.0	372	10.1
Operating profit	2,886	8.8	3,157	10.2	271	8.6
Non-operating income	106	0.3	108	0.4	2	2.0
Interest & dividend received	10		9		1	
Forex gain	21		-		21	
Others	73		98		25	
Non-operating expenses	624	1.9	679	2.2	55	8.0
Interest paid	123		145		22	
Inventory write-off	210		98		112	
Amortization of tech. acquisition fees	123		173		50	
Others	167		261		94	
]Ordinary profit	2,367	7.2	2,586	8.4	219	8.5
Extra-ordinary gain	6	0.0	-	-	6	-
Prought in from doubtfull asset reserves	5		-		5	
Others	0		-		0	
Extra-ordinary loss	98	0.3	416	1.3	318	76.3
Provision of Executive-retirement allowance reserves	89		-		89	
Others	9		416		407	
Profit before taxes	2,275	6.9	2,170	7.1	105	4.9
Corporate taxes etc.	979	3.0	551	1.8	428	77.6
Adjustment of taxes	4	0.0	424	1.4	420	98.9
Net income	1,291	3.9	1,194	3.9	97	8.1

## Consolidated surplus statement

in millions yen

	This fiscal year		Previous year	
	Fr. 4/01/2004 to 3/31/2005		Fr. 4/01/2003 to 3/31/2004	
	Amount		Amount	
(Capital surplus)				
Consolidated capital surplus balance at beginning of period		3,967		3,955
Increase				
New issue of stock	7		18	
Other	0	7	-	18
Decrease				
Provision for retained earnings	-	-	7	7
Balance at end of period		3,974		3,967
(Retained earning)				
Consolidated Retained earning balance at beginning of period		1,814		768
Increase				
Net Income (Interim)	1,291		1,194	
Disposition of capital surplus	-	1,291	7	1,201
Decrease				
Dividends	187		155	
Bonus for directors	47	234	-	155
Balance at end of period		2,871		1,814

## Consolidated Cash Flow Statement

in millions yen

科 目	This fiscal year	Previous fiscal year	Variance
	Fr. 4/01/2004 To 3/31/2005	Fr. 4/01/2003 To 3/31/2004	
I. Cash flows from operating activities			
Profit before taxes	2,275	2,170	105
Depreciation and amortization	958	1,001	43
Deferred asset depreciation	144	205	61
Increase in allowances for doubtful accounts	7	25	32
Increase in reserve for retirement benefits	48	160	112
allowances	123	-	123
Interest and dividend payment	10	9	1
Interest expense	138	145	7
Loss on foreign currency exchange	14	6	8
Loss on retirement of fixed assets	6	7	1
receivable	976	2,240	3,216
Increase (decrease) in inventories	1,229	340	1,569
payable	1,759	905	854
Increase(decrease) in bonus payment reservrs	84	97	181
one year	1,641	-	1,641
Others	183	127	310
Sub-total	3,288	2,945	343
Receipt of interest and dividends	10	5	5
Payment of interest	138	135	3
Payment of corporate taxes	751	61	690
Net cash provide from (used in) operating activities	2,409	2,754	345
II. Cash flows from investing activities			
Placement time deposit	100	-	100
Proceeds from refunds on term deposits	10	10	0
Expenditures for the acquisition of tangible	2,209	459	1,750
fixed assets	18	-	18
Proceeds from the acquisition of tangible	18	-	18
fixed assets	-	409	409
Expenditures for the acquisition of	-	409	409
technologies	-	409	409
Other	19	7	26
Net cash used in investing activities	2,300	851	1,449
III. Cash flows from financing activities			
Net increase(decrease) in short-term bank loans	1,411	416	995
Proceeds from long-term debt	1,000	-	1,000
Payments on long-term debt	4,299	2,542	1,757
Proceeds from bonds	2,451	-	2,451
Proceeds from issue of new stock	14	37	23
stock	21	16	5
Dividends paid to stockholders	191	154	37
Net cash proved by (used in) financing activities	365	2,260	2,625
IV. Foreign exchange differential on cash and cash equiv	41	29	70
V. Net increase(decrease) in cash and cash equivalents	432	328	760
VI. Cash and cash equivalents at beginning of period	2,303	2,631	328
VII. Cash and cash equivalents at end of period	2,735	2,303	432

## **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 interim term 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 market value

Marked to market based on the market price at the end of the full fiscal year (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 price method.)

##### Inventories

At cost, based on the moving average cost 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

Corporate bond issuance cost: in accordance with the Commercial Practice Rules under Commercial Law, it is amortized equally for each period within three years, maximum lawful period.

#### (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 non-recoverable 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 payable already accrued by the end of fiscal year and the related assets retained to meet said payments. Arithmetical differences which appear at the end of fiscal year, based on the re-calculated expected retirement payable already accrued, are amortized using the straight-line method over 10 years, within the average remaining term of employment, following the year in which they arise.

##### Allowance for directors and executive officers' retirement benefits

To prepare the payment of executive officers' retirement benefit, in accordance with the rules for directors and executive officers' retirement benefits, the amount needed to be paid as of the end of interim period is reserved.

#### (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 assets and liabilities.

##### 3, Hedging policy

The policy regarding hedging is basically to limit the total amount of the exchange contracts entered into to the actual amount which is related to the our own business denominated by foreign currency 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) 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.

## **[ The amendment of Accounting Principle ]**

### **( Allowance for directors and executive officers' retirement benefits)**

Our previous accounting practice for this matter was that the payment amount paid at the time of actual retirement is booked as one time expense. Taking into account the profit performance of the fiscal period when they actually retire, not a little affected by payment in one lump sum and recent accounting practice to establish the allowance for this which became of general use, from the end of this interim period we decided to allocate the retirement payment as expenses to each fiscal period during the time directors and executive officers are incumbent so that the amount to be paid in accordance with directors and executive officers' retirement benefits rules are reserved on allowance for their retirement benefits.

As a result, the amount for this interim period amounted to 34 million yen and was booked as general and administrative expenses and the amount of 89 million yen accrued for the period until the previous fiscal year was booked as extraordinary loss account. This treatment caused the decrease by 34 million yen of operating profit and ordinary profit and 123 million yen of profit before taxes etc. as compared with these figures in accordance with the previously used treatment.

### **Additional information**

(Amendment of treatment for so called " business scale tax ", a part of corporate business tax on income statement )

Note:Business scale tax is imposed on value added items and capital related items such as salary, interest, rental expenses etc.

From this interim period the amount of 41 million yen was separately booked as general and administrative expenses from previously calculated corporate business taxes in total which is recorded as corporate taxes and others account in accordance with the amended guideline related to this treatment designated corporate accounting standard committee on Feb. 13, 2004.

[Notes]

## Consolidated Balance Sheets

(Millions of yen)

	<u>March 31, 2005</u>	<u>March 31, 2004</u>
1. Depreciation of tangible fixed assets (consolidated)	¥16,639	15,640
2. Pledged assets and mortgages (consolidated)		
Time deposit:	100	
Land	78	387
Buildings and structures	328	366
Machinery and vehicles	77	80
Other (tools, appliances and fixtures)	1	1
Total	586	836
 Mortgaged liabilities		
Long-term loans	620	1,611
Short-term loans	508	429
Long-term loans repayable within one year	1,220	339
Total	2,348	2,380
Treasury stock	79,952 shares	60,152 shares

The Company's outstanding stock volume is 31,287,550 shares of common stock.

## Statement of Consolidated Income and Retained Earnings

### 1. Principal selling, general and administrative expenses

	(Millions of yen)	
	<u>March 31, 2005</u>	<u>March 31, 2004</u>
Salaries and bonuses	1,596	1,473
Freight costs	312	293
Travel and transportation expenses	166	140
Rental expenses	146	135
Expenditure for subcontracting	220	211
Depreciation and amortization	83	68
Deferred allowance for employee bonuses	155	181
Deferred allowance for retirement benefits	126	149

## [ Statement of Consolidated Cash Flows ]

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

	(Millions of yen)	
	<u>March 31, 2005</u>	<u>March 31, 2004</u>
Cash and deposits	2,835	2,313
Time deposits longer than three months	-100	-10
Cash and cash equivalents	2,735	2,303