

# Fiscal 2005 Interim Flash Report (Consolidated)

November 16, 2004

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: Nov. 16, 2004

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

Ratio of stock held by parent company: - %

United States accounting standard: Not applied

## 1. Consolidated results for the six months ended Sep. 30, 2004

### (1) Consolidated business results

Note: Stated figures are rounded down to the nearest million

	Net sales		Operating income (loss)		Recurring profit (loss)	
	¥million	%increase (decrease)	¥million	%increase (decrease)	¥million	%increase (decrease)
Six months ended Sep. 30, 2004	17,826	23.1	1,775	25.5	1,541	34.6
Six months ended Sep. 30, 2003	14,484	9.7	1,414	92.8	1,145	245.3
Year ended March 31, 2004	30,715		3,157		2,586	

	Net income (loss)		Net income (loss) per share		Net income per share after adjustment for shares, undiluted	
	¥million	%increase (decrease)	¥		¥	
Six months ended Sep. 30, 2004	903	74.1	28.97		28.70	
Six months ended Sep. 30, 2003	518	299.2	16.70		16.56	
Year ended March 31, 2004	1,194		36.91		36.61	

Note:

\* Equity method investment gain (loss) Six months ended Sep. 30, 2004: -

Six months ended Sep. 30, 2003: -

Year ended March 31, 2004: -

\*\* Average number of shares (consolidated) Six months ended Sep. 30, 2004: 31,173,816

Six months ended Sep. 30, 2003: 31,066,082

Year ended March 31, 2004: 31,109,118

\*\*\* Changes to accounting methods: yes

\*\*\*\* Percentages appended to net sales, operating income, recurring 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		%		¥	
Six months ended Sep. 30, 2004	30,041		10,317		34.3		330.81	
Six months ended Sep. 30, 2003	27,841		8,850		31.8		284.34	
Year ended March 31, 2004	28,029		9,588		34.2		306.15	

Note:

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

Six months ended Sep. 30, 2004: 31,188,938

Six months ended Sep. 30, 2003: 31,127,683

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

### (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
Six months ended Sep. 30, 2004	1,170	-1,582	512	2,399
Six months ended Sep. 30, 2003	1,201	-147	-1,008	2,658
Year ended March 31, 2004	2,754	-851	-2,260	2,303

### (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	Operating income (loss)	Recurring profit (loss)
	¥million	¥million	¥million
Fiscal year ending March 31, 2005	33,000	2,740	1,570

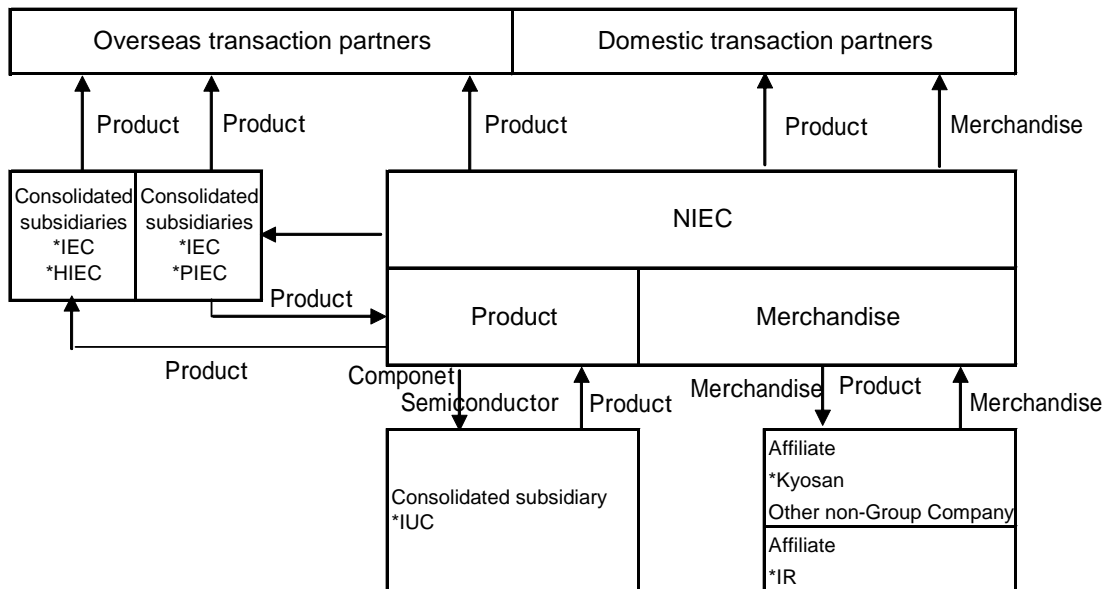
Remarks: Projected net income (loss) per share (for the fiscal year): ¥50.34

## 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,
- . 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**

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

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. 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.

## 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 fabrication 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 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.

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Cash flow from Investing activities decreased by 1.582 million 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 fabrication 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.

## Interim Consolidated Financial Statements

### Interim Consolidated balance sheet

( Assets )

(Millions of yen)

Item	Six-month period ended Sep. 30, 2004		Six-month period ended Sep. 30, 2003		Year ended March 31, 2004	
	Amount	%	Amount	%	Amount	%
Current assets	20,752		19,598		19,677	
Current assets	20,752	69.1	19,598	70.4	19,677	70.2
Cash and deposits in banks	2,409		2,668		2,313	
Notes and accounts receivable	11,445		9,668		11,093	
Inventory assets	6,258		5,818		5,641	
Deferred tax assets	258		312		265	
Other	410		1,159		396	
Allowances for doubtful accounts	-30		-29		-33	
Fixed assets	9,241	30.8	8,238	29.6	8,351	29.8
Tangible fixed assets	6,641	22.1	5,709	20.5	5,709	20.3
Buildings and structures	2,485		2,514		2,437	
Machinery and vehicles	1,952		2,160		2,017	
Land	1,310		658		658	
Construction in process	655		131		360	
Other	236		244		235	
Intangible fixed assets	60	0.2	48	0.2	49	0.2
Land lease rights	7		7		7	
Software	18		22		22	
Other	34		18		19	
Investments and other assets	2,539	8.5	2,480	8.9	2,593	9.3
Investment securities	802		642		878	
Long-term prepaid expenses	453		577		508	
Deferred tax assets	1,004		968		917	
Other	301		315		312	
Allowances for doubtful accounts	-22		-24		-23	
Deferred assets	47	0.1	5	0.0	-	-
Business commencement expenses	-		0		-	
Bond issue costs	47		-		-	
Experiment and research expenses	-		4		-	
<b>Total assets</b>	<b>30,041</b>	<b>100.0</b>	<b>27,841</b>	<b>100.0</b>	<b>28,029</b>	<b>100.0</b>

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

(Millions of yen)

Item	Six-month period ended Sep. 30, 2004		Six-month period ended Sep. 30, 2003		Year ended March 31, 2004	
	Amount	%	Amount	%	Amount	%
Current liabilities	12,636	42.1	13,199	47.4	13,172	47.0
Trade notes and accounts payable	6,193		5,477		5,680	
Short-term loans	4,803		6,366		5,747	
Income taxes payable	651		34		514	
Accrued expenses	369		382		404	
Allowance for employee bonuses	385		341		373	
Other	233		596		450	
Fixed liabilities	7,087	23.6	5,791	20.8	5,268	18.8
Bonds and debentures	2,500		-		-	
Long-term loans	1,783		3,220		2,614	
Allowances for retirement benefits	2,704		2,530		2,613	
Reserve for directors' retirements allowances	61		-		-	
Other	37		40		40	
Total liabilities	19,724	65.7	18,991	68.2	18,441	65.8
Minority interest	-	-	-	-	-	-
Shareholders' equity	4,003		3,991		3,998	
Capital surplus	3,972		3,960		3,967	
Revenue surplus	2,577		1,217		1,814	
Appraisal differences on marketable securities	185		91		230	
Equity adjustment from foreign currency translation	-376		-395		-399	
Treasury stock	-43		-13		-23	
Total shareholders' equity	10,317	34.3	8,850	31.8	9,588	34.2
Liabilities, minority interest, and shareholders' equity	30,041	100.0	27,841	100.0	28,029	100.0

## Statement of consolidated income and retained earnings

(Millions of yen)

Item	Six-month period ended Sep. 30, 2004		Six-month period ended Sep. 30, 2003		Year ended March 31, 2004	
	Sum	%	Sum	%	Sum	%
Net sales	17,826	100.0	14,484	100.0	30,715	100.0
Merchandise	7,380	41.4	5,085	35.1	10,931	35.6
Product	10,445	58.6	9,399	64.9	19,783	64.4
Cost of sales	14,029	78.7	11,299	78.0	23,885	77.8
Merchandise	6,631	89.8	4,637	91.2	9,963	91.1
Product	7,398	70.8	6,662	70.9	13,922	70.4
Gross profit	3,796	21.3	3,184	22.0	6,829	22.2
Merchandise	749	10.2	447	8.8	968	8.9
Product	3,046	29.2	2,737	29.1	5,861	29.6
Selling, general and administrative expenses	2,020	11.3	1,770	12.2	3,671	12.0
Operating income	1,775	10.0	1,414	9.8	3,157	10.2
Non-operating income	65	0.4	50	0.3	108	0.4
Interest received	1		2		3	
Dividends received	5		5		6	
Other	57		43		98	
Non-operating expenses	299	1.8	319	2.2	679	2.2
Interest expense	66		77		145	
Loss on disposal of inventories	111		65		98	
Write-off of fees for technologies acquisition	61		60		173	
Other	59		115		261	
Recurring income	1,541	8.6	1,145	7.9	2,586	8.4
Extraordinary income	3	0.0	-	0.0	-	-
Extraordinary loss	53	0.2	139	1.0	431	1.3
Net income before income taxes	1,491	8.4	1,005	6.9	2,170	7.1
Corporate, residence, and business taxes	634	3.6	58	0.4	551	1.8
Income tax and other adjustments	-46	-0.3	427	2.9	424	1.4
Net income	903	5.1	518	3.6	1,194	3.9

## Interim term consolidated surplus statement

(Millions of yen)

Item	Six-month period ended Sep. 30, 2004		Six-month period ended Sep. 30, 2003		Year ended March 31, 2004	
<b>(Capital Surplus)</b>						
Consolidated capital surplus balance at beginning of period		3,967		3,955		3,955
Increase						
New issue of stock	4		11		18	
Other	0	5	-	11	-	18
Decrease						
Provision for retained earnings	-	-	7	7	7	7
Balance at end of period		3,972		3,960		3,967
<b>(Retained Earnings)</b>						
Consolidated Revenue surplus balance at beginning of period		1,814		768		768
Increase						
Net Income (Interim)	903		518		1,194	
Disposition of capital surplus	-	903	7	525	7	1,201
Decrease						
Dividends	93		77		155	
Bonus for directors	47	140	-	77	-	155
Balance at end of period		2,577		1,217		1,814

## Statement of consolidated cash flows

(Millions of yen)

Item	Six-month period ended Sep. 30, 2004	Six-month period ended Sep. 30, 2003	Year ended March 31, 2004
<b>I. Cash flows from operating activities</b>			
Loss before provision for income taxes	1,491	1,005	2,170
Depreciation and amortization	455	480	1,001
Deferred asset depreciation	66	80	205
Increase in allowances for doubtful accounts	-3	22	25
Increase in reserve for retirement benefits	86	71	160
allowances	61	-	-
Interest and dividend loss	-7	-7	-9
Interest expense	66	77	145
Gain on foreign currency exchange	42	17	6
Loss on retirement of fixed assets	5	2	7
Increase(decrease) in notes and accounts receivable	-303	-761	-2,240
Increase (decrease) in inventories	-583	207	340
Increase (decrease) in notes and accounts payable	453	350	905
Other	-87	-227	224
Subtotal	1,743	1,319	2,945
Receipt of interest and dividends	7	5	5
Payment of interest	-66	-74	-135
Payment of income taxes	-514	-49	-61
Net cash provide from (used in) operating activities	1,170	1,201	2,754
<b>II. Cash flows from investing activities</b>			
Proceeds from refunds on term deposits	-	10	10
Expenditures for the acquisition of tangible fixed assets	-1,563	-174	-459
Proceeds from the acquisition of tangible fixed assets	0	-	-
Expenditures for the acquisition of technologies	-	-	-409
Other	-18	16	7
Net cash used in investing activities	-1,582	-147	-851
<b>III. Cash flows from financing activities</b>			
Net increase(decrease) in short-term bank loans	1,009	233	416
Proceeds from long-term debt	1,000	-	-
Payments on long-term debt	-3,843	-1,180	-2,542
Proceeds from bonds	2,451	-	-
Proceeds from issue of new stock	9	23	37
Expenditures for the repurchase of company stock	-20	-7	-16
Dividends paid to stockholders	-93	-77	-154
Net cash proved by (used in) financing activities	512	-1,008	-2,260
IV. Foreign exchange differential on cash and cash equivalents	-4	-18	29
V. Net increase(decrease) in cash and cash equivalents	96	26	-328
VI. Cash and cash equivalents at beginning of period	2,303	2,631	2,631
VII. Cash and cash equivalents at end of period	2,399	2,658	2,303

## **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 September 30, 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 end of the interim term (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 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 payments and the related assets retained to meet said payments.

Actuarial differences are treated as expenses for the end of interimperiod 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.

### 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 method

The policy regarding hedging is to limit the total amount of the exchange contracts entered into to the actual amount 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 16 million yen and was booked as general and administrative expenses and the amount of 44 million yen to be paid for the period until the previous fiscal year was booked as extraordinary loss account. This treatment caused the decrease by 16 million yen of operating profit and ordinary profit and 61 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 22 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]

[ Interim Consolidated Balance Sheets ]

	<u>September 30, 20</u> <u>04</u>	<u>September 30, 20</u> <u>03</u>	<u>March 31, 2004</u>
	(Millions of yen)		
1. Depreciation of tangible fixed assets (consolidated)	¥16,070	¥15,319	15,640
2. Pledged assets and mortgages (consolidated)			
Assets pledged as collateral:			
Land	387	387	387
Buildings and structures	328	379	366
Machinery and vehicles	78	82	80
Other (tools, appliances and fixtures)	1	1	1
Total	795	851	836
Mortgages			
Long-term loans	896	1,693	1,611
Short-term loans	420	500	429
Long-term loans repayable within one year	992	164	339
Total	2,309	2,358	2,380
3. Treasury stock	78,612 shares	46,867 shares	60,152 shares
The Company's outstanding stock volume is 31,267,550 shares of common stock.			

[ Statement of Interim Consolidated Income and Retained Earnings ]

1. Principal selling, general and administrative expenses

	(Millions of yen)		
	<u>September 30, 2004</u>	<u>September 30, 2003</u>	<u>March 31, 2004</u>
Salaries and bonuses	691	630	1,473
Freight costs	164	136	293
Travel and transportation expenses	86	64	140
Rental expenses	75	56	135
Expenditure for subcontracting	110	95	211
Depreciation and amortization	32	30	68
Deferred allowance for employee bonuses	203	181	181
Deferred allowance for retirement benefits	75	73	149
Deferred allowance for doubtful accounts	-	21	25

[ Statement of Interim Consolidated Cash Flows ]

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

	(Millions of yen)		
	<u>September 30,</u>	<u>September 30,</u>	<u>March 31,</u>
	<u>2004</u>	<u>2003</u>	<u>2004</u>
Cash and deposits	2,409	2,668	2,313
Time deposits longer than three months	-10	-10	-10
Cash and cash equivalents	2,399	2,658	2,303

## 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

Six-month period ended September 30, 2004 (consolidated)

Millions of yen

	Japan	Asia	Subtotal	Elimination & corporate assets	Total
. Net sales and operating income (loss)					
(1) Customer sales	15,250	2,575	17,826	-	17,826
(2) Intersegment sales	2,411	2,546	4,958	-4,958	-
Total sales	17,662	5,122	22,784	-4,958	17,826
Operating costs and expenses	15,468	5,211	20,679	-4,629	16,050
Operating income (loss)	2,194	-89	2,105	-329	1,775

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 ¥494million in parent company head office expenses.

Six-month period ended September 30, 2003 (consolidated)

Millions of yen

	Japan	Southeast Asia	Subtotal	Elimination & corporate assets	Total
I. Net sales and operating income					
(1) Customer sales	12,072	2,412	14,484	-	14,484
(2) Intersegment sales	2,405	2,386	4,792	-4,792	-
Total sales	14,478	4,798	19,277	-4,792	14,484
Operating costs and expenses	12,727	4,690	17,417	-4,347	13,070
Operating income	1,751	108	1,859	-444	1,414

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

2. Primary country and region segments outside of Japan:

Southeast Asia: Taiwan, the Philippines, Singapore, China

3. Nonabsorbable operating costs and expenses included in elimination & corporate assets consist primarily of ¥432million parent company head office expenses.

## Year ended March 31, 2004 (consolidated)

Millions of yen

	Japan	Asia	Subtotal	Elimination & corporate assets	Total
I. Net sales and operating income					
(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	3,850	133	3,983	-826	3,157

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 ¥901 million parent company head office expenses.

## 3. Overseas net sales

## Six-month period ended September 30, 2004 (consolidated)

Millions of yen

	Asia	North America	Europe	Total
I. Overseas net sales	3,537	73	64	3,675
II. Consolidated net sales				17,826
III. Percentage of consolidated net sales accounted for by overseas net sales	19.8%	0.4%	0.3%	20.6%

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, Mexico

Europe: Holland, Hungary, Sweden, Finland

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

## Six-month period ended September 30, 2003 (consolidated)

Millions of yen

	Southeast Asia	North America	Europe	Total
I. Overseas net sales	3,596	85	46	3,728
II. Consolidated net sales				14,484
III. Percentage of consolidated net sales accounted for by overseas net sales	24.8%	0.6%	0.3%	25.7%

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

2. Primary country and region segments outside of Japan:

Southeast Asia: Taiwan, South Korea, Singapore, China

North America: United States, 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, 2004 (consolidated)

Millions of yen

	Asia	North America	Europe	Total
I. Overseas net sales	6,971	147	122	7,241
II. Consolidated net sales				30,715
III. Percentage of consolidated net sales accounted for by overseas net sales	22.7%	0.5%	0.4%	23.6%

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

2. Primary country and region segments outside of Japan:

Southeast Asia: Taiwan, South Korea, Singapore, China, Malaysia

North America: United States, Canada, Mexico

Europe: Holland, Sweden, Ireland, 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 interim term-end balance

	Millions of yen		
	<u>Six-month period ended</u>	<u>Six-month period ended</u>	<u>Year ended</u>
	<u>September 30, 2004</u>	<u>September 30, 2003</u>	<u>March 31, 2004</u>
Leased property			
acquisition prices	1,472	997	1,390
Depreciation, total	416	318	391
Term-end balance	1,056	678	999

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

	Millions of yen		
	<u>Six-month period ended</u>	<u>Six-month period ended</u>	<u>Year ended</u>
	<u>September 30, 2004</u>	<u>September 30, 2003</u>	<u>March 31, 2004</u>
One year or less	206	150	191
More than one year	870	534	815
Total	1,077	684	1,007

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

	Millions of yen		
	<u>Six-month period ended</u>	<u>Six-month period ended</u>	<u>Year ended</u>
	<u>September 30, 2004</u>	<u>September 30, 2003</u>	<u>March 31, 2004</u>
Payable Lease Fees	120	65	178
Depreciation, Total	110	61	164
Interest Payment	14	4	17

## Securities

### 1. Other securities with market value

Six-month period ended September 30, 2004 (consolidated)

(Millions of yen)

Category	Acquisition cost	Balance sheet amount	Gain (loss)
1. Equity securities	437	747	310
2. Bonds and debentures			
National and local government bonds	-	-	-
Corporate bonds and debentures	-	-	-
Other bonds and debentures	52	53	1
3. Other securities	-	-	-
Subtotal	489	802	312

Six-month period ended September 30, 2003 (consolidated)

(Millions of yen)

Category	Acquisition cost	Balance sheet amount	Gain (loss)
1. Equity securities	436	589	153
2. Bonds and debentures			
National and local government bonds	-	-	-
Corporate bonds and debentures	-	-	-
Other bonds and debentures	52	53	0
3. Other securities	-	-	-
Subtotal	489	642	153

Year ended March 31, 2004 (consolidated)

(Millions of yen)

Category	Acquisition cost	Balance sheet amount	Gain (loss)
1. Equity securities	436	821	384
2. Bonds and debentures			
National and local government bonds	-	-	-
Corporate bonds and debentures	-	-	-
Other bonds and debentures	52	56	3
3. Other securities	-	-	-
Subtotal	489	878	388

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

N/A Not Applicable

### 3. Other marketable securities with maturity dates

N/A Not Applicable

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

Six-month period ended September 30, 2004

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

Six-month period ended September 30, 2003

No corresponding items since derivative transactions were not used during the term.

Year ended March 31, 2004

No corresponding items since derivative transactions were not used during the year.

## Status of Purchase Orders and Sales

### 1. Net sales by product category

(Millions of yen)

Segment	Six-month period ended September 30, 2004	Percentage (%)	Six-month period ended September 30, 2003	Percentage (%)	Year ended March 31, 2004	Percentage (%)
Semiconductor elements	7,629	48.2	6,988	48.2	14,524	47.3
Applied semiconductor products	2,815	15.8	2,411	16.7	5,258	17.1
Subtotal	10,445	58.6	9,399	64.9	19,783	64.4
Merchandise	7,380	41.4	5,085	35.1	10,931	35.6
Total	17,826	100.0	14,484	100.0	30,715	100.0

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

(Millions of yen)

Segment	Six-month period ended September 30, 2004		Six-month period ended September 30, 2003		Year ended March 31, 2004	
	Net purchase orders	Purchase order balance	Net purchase orders	Purchase order balance	Net purchase orders	Purchase order balance
Semiconductor elements	7,835	1,054	7,016	482	14,919	849
Applied semiconductor products	3,014	591	2,494	468	5,264	391
Subtotal	10,849	1,645	9,510	951	20,184	1,240
Merchandise	7,733	1,052	5,092	389	11,249	700
Total	18,582	2,698	14,602	1,474	31,433	1,941