

# Financial Review

This section reviews Nichicon's consolidated financial statements.

## Overview

Sales increased 3.0% from the preceding year to ¥106,246 million in the fiscal year ended March 2000 (April 1, 1999 to March 31, 2000).

The Japanese economy was weak despite higher public works and housing investment. Sluggish consumer spending, weak private sector capital investment and a stronger yen dampened the recovery in Japan. Despite the severe environment, sales in Japan increased 7.8% from the previous year to ¥58,683 million as we focused on capacitors and circuit products for electronic devices, IT related equipment in particular, to meet the growing demand.

In the period under review, the U. S. economy stayed favorable and the economies in Southeast Asia continued to recover. Nichicon benefited from strong global demand for personal computers, mobile phones, and information and telecommunications equipment, in addition to strong demand from the U. S. automobile industry. Sales in local currency increased at our overseas subsidiaries. Despite the impressive gains, overseas sales fell 2.4% to ¥47,563 million due to markedly stronger yen. The yen appreciated by ¥19/US\$ during the period under review, reducing revenue in yen terms by ¥6,200 million.

Japan represented 55.2% of aggregate sales. Overseas sales accounted for 44.8%. The weight of overseas sales, as a percentage of total sales, has declined over the previous term, but this too again is due to the marked impact of translation into Japanese yen. The Americas was the only overseas market where sales were lower, a consequence of the impact of a stronger dollar.

## Cost of sales, and SG&A Expenses

Despite a 3.0% year on year gain in sales, the cost of sales jumped 8.1% to ¥86,594 million, pushing up the cost of sales ratio by 3.8 percentage points from 77.7% to 81.5%. Two factors pushed up the cost of sales. First was the increase in cost of sales due to higher overseas sales volume although revenue in yen terms declined by about ¥6,200 million due to yen appreciation.

Second, high level of capital expenditure raised depreciation and amortization by ¥2,169 million. As a result, gross profit on sales fell 14.5% to ¥19,652 million.

SG&A expenses rose 1.5% from the previous year to ¥11,620 million due mainly to higher distribution costs, including logistics expenses. Sales, however, grew at a faster rate and as a result SG&A expenses, as a percentage of sales, fell marginally by 0.2 to 10.9% from 11.1% recorded in the last term.

## Operating Income and Net Income

Operating income in the period under review fell 30.4% to ¥8,032 million, due to higher cost sales, reflecting appreciation of the yen and increased depreciation and amortization. Operating income margin declined by 3.6 percentage points to 7.6%.

In the other income account, interest and dividend income on investments declined to ¥1,248 million from ¥1,573 million in the previous year. The decline is due mainly to lower interest rates and capital investment financed through internal funds. The other, net account recorded a ¥423 million surplus up from a ¥458 million deficit in the previous year. The surplus in the other, net account is due to a ¥268 million gain on revaluation of securities, and the absence of valuation losses on short-term investment, which totaled ¥528 million in the previous year due to a change in the securities valuation method to the lower of the cost or market method.

The other expenses account showed a ¥493 million net foreign exchange loss due to the strengthening of the yen. We also provided ¥3,279 million for past service cost of retirement benefits following a change in accounting treatments of accrued severance indemnities and pension plan. In conformation with the new accounting method, the amount of accrued severance indemnities are provided based on the amount of projected benefit obligations. This accounting change is made to further strengthen the financial position and prepare for future increase in cost of retirement benefits.

Income before income taxes and minority interest declined 53.2% to ¥5,802 million. We applied the deferred tax accounting method effective from the term under review and accounted ¥1,099 million as corporation tax etc. adjustment. However, decline in operating profit, combined with foreign

exchange losses and provision for retirement benefits led to a 45.6% drop in net income to ¥2,927 million. As a consequence, return on sales (ROS) fell 2.4 percentage points from the previous year to 2.8%.

Earnings per common share declined by ¥29.03 to ¥34.89. Return on equity edged down by 2.3 percentage points to 2.6%.

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## Financial Position

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Total assets as of March 31, 2000 increased 7.8% to ¥153,748 million.

Total current assets declined by 1.7% to ¥99,270 million, mainly due to a combined ¥6,859 million decline in cash and cash equivalents and short-term investments accounts to finance capital investment.

Property, plant and equipment increased 28.7% from the previous year to ¥43,961 million, due mainly to a ¥10,338 million increase in capital expenditures from the previous year to ¥20,919 million. The principal items of capital investment were: ¥11,740 million for plant and equipment at Ohmachi and Tomita factories for aluminum electrode foils; ¥4,000 million in plant and equipment for tantalum electrolytic capacitors and solid organic polymer tantalum electrolytic capacitors at Nichicon Tantalum Corporation. The entire capital investment was financed with internal funds. We also plan to invest ¥23,000 million in the fiscal year to March 2001 for expanding tantalum electrolytic capacitor and aluminum electrolytic capacitor production capacity and for rationalizing and streamlining, all of which will be financed internally. Depreciation and amortization increased 27.4% from the previous year to ¥10,092 million. We expect depreciation in the March 2001 term to increase by 31.8% to roughly ¥13,300 reflecting capital expenditures of ¥23,000 million.

Investments and other assets increased 16.2% from the previous term to ¥8,695 million, as we accounted deferred tax assets following the introduction of deferred tax accounting method.

Total current liabilities increased 17.8% to ¥30,246 million due mainly to a rise in notes and accounts payable. Long-term liabilities increased 56.8% to ¥8,827 million, due mainly to increase in past service cost of retirement benefits.

Working capital (current assets less current liabilities) was ¥69,024 million. This translates into a current ratio of 328.2%.

Retained earnings increased by ¥4,135 million from the end of the previous term to ¥83,839 million. Treasury stock increased by ¥565 million as compared with the end of the previous term, due mainly to the purchase of own stock for stock options. A system of stock options was introduced for directors and senior management executives. Total shareholders' equity increased by ¥3,570 million from the end of the previous term to ¥114,626 million.

Shareholders' equity ratio declined by 3.3 percentage points to 74.6%. Shareholders' equity per common share increased 3.6% to ¥1,367.48.

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## Cash Flows

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The principle factors affecting uses of cash were ¥6,588 million decline in income before income taxes, and ¥4,449 million increase in notes and accounts receivable in comparison with the previous year. The principal sources of cash from operating activities were ¥10,092 million increase in depreciation and amortization and ¥3,032 million increase in provision for retirement benefits, ¥4,801 million increase in notes and accounts payable, and ¥2,852 million decline in income taxes etc. As these sources largely offset uses, cash flow from operating activities totaled ¥11,473 million, an increase of ¥30 million from the previous term.

Net cash used in investment activities was ¥12,882 million, due to ¥1,996 million increase in expenses as compared with the previous year. This was due mainly to ¥411 million withdrawal from time deposits and ¥10,327 million redemption of securities upon maturity to finance capital investment.

Net cash used in financing activities was ¥1,596 million, due to ¥419 million increase in expenditures. Expenses increased due mainly to a ¥564 million purchase of own stock for the introduction of the stock option system.

Thus cash and cash equivalents at the end of the term decreased by ¥2,510 million from ¥10,238 million in the previous year to ¥7,728 million.

# Consolidated Balance Sheets

NICHICON CORPORATION AND CONSOLIDATED SUBSIDIARIES  
March 31, 2000 and 1999

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	March 31,		March 31,
	2000	1999	2000
<b>Current assets:</b>			
Cash and cash equivalents .....	¥ 7,728	¥ 10,238	\$ 72,800
Time deposits .....	2,289	1,195	21,568
Trade receivable:			
Notes .....	8,722	7,576	82,164
Accounts .....	24,421	22,033	230,064
Less: allowance for doubtful accounts .....	( 244 )	( 284 )	( 2,303 )
	32,899	29,325	309,925
Short-term investments (Note 4) .....	37,505	42,948	353,320
Inventories (Note 5) .....	15,335	15,696	144,462
Deferred tax assets (Notes 2(9) and 11) .....	1,019	—	9,601
Other current assets .....	2,495	1,539	23,509
<b>Total current assets</b> .....	<b>99,270</b>	<b>100,941</b>	<b>935,185</b>
<b>Property, plant and equipment:</b>			
Land .....	4,187	4,253	39,448
Buildings and structures .....	25,104	19,682	236,499
Machinery and equipment .....	103,265	88,585	972,820
Construction in progress .....	1,050	672	9,886
	133,606	113,192	1,258,653
Less: Accumulated depreciation .....	( 89,645 )	( 79,034 )	( 844,515 )
<b>Net property, plant and equipment</b> .....	<b>43,961</b>	<b>34,158</b>	<b>414,138</b>
<b>Investments and other assets:</b>			
Investments in securities (Notes 4) .....	3,677	3,671	34,641
Investments in and advances to unconsolidated subsidiaries and affiliates .....	1,724	1,352	16,239
Deferred tax assets (Notes 2(9) and 11) .....	2,430	—	22,897
Other .....	1,173	2,790	11,052
Less: allowance for doubtful accounts .....	( 309 )	( 330 )	( 2,911 )
<b>Total investments and other assets</b> .....	<b>8,695</b>	<b>7,483</b>	<b>81,918</b>
<b>Adjustments on foreign currency statement translation</b> .....			
	1,822	—	17,164
<b>Total assets</b> .....	<b>¥ 153,748</b>	<b>¥ 142,582</b>	<b>\$ 1,448,405</b>

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	March 31,		March 31,
	2000	1999	2000
<b>Current liabilities:</b>			
Trade payable:			
Notes .....	¥ 7,648	¥ 6,643	\$ 72,050
Accounts .....	11,670	9,428	109,942
	19,318	16,071	181,992
Notes and accounts payable for construction .....	4,854	2,723	45,728
Accrued income taxes (Note 11) .....	1,441	3,106	13,572
Accrued expenses .....	3,325	3,088	31,320
Other current liabilities .....	1,308	692	12,320
<b>Total current liabilities</b> .....	<b>30,246</b>	<b>25,680</b>	<b>284,932</b>
<b>Long-term liabilities:</b>			
Accrued severance indemnities .....	8,246	5,214	77,683
Deferred tax liabilities (Notes 2(9) and 11) .....	131	—	1,236
Other long-term liabilities .....	450	416	4,240
<b>Total long-term liabilities</b> .....	<b>8,827</b>	<b>5,630</b>	<b>83,159</b>
<b>Adjustments on foreign currency statement translation</b> .....			
	—	173	—
<b>Minority interest</b> .....			
	49	43	463
<b>Shareholders' equity (Note 9):</b>			
Common stock, ¥50 par value:			
Authorized -140,000,000 shares			
Issued:			
-84,144,372 shares at March 31, 2000 .....	14,287	—	134,589
-84,144,372 shares at March 31, 1999 .....	—	14,287	—
Additional paid-in capital .....	17,065	17,065	160,764
Retained earnings .....	83,839	79,704	789,815
Less: treasury stock .....	( 565 )	( 0 )	( 5,317 )
<b>Total shareholders' equity</b> .....	<b>114,626</b>	<b>111,056</b>	<b>1,079,851</b>
<b>Total liabilities and shareholders' equity</b> .....	<b>¥ 153,748</b>	<b>¥ 142,582</b>	<b>\$ 1,448,405</b>

The accompanying notes are an integral part of these statements.



# Consolidated Statements of Shareholders' Equity

NICHICON CORPORATION AND CONSOLIDATED SUBSIDIARIES  
For the years ended March 31, 2000 and 1999

	Millions of Yen				
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Treasury stock
<b>Balance at March 31, 1998</b>	84,119,662	14,277	17,055	75,530	( 0 )
Net income	—	—	—	5,377	—
Cash dividends paid	—	—	—	( 1,178 )	—
Bonuses to directors	—	—	—	( 25 )	—
Conversion of convertible bonds	24,710	10	10	—	—
Decrease in treasury stock	—	—	—	—	0
<b>Balance at March 31, 1999</b>	84,144,372	14,287	17,065	79,704	( 0 )
Net income	—	—	—	2,927	—
Cash dividends paid	—	—	—	( 1,008 )	—
Bonuses to directors	—	—	—	( 28 )	—
Cumulative effect of change in the affiliate's accounting	—	—	—	( 73 )	—
Prior years' tax effect from initial application of accounting for income taxes	—	—	—	2,317	—
Increase in treasury stock	—	—	—	—	( 565 )
<b>Balance at March 31, 2000</b>	<b>84,144,372</b>	<b>14,287</b>	<b>17,065</b>	<b>83,839</b>	<b>( 565 )</b>

	Thousands of U.S. Dollars (Note 3)				
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Treasury stock
<b>Balance at March 31, 1999</b>	84,144,372	134,589	160,764	750,859	( 4 )
Net income	—	—	—	27,571	—
Cash dividends paid	—	—	—	( 9,494 )	—
Bonuses to directors	—	—	—	( 264 )	—
Cumulative effect of change in the affiliate's accounting	—	—	—	( 688 )	—
Prior years' tax effect from initial application of accounting for income taxes	—	—	—	21,831	—
Increase in treasury stock	—	—	—	—	( 5,313 )
<b>Balance at March 31, 2000</b>	<b>84,144,372</b>	<b>134,589</b>	<b>160,764</b>	<b>789,815</b>	<b>( 5,317 )</b>

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Cash Flows

NICHICON CORPORATION AND CONSOLIDATED SUBSIDIARIES  
For the years ended March 31, 2000 and 1999

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	For the year ended March 31,		For the year ended March 31,
	2000	(Unaudited) 1999	2000
<b>Operating activities:</b>			
Income before income taxes and minority interest ...	¥ 5,802	¥ 12,390	\$ 54,662
Adjustments for:			
Depreciation and amortization .....	10,092	7,923	95,073
Net loss on sales or disposal of property and equipment ...	110	172	1,039
Loss on valuation of short-term investments .....	—	528	—
Provision for accrued severance indemnities .....	3,032	546	28,560
Interest and dividend income .....	( 1,248 )	( 1,573 )	( 11,757 )
Interest expenses .....	19	33	182
Decrease (increase) in notes and accounts receivable...	( 4,449 )	854	( 41,916 )
Decrease (increase) in inventories .....	( 389 )	1,614	( 3,668 )
Increase (decrease) in notes and accounts payable ...	4,801	( 1,682 )	45,226
Other, net .....	( 1,918 )	( 2,410 )	( 18,072 )
Sub total .....	15,852	18,395	149,329
Interest and dividend income received .....	1,267	1,560	11,932
Interest expenses paid .....	( 19 )	( 33 )	( 182 )
Income taxes paid .....	( 5,627 )	( 8,479 )	( 53,008 )
<b>Net cash provided by operating activities .....</b>	<b>11,473</b>	<b>11,443</b>	<b>108,071</b>
<b>Investing activities:</b>			
Payments for purchase of short-term investments .....	( 4,831 )	( 11,351 )	( 45,511 )
Proceeds from sales of short-term investments .....	10,327	11,850	97,282
Payments for purchase of property and equipment ...	( 18,239 )	( 10,881 )	( 171,822 )
Payments for purchase of investments in securities...	( 453 )	—	( 4,265 )
Decrease (increase) in time deposits .....	411	( 516 )	3,870
Decrease (increase) in other investments .....	( 97 )	12	( 910 )
<b>Net cash used in investing activities .....</b>	<b>( 12,882 )</b>	<b>( 10,886 )</b>	<b>( 121,356 )</b>
<b>Financing activities:</b>			
Payments for purchase of treasury stock .....	( 907 )	( 90 )	( 8,540 )
Proceeds from sales of treasury stock .....	343	90	3,227
Cash dividends paid .....	( 1,008 )	( 1,177 )	( 9,494 )
Other, net .....	( 24 )	—	( 229 )
<b>Net cash provided by financing activities .....</b>	<b>( 1,596 )</b>	<b>( 1,177 )</b>	<b>( 15,036 )</b>
<b>Effect of exchange rate changes on cash and cash equivalents .....</b>	<b>495</b>	<b>( 123 )</b>	<b>4,671</b>
<b>Net decrease in cash and cash equivalents .....</b>	<b>( 2,510 )</b>	<b>( 743 )</b>	<b>( 23,650 )</b>
<b>Cash and cash equivalents at beginning of the year ...</b>	<b>10,238</b>	<b>10,981</b>	<b>96,450</b>
<b>Cash and cash equivalents at end of the year .....</b>	<b>¥ 7,728</b>	<b>¥ 10,238</b>	<b>\$ 72,800</b>

The accompanying notes are an integral part of these statements.

# Notes to Consolidated Financial Statements

NICHICON CORPORATION AND CONSOLIDATED SUBSIDIARIES

## 1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared based on the accounts maintained by NICHICON CORPORATION (the "Company") and its domestic consolidated subsidiaries in accordance with the provisions set forth in the Japanese Commercial Code (the "Commercial Code") and Japanese Securities and Exchange Law, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards.

The accounts of overseas subsidiaries consolidated with the Company are based on the financial statements prepared in conformity with generally accepted accounting principles (the "GAAP") and practices prevailing in the countries where the subsidiaries have been incorporated. Financial statements have not been materially affected by the differences between the GAAP prevailing in these countries and Japanese GAAP. Therefore, no adjustments have been reflected in the accompanying consolidated financial statements to present the accounts of the subsidiaries in compliance with Japanese accounting principles and practices.

Certain account balances, as disclosed in the basic consolidated

financial statements in Japan, have been summarized or reclassified to the extent deemed necessary to enable presentation in a form which is more familiar to readers outside Japan.

In addition, the consolidated statements of cash flows are required to be prepared from the fiscal year beginning from April 1, 1999 in accordance with the new Accounting Standards for Consolidated Statements of Cash Flow issued by the Business Accounting Deliberation Council of Japan and filed with the Ministry of Finance in Japan (the "MOF"). Although there was no requirement to file them with the MOF by the fiscal year ended March 31, 1999, such consolidated statements of cash flows for prior years had been prepared based on practices of preparation for consolidated statements of cash flows in Japan, which are different from the new standards, and had been included in the accompanying consolidated financial statements.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

## 2. Summary of Significant Accounting Policies

### (1) Principles of Consolidation

The Company had 12 subsidiaries as of March 31, 2000 and 10 subsidiaries as of March 31, 1999. The accompanying consolidated financial statements include the accounts of the Company and 10 (10 for 1999) of its subsidiaries (together, the "Companies"), which are listed below:

Name	Country of incorporation	Equity ownership percentage at March 31, 2000	Fiscal year-end
NICHICON TANTALUM CORPORATION	Japan	100.0%	March 31
ASAHI ELECTRIC INDUSTRIES CO., LTD.	Japan	100.0%	December 31
NICHICON (IWATE) CORPORATION	Japan	100.0%	January 31
WAKASA ELECTRIC CORPORATION	Japan	100.0%	February 28
DENDO CORPORATION	Japan	95.0%	February 28
NICHICON (AMERICA) CORP.	U.S.A.	100.0%	March 31
NICHICON (HONG KONG) LTD.	Hong Kong	100.0%	March 31
NICHICON (EUROPE) LTD.	United kingdom	100.0%	December 31
NICHICON (SINGAPORE) PTE. LTD.	Singapore	100.0%	December 31
NICHICON (MALAYSIA) SDN. BHD.	Malaysia	100.0%	December 31

The remaining 2 subsidiaries at March 31, 2000 were not consolidated because their combined assets, net sales, net income and retained earnings in the aggregate are not significant compare to those of the consolidated financial statements of the Companies.

For the purpose of preparing the accompanying consolidated financial statements, all significant intercompany transactions, account balances and unrealized profits among the Companies have been eliminated. The amounts of certain subsidiaries have

# Notes to Consolidated Financial Statements

been included on the basis of fiscal periods ended within three months prior to March 31.

The Company had 2 unconsolidated subsidiaries and 12 affiliates as of March 31, 2000 and 11 affiliates as of March 31, 1999. The equity method is applied to the investments in 1 affiliate, Samwha Electric Co., Ltd. since the total net income and retain earnings of the unconsolidated subsidiaries and affiliates other than Samwha Electric Co., Ltd. are not material to the consolidated result of total net income and total retained earnings, respectively.

The investments in the remaining unconsolidated subsidiaries and affiliates are carried at cost.

## (2) Translation of Foreign Currency Financial Statements

The accounts of the overseas consolidated subsidiaries are translated into Japanese yen by the methods prescribed under the statements issued by the Business Accounting Deliberation Council of Japan. Under this method, all assets and liabilities are translated at current rates while shareholders' equity is translated at historical rates, and revenue and expense items are translated at the average rates during the year. The resulting translation adjustments are shown as "Adjustments on foreign currency statement translation" in the accompanying consolidated balance sheet.

## (3) Valuation of Securities

Securities listed on stock exchanges are valued at the lower of cost or market, cost being determined by the moving average method. Other securities are valued at cost determined by the moving average method.

Under the "at the lower of cost or market" method, the comparison of cost with lower market value is made for specific securities, not on an aggregate basis.

## (4) Inventories

Finished goods and work in process are valued principally at cost determined by the average method. Other inventories are valued principally at cost determined by the moving-average method.

## (5) Property, Plant and Equipment

Depreciation for the Company and its domestic subsidiaries is computed by the declining-balance method except for depreciation of buildings which acquired on or after April 1, 1998, at rates based on the estimated useful lives of assets, which are prescribed by the Japanese income tax laws.

Depreciation of buildings which acquired on or after April 1, 1998 for the Company and its domestic subsidiaries is computed by the straight-line method at rates based on the same above.

Depreciation for the overseas subsidiaries is principally computed by the straight-line method at rates based on the estimated useful lives of assets.

The estimated useful lives of the buildings are shortened by about 20% in conformity with 1998 tax changes. The range of useful lives is principally from 15 to 35 years for buildings and structure and from 5 to 9 years for machinery and equipment.

Normal repairs and maintenance including minor renewals and improvements are charged to income as incurred. Gain or loss on the disposal of property and equipment is recognized in the period of disposal.

## (6) Capitalized Computer Software Costs

Amortization of computer software, which is included in "Investments and other assets: Other" in the accompanying balance sheets and comprise costs of software used in the Company and its subsidiaries' business, is principally computed on the straight-line method over 5 years, as the estimated useful lives.

## (7) Foreign Currency Translation

Foreign currencies and short-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the relevant exchange rates prevailing at the respective balance sheet dates. The resulting transaction gains or losses are included in "Other income (expenses)" for the year.

Long-term receivables and payables denominated in foreign currencies including investments in overseas subsidiaries are translated at the historical rates prevailing at the transaction dates.

However, receivables and payable denominated in foreign currencies which are hedged by forward exchange contracts are translated into yen at the contracted rate of exchange.

Revenues and expenses are translated at the average rate during the year.

## (8) Leases

Where the financing leases do not transfer ownership of the leased property to the lessee during the terms of the leases, the leased property is not capitalized and the related lease expenses are charged to income in the periods incurred, as per the statements issued by the Business Accounting Deliberation Council.

**(9) Income Taxes**

The Companies computed and recorded income taxes currently payable based upon taxable income determined in accordance with applicable tax laws. The Company and its domestic subsidiaries did not recognize deferred income taxes arising from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements at March 31, 1999.

Effective April 1, 1999, they adopted the Financial Accounting Standard on Accounting for Effects of Income Taxes which was issued by the Business Accounting Deliberation Council. This standard requires that income taxes are accounted for under the assets and liabilities method. The effect of the initial application for the year ended March 31, 2000 was to increase net income by ¥1,099 million (\$10,357 thousand). The cumulative effect up to the beginning of the current year of ¥2,317 million (\$21,831 thousand) has been reported as prior years' tax effect from initial application of accounting for income taxes in the consolidated statements of shareholders' equity. As a result of the above effects, total assets and retained earnings at March 31, 2000 increased by ¥3,449 million (\$32,498 thousand) and ¥3,416 million (\$32,188 thousand), respectively.

**(10) Accrued Severance Indemnities and Pension Plan**

Under the terms of the retirement plan of the Company, employees of the Company with more than 3 years of service are generally entitled to receive lump-sum payments on the time of retirement.

The amount of the retirement benefit is, in general, determined based on the length of service, the cause of retirement, and the remuneration at the time of retirement.

The Company also has a contributory pension plan which is interrelated with Japanese government social welfare program which consists of a basic portion requiring employee and employer contributions plus an additional portion established by the Company. The Company and its domestic consolidated subsidiaries have non-contributory pension plan. The amount of severance indemnities to be paid by the Company and its subsidiaries is reduced by the benefits payable under these pension plans.

Accrued severance indemnities of the Company and its domestic consolidated subsidiaries are mainly stated at the present value of the vested benefit obligation which would be required if all employees voluntarily terminated their employment at the balance

sheet dates, and the Companies recognized pension contribution as expenses when paid until the year ended March 31, 1999.

Effective April 1, 1999, the Companies' accounting treatments of accrued severance indemnities and pension contribution are unified, and the amount of accrued severance indemnities are provided based on the amount of projected benefit obligation minus pension plan assets at fair value.

This accounting change is made to provide a more proper allocation of the cost of retirement benefits and further strengthen the financial position, preparing for future increase in cost of retirement benefit. The effect of this change is to increase operating profit by ¥77 million (\$735 thousand) and decrease income before income taxes and minority interests by ¥3,200 million (\$30,153 thousand), compared with the amount which would have been recorded under the method applied in previous years.

The directors and statutory auditors of the Company are covered by a retirement benefit plan under which the retiring directors and statutory auditors are entitled to receive lump-sum retirement benefits. The amount of such benefits is determined based on the Company's internal rules. The accrued severance indemnities for the directors and statutory auditors represent the estimated amount to be paid if all directors and statutory auditors retired at the balance sheet dates.

**(11) Research and Development Expenses**

Research and development expenses are charged to income as incurred.

**(12) Appropriation of Retained Earnings**

Under the Commercial Code and the Articles of Incorporation of the Company, proposals by the Board of Directors for the appropriation of retained earnings (principally the payment of annual cash dividends) should be approved by a shareholders' meeting which must be held within three months after the end of each financial year. The appropriation of retained earnings reflected in the accompanying consolidated financial statements for each financial year represents the appropriations which were approved by the shareholders' meeting and disposed of during that year but which related to the immediately preceding financial year.

The payment of bonuses to directors is made out of retained earnings instead of being charged to income for the year and constitutes a part of appropriations referred to above.

# Notes to Consolidated Financial Statements

## (13) Net Income and Dividend per Share

Basic net income per share is based upon the weighted average number of shares of common stock outstanding during each year.

Diluted net income per share is not applicable, due to no outstanding warrants and convertible bonds.

Cash dividends per share represent interim dividend paid and annual dividends declared as applicable to the respective years.

cash flows are composed of cash on hands, bank deposits be able to withdraw on demand and bank deposits with original maturity of three months or less.

## (15) Reclassifications

Certain prior-year amounts have been reclassified to conform to the current year's presentation.

## (14) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of

## 3. United States Dollar Amounts

The Company prepares its consolidated financial statements in Japanese yen. The U.S. dollar amounts included in the accompanying consolidated financial statements and notes thereto represent the arithmetical results of translating yen into dollars at the rate of ¥106.15 to U.S.\$1, being the effective rate of exchange

at March 31, 2000. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be readily converted, realized or settled in dollars at the rate of ¥106.15 to U.S.\$1 or at any other rate.

## 4. Short-term Investments and Investments in Securities

Short-term investments and investments in securities held by the Companies as of March 31, 2000 and 1999 were summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	2000	1999	2000
Short-term investments:			
Equity securities .....	¥ 308	¥ 183	\$ 2,905
Government and corporate bonds .....	32,389	39,465	305,125
Other securities .....	4,808	3,300	45,290
	<u>37,505</u>	<u>42,948</u>	<u>353,320</u>
Investments in securities:			
Equity securities .....	3,677	3,671	34,641
	<u>¥ 3,677</u>	<u>¥ 3,671</u>	<u>\$ 34,641</u>

Book value and market value information on short-term investments and investments in securities held by the Companies as of March 31, 2000 were summarized as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	Book value per balance sheet	Market value	Unrealized gain	Book value per balance sheet	Market value	Unrealized gain
<b>Short-term investments:</b>						
Equity securities .....	¥ 308	¥ 831	¥ 523	\$ 2,905	\$ 7,834	\$ 4,929
Government and corporate bonds .....	24,381	25,085	704	229,681	236,314	6,633
	24,689	25,916	1,227	232,586	244,148	11,562
<b>Investments in securities:</b>						
Equity securities .....	3,460	8,143	4,683	32,595	76,708	44,113
	¥ 28,149	¥ 34,059	¥ 5,910	\$ 265,181	\$ 320,856	\$ 55,675

Book values of securities which were excluded from the above disclosure of book value and market value information on short-term investments and investments in securities held by the Companies as of March 31, 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
<b>Short-term investments:</b>				
Government and corporate bonds .....		¥ 8,008		\$ 75,444
Other securities .....		4,808		45,290
<b>Investments in securities:</b>				
Equity securities .....		217		2,046

The market value information on these securities is not required under Japanese GAAP.

## 5. Inventories

Inventories as of March 31, 2000 and 1999 consisted of the followings:

	Millions of Yen		Thousands of U.S. Dollars	
	March 31,		March 31,	
	2000	1999	2000	
Finished goods .....	¥ 7,706	¥ 8,406	\$ 72,595	
Work in process .....	4,123	3,934	38,842	
Raw materials and supplies .....	3,506	3,356	33,025	
	¥ 15,335	¥ 15,696	\$ 144,462	

# Notes to Consolidated Financial Statements

## 6. Financial Instruments

The Company enters into forward foreign exchange contracts on export transactions to hedge its exposure to fluctuations in foreign exchange rates. All forward foreign exchange contracts are allocated to the accounts receivable on the accompanying

consolidated balance sheets. The Company's management believes that there is no credit risk since they are executed with creditworthy financial institutions. The amounts underlying of the forward foreign exchange contracts were nil at March 31, 2000.

## 7. Lease Commitments

(1) The companies lease certain machinery and equipment and other assets. Total lease expenses under these leases were ¥111 million (\$1,042 thousand) and ¥97 million for the years ended March 31, 2000 and 1999, respectively. Additional information such as the notional acquisition costs and

accumulated depreciation as of March 31, 2000 and 1999, requested by the Business Accounting Deliberation Council of Japan, to be disclosed as not included in the accompanying consolidated balance sheets were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	2000	1999	2000
Machinery and equipment .....	¥ 358	¥ 354	\$ 3,374
Other .....	104	87	981
	462	441	4,355
Less: Accumulated depreciation .....	( 225 )	( 188 )	( 2,124 )
	¥ 237	¥ 253	\$ 2,231

The aggregate future lease payments under finance leases as of March 31, 2000 and 1999 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	2000	1999	2000
Due within one year .....	¥ 109	¥ 102	\$ 1,023
Due after one year .....	128	151	1,208
	¥ 237	¥ 253	\$ 2,231

The amount of notional acquisition costs and future lease payments under finance leases included the imputed interest expenses portion.

Notional depreciation expense for the years ended March 31, 2000 and 1999, which is not reflected in the accompanying consolidated statements of income were ¥111 million (\$1,042 thousand) and ¥97million.

Notional acquisition costs means the costs which is

characterized as the total lease payment, including interest due to the immateriality of the leased property. Notional depreciation expense is calculated by the straight-line method assuming that there is no scrap value over the terms of the lease based on notional acquisition costs.

(2) The aggregate future lease payments under ordinary operating leases as of March 31, 2000 and 1999 were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	March 31,		March 31,	
	2000	1999	2000	
Due within one year .....	¥ 17	¥ 1	\$ 162	
Due after one year .....	20	1	189	
	¥ 37	¥ 2	\$ 351	

## 8. Contingent Liabilities

As of March 31, 2000, there is no contingent liability.

## 9. Shareholders' Equity

Under the Commercial Code, at least 50 % of the issue price of new shares, with a minimum of the par value thereof, is required to be designated as stated capital. The portion which is to be designated as stated capital is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as stated capital are credited to additional paid-in capital.

The Commercial Code provides that an amount equal to at

least 10 % of cash dividends and other appropriations of retained earnings paid out with respect to each financial period be set aside in a legal reserve until such reserve equals 25 % of the amount of common stock. This reserve may be transferred to common stock by a resolution of the Board of Directors or used to reduce a deficit with the approval of a shareholders' meeting but is not available for dividend payments.

## 10. Selling, General and Administrative Expenses

Selling, general and administrative expenses in the accompanying consolidated statements of income, for the years ended March 31, 2000 and 1999 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars	
	For the year ended March 31,		For the year ended March 31,	
	2000	1999	2000	
Freight charge .....	¥ 2,197	¥ 1,907	\$ 20,699	
Advertisements .....	222	258	2,093	
Employees' salary and bonuses .....	3,216	3,120	30,295	
Research and development expenses .....	1,297	1,089	12,222	
Other .....	4,688	5,074	44,158	
	¥ 11,620	¥ 11,448	\$ 109,467	

# Notes to Consolidated Financial Statements

## 11. Income Taxes

The Company and its domestic consolidated subsidiaries are subject to a number of different taxes based on income, which in the aggregate indicate a normal effective statutory income tax rate of approximately 42% for the year ended March 31, 2000. Foreign consolidated subsidiaries are subject to income taxes of the countries in which they operate.

Effective April 1, 1999, the Companies introduced a deferred

tax accounting. According to this new accounting, a deferred tax asset and liability was recognized for the future tax effects derived from temporary differences. The cumulative effect of this accounting change was included in the "Income taxes: Deferred" in the consolidated statements of income for the year ended March 31, 2000.

Reconciliation of the differences between the statutory rate and the effective income tax rate as of March 31, 2000 were as follows:

	For the year ended March 31,
Statutory tax rate .....	41.7%
Expenses not deductible for income tax purposes .....	0.9
Revenues not deductible for income tax purposes .....	( 3.4 )
Effect on elimination of dividend income received .....	6.4
Other .....	3.8
Effective tax rate .....	49.4%

The significant components of deferred tax assets and liabilities as of March 31, 2000 were summarized as follows:

	Millions of Yen	Thousands of U.S. Dollars
Deferred tax assets due to:		
Accrued severance indemnities .....	¥ 2,785	\$ 26,241
Unrealized gain/loss on inventories .....	425	4,007
Accrued enterprise taxes .....	143	1,346
Other .....	461	4,339
Total	3,814	35,933
Deferred tax liabilities due to:		
Other .....	496	4,671
Net deferred tax assets .....	¥ 3,318	\$ 31,262

Net deferred tax assets are included in the consolidated balance sheets as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current assets:		
Deferred tax assets .....	¥ 1,019	\$ 9,601
Investments and other assets:		
Deferred tax assets .....	2,430	22,897
Long-term liabilities:		
Deferred tax liabilities .....	( 131 )	( 1,236 )
	¥ 3,318	\$ 31,262

## 12. Segment Information

Segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2000 and 1999 presented below:

### (1) Industry segment

The Companies' main operations are manufacturing and distributing capacitors and their related products. The Companies' operations by business segment for the year ended March 31, 2000 and 1999 are not disclosed since the ratios of business other than

main operations described above to total in respect of sales, operating income and assets are not material, being less than 10% as stipulated in the Japanese Disclosure Rule of Consolidated Financial Statements.

### (2) Geographic segment

The foreign operations of the Companies for the years ended March 31, 2000 and 1999 were summarized as follows:

	Millions of Yen					Consolidated
	Japan	America	Asia	Other	Elimination and corporate	
<b>Year ended March 31, 2000</b>						
Sales:						
Outside customer .....	¥ 65,485	¥ 20,087	¥ 16,530	¥ 4,144	—	¥ 106,246
Intersegment .....	34,781	23	1,717	5	¥ ( 36,526)	—
Total sales .....	100,266	20,110	18,247	4,149	( 36,526)	106,246
Operating costs and expenses .....	92,883	19,773	17,957	4,365	( 36,764)	98,214
Operating income .....	¥ 7,383	¥ 337	¥ 290	¥ ( 216)	¥ 238	¥ 8,032
Assets .....	¥ 98,795	¥ 9,662	¥ 12,649	¥ 2,194	¥ 30,448	¥ 153,748

	Millions of Yen					Consolidated
	Japan	America	Asia	Other	Elimination and corporate	
<b>Year ended March 31, 1999</b>						
Sales:						
Outside customer .....	¥ 61,829	¥ 21,882	¥ 15,963	¥ 3,449	—	¥ 103,123
Intersegment .....	32,729	39	1,751	4	¥ ( 34,523)	—
Total sales .....	94,558	21,921	17,714	3,453	( 34,523)	103,123
Operating costs and expenses .....	84,433	20,736	17,594	3,538	( 34,722)	91,579
Operating income .....	¥ 10,125	¥ 1,185	¥ 120	¥ ( 85)	¥ 199	¥ 11,544
Assets .....	¥ 81,391	¥ 11,334	¥ 10,256	¥ 2,126	¥ 37,475	¥ 142,582

# Notes to Consolidated Financial Statements

Thousands of U.S. Dollars

Year ended March 31, 2000	Japan	America	Asia	Other	Elimination and corporate	Consolidated
<b>Sales:</b>						
Outside customer .....	\$ 616,908	\$ 189,237	\$ 155,722	\$ 39,047	—	\$1,000,914
Intersegment .....	327,658	214	16,173	47	\$ (344,092)	—
Total sales .....	944,566	189,451	171,895	39,094	(344,092)	1,000,914
Operating costs and expenses .....	875,013	186,276	169,163	41,131	(346,338)	925,245
Operating income .....	\$ 69,553	\$ 3,175	\$ 2,732	\$ ( 2,037)	\$ 2,246	\$ 75,669
<b>Assets .....</b>	<b>\$ 930,709</b>	<b>\$ 91,024</b>	<b>\$ 119,163</b>	<b>\$ 20,670</b>	<b>\$ 286,839</b>	<b>\$1,448,405</b>

Unallocated corporate assets which were included in "Elimination and corporate" were ¥42,910 million (\$404,243 thousand) and ¥49,931 million as of March 31, 2000 and 1999, respectively.

### (3) Sales to foreign customers

Sales to foreign customers for the years ended March 31, 2000 and 1999 consisted of the followings:

Year ended March 31, 2000	Millions of Yen			
	America	Asia	Other	Total
Sales to foreign customers .....	¥ 20,414	¥ 21,312	¥ 5,837	¥ 47,563
Consolidated sales .....	—	—	—	106,246
Ratio of sales to foreign customers to consolidated sales .....	19.2%	20.1%	5.5%	44.8%

Year ended March 31, 1999	Millions of Yen			
	America	Asia	Other	Total
Sales to foreign customers .....	¥ 22,938	¥ 20,265	¥ 5,506	¥ 48,709
Consolidated sales .....	—	—	—	103,123
Ratio of sales to foreign customers to consolidated sales .....	22.2%	19.7%	5.3%	47.2%

Year ended March 31, 2000	Thousands of U.S. Dollars			
	America	Asia	Other	Total
Sales to foreign customers .....	\$ 192,308	\$ 200,777	\$ 54,990	\$ 448,075
Consolidated sales .....	—	—	—	1,000,914
Ratio of sales to foreign customers to consolidated sales .....	19.2%	20.1%	5.5%	44.8%

## 13. Subsequent Event

At the general shareholders' meeting of the Company held on June 29, 2000, the payments of cash dividends ¥6.0 (\$0.06) per share and directors' bonuses were approved, which amounted to

¥503 million (\$4,738 thousand) and ¥28 million (\$264 thousand), respectively.

# Report of Independent Certified Public Accountants

**The Board of Directors of  
NICHICON CORPORATION**

We have audited the accompanying consolidated balance sheets of NICHICON CORPORATION and its consolidated subsidiaries as of March 31, 2000 and 1999, and the related consolidated statements of income and shareholders' equity for the years then ended and cash flows for the year ended March 31, 2000, all expressed in Japanese Yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of NICHICON CORPORATION and its consolidated subsidiaries as of March 31, 2000 and 1999, and the consolidated results of their operations for the years then ended and their cash flows for the year ended March 31, 2000 in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis, except for the change, with which we concur, in the method of accounting for accrued severance indemnities and pension plan as described in Note2 (10).

The amount expressed in U.S. dollars, provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying consolidated financial statements.

Japan  
June 29, 2000

*ChuoAoyama Audit Corporation*  
ChuoAoyama Audit Corporation