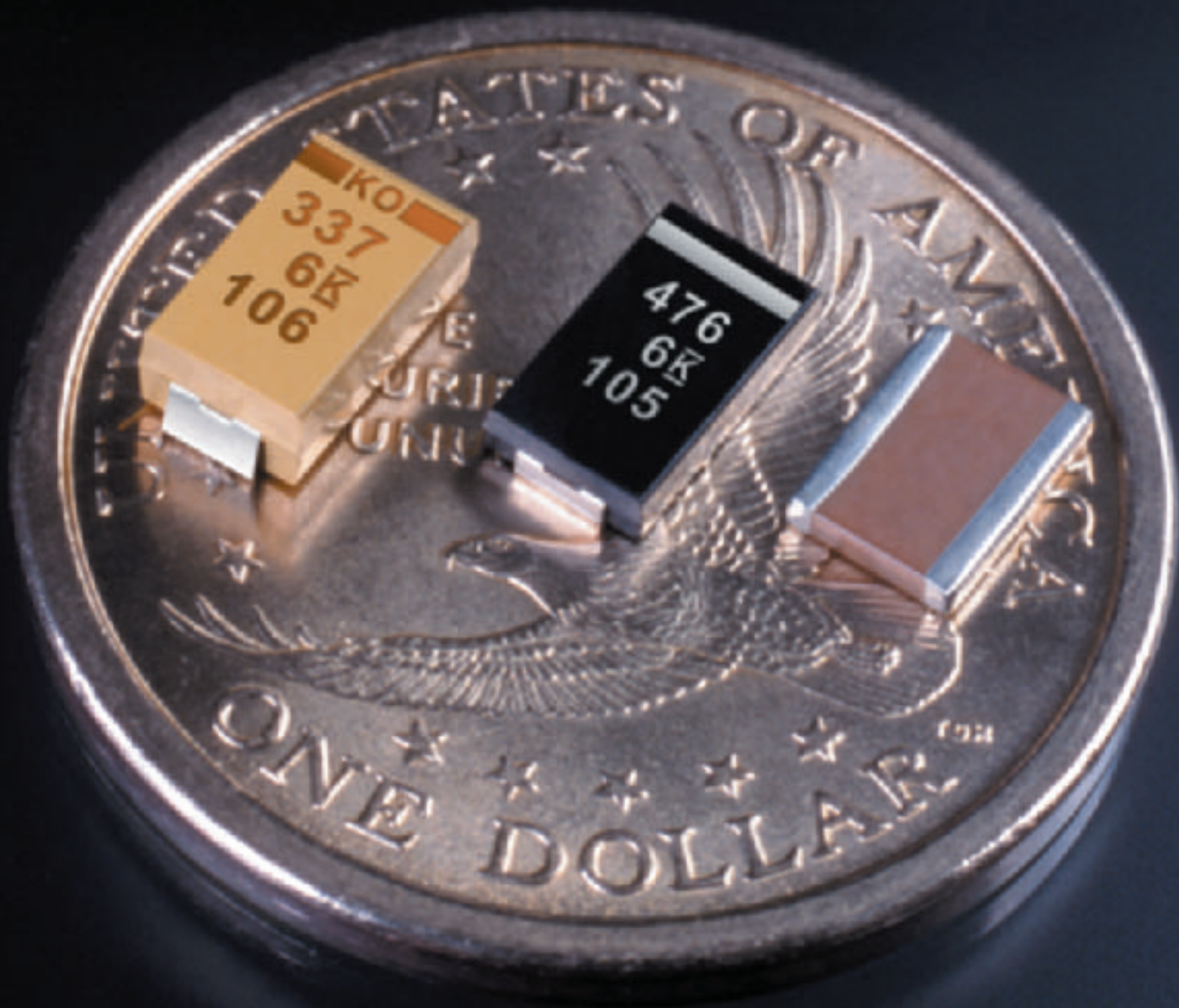


**KEMET**

*THE PREFERRED CAPACITOR SUPPLIER*



*2001 KEMET CORPORATION ANNUAL REPORT*

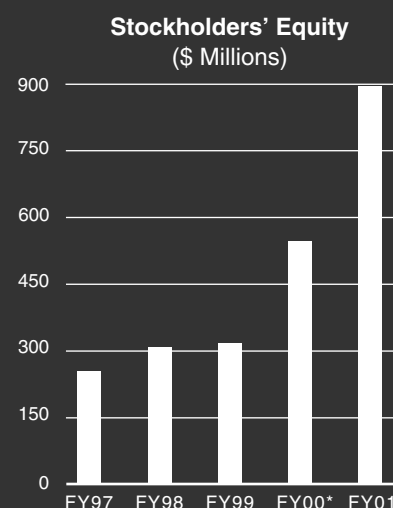
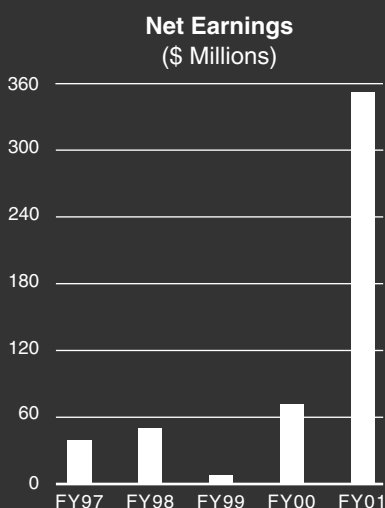
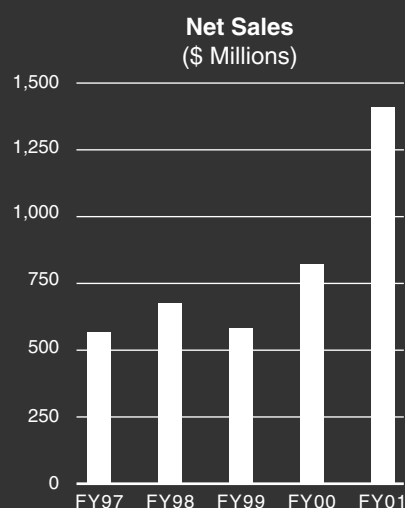
# Highlights of Fiscal 2001

(In thousands, except per share data)

KEMET Corporation and Subsidiaries

Years ended March 31,	2001	2000	1999	Average
Net sales	\$1,406,147	\$822,095	\$565,569	\$931,270
Net earnings	\$ 352,346	\$ 70,119	\$ 6,150	\$142,872
Net earnings/Net sales	25.1%	8.5%	1.1%	15.3%
Net earnings per share, diluted (1)	\$ 4.00	\$ 0.85	\$ 0.08	\$ 1.64
Selling, general and administrative expenses	\$ 55,713	\$ 48,457	\$ 46,552	\$ 50,241
Research and development expenditures	\$ 26,188	\$ 23,918	\$ 21,132	\$ 23,746
Fixed asset expenditures	\$ 210,559	\$ 82,009	\$ 59,047	\$117,205
Percent of debt to capital	10.1%	15.4%	34.3%	
Year-end employment (number of employees)	13,900	14,000	10,800	

(1) Reflects the impact of the 2-for-1 stock split effective June 1, 2000.



\*Includes \$142.6 million from secondary stock offering

KEMET Corporation is the world's largest manufacturer of solid tantalum capacitors, the fourth largest manufacturer of multilayer ceramic capacitors, and a leader in the development of solid aluminum capacitors. These surface-mount technologies are the fastest growing segment of the capacitor industry. Capacitors, which store, filter, and regulate electrical energy and current flow, are found in virtually all electronic applications and products. KEMET's capacitors are used in a wide variety of electronic applications, including Internet infrastructure, communication systems and devices, personal computers, automotive electronic systems, and military and aerospace systems. KEMET's strategy is to be the preferred capacitor supplier to the world's most successful electronics firms. The Company's stock is traded on The New York Stock Exchange under the symbol KEM.

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# DISTINCTIVE COMPETENCE

CARLOS VIVEROS  
SENIOR PROGRAMMER ANALYST

Our vision is to establish a distinctive competence that differentiates KEMET as the unquestioned Best-In-Class supplier. Everything at KEMET revolves around one goal—earning the right to be the preferred capacitor supplier at each of the world's most successful electronics companies.

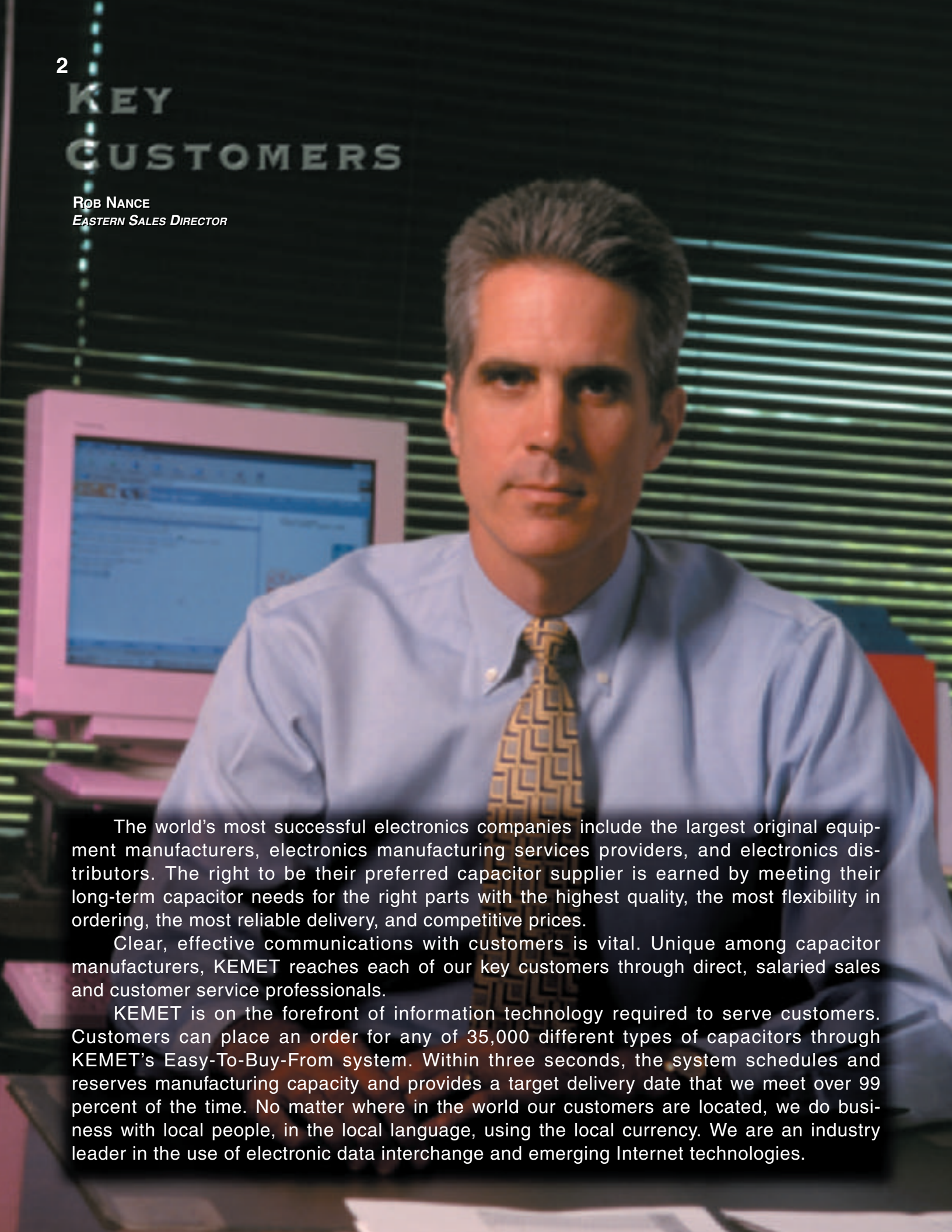
Electronics is a phenomenal growth industry. Measured by shipments of integrated circuits, the electronics industry has grown 11 percent per year for the past decade. While some sectors of electronics are maturing and others are emerging, a high long-term growth rate for the electronics industry as a whole is expected to continue.

Capacitors are small energy storage devices that are essential components in all electronics. Because faster, more sophisticated integrated circuits require more capacitors to support them, unit shipments of capacitors have grown 20 percent per year for the past decade.

Offering the most complete line of surface-mount capacitors, KEMET is the world's largest manufacturer of solid tantalum capacitors, the fourth largest manufacturer of multi-layer ceramic capacitors, and a leader in the development of solid aluminum capacitors. KEMET's capacitor shipments have grown 24 percent per year for the past decade.

# KEY CUSTOMERS

**ROB NANCE**  
*EASTERN SALES DIRECTOR*



The world's most successful electronics companies include the largest original equipment manufacturers, electronics manufacturing services providers, and electronics distributors. The right to be their preferred capacitor supplier is earned by meeting their long-term capacitor needs for the right parts with the highest quality, the most flexibility in ordering, the most reliable delivery, and competitive prices.

Clear, effective communications with customers is vital. Unique among capacitor manufacturers, KEMET reaches each of our key customers through direct, salaried sales and customer service professionals.

KEMET is on the forefront of information technology required to serve customers. Customers can place an order for any of 35,000 different types of capacitors through KEMET's Easy-To-Buy-From system. Within three seconds, the system schedules and reserves manufacturing capacity and provides a target delivery date that we meet over 99 percent of the time. No matter where in the world our customers are located, we do business with local people, in the local language, using the local currency. We are an industry leader in the use of electronic data interchange and emerging Internet technologies.

# FOCUSED STRONG MANUFACTURING

FAITH THOMAS  
AO POLYWHEEL OPERATOR


KEMET's extended plant concept focuses each facility on being the best in the world at performing a closely related family of processes. KEMET's information technology ties facilities together into a virtual factory—from the Carolinas to Mexico—from order entry to shipping. This allows KEMET to manufacture up to 35,000 different types of capacitors with near-perfect quality and on-time delivery, as well as declining costs. Numerous quality awards from our customers bear testimony to our quality achievements.

Long-term sales relationships with our key customers allow KEMET to sell capacity, not capacitors. Production requirements for many of KEMET's customers are managed through schedule or forecast sharing. By building to a customer's forecast, KEMET can provide shorter lead times and better overall customer support from any of our manufacturing facilities.

KEMET works hard to be a good corporate neighbor in all our locations. As a result, we have received numerous environmental, educational, community, and professional awards.

# GLOBAL LOGISTICS

PHIL SARACIN  
*GLOBAL LOGISTICS MANAGER*



The globalization of the world's economy and the dramatic growth of outsourced electronics manufacturing services are increasing the demand for world-class global logistics that maximize ordering flexibility and get the right parts to the right places at the right times. From KEMET's Brownsville, Texas, distribution center, finished parts can be delivered within 72 hours to customer locations anywhere in the world. On-time deliveries are above 99 percent, which leads the industry by far. Our just-in-time logistics systems allow us to provide the kind of personalized service customers hope for from a local supplier.

KEMET operates a state-of-the-art material handling facility in Amsterdam, Holland, known as the Euro-Hub. This facility allows us to deliver anywhere in Europe in 48 hours with real-time tracking and proof of delivery—performance that surpasses even the best local suppliers. A similar facility in Guadalajara, Mexico, allows us to service the extensive electronics manufacturing services providers in the region. Local distribution centers in Hong Kong and Singapore provide world-class service to the Pacific Rim market.



## MOST COMPLETE CAPACITOR LINE

**GABRIELA GIL**  
*PLANT MANAGER, CIUDAD VICTORIA*

Advances in integrated circuits place new demands on capacitors—more capacitance in smaller packages for portable electronics, lower electrical resistance to extend battery life, and support for high processing speeds of high-end microprocessors. The fastest growing types of capacitors are surface-mount because they can survive the rigors of high-volume, automated printed circuit board assembly. KEMET supplies the world's most complete line of surface-mount capacitors.

KEMET manufactures one quarter of the tantalum capacitors consumed in the world annually. Leading-edge tantalum products include organic tantalums and multiple-anode tantalums, providing the highest capacitance per volume with the lowest electrical resistance of any capacitors sold. KEMET's mining joint venture, Tantalum Australia, helps ensure that we can support our customers' increasing demands for tantalum capacitors.

KEMET is the fourth largest manufacturer of multilayer ceramic capacitors, a fast-growing, \$6 billion market. A key fiscal 2002 goal is to be at the leading edge of technology in high-capacitance ceramics, allowing further penetration of the ceramics market.

KEMET has recently introduced innovative solid aluminum capacitors, designed to support high-end applications that require high capacitance at high frequencies.

A photograph of Charles Culbertson, an older man with white hair and a beard, wearing glasses, a dark pinstriped suit, a white shirt, and a red and black striped tie. He is standing in a factory or industrial setting with machinery and lights in the background. His arms are crossed.

## EXPERIENCED MANAGEMENT

**CHARLES CULBERTSON**  
*PRESIDENT AND CHIEF OPERATING OFFICER*

KEMET is an eighty-year-old company. Our current business structure is the result of a 1990 purchase from Union Carbide and a 1992 initial public offering led by David Maguire, Chairman and CEO. David's career with KEMET now spans forty-two years and ten business cycles.

President and COO Charles Culbertson's twenty-year tenure with KEMET has involved all aspects of the manufacturing and sales operations. Senior VP and CFO Ray Cash rose through KEMET/Union Carbide's accounting and finance ranks over the past thirty years. Senior VP, Technology and Engineering, Harris Crowley has a diversified background in manufacturing and technology with KEMET spanning twenty-five years.

KEMET's culture has resulted in longevity and consistency throughout the top management team. The average tenure of KEMET's top ten senior managers is over 20 years.

Electronics is a high-growth, but cyclical, industry. Experience with, and the ability to manage through, business cycles is a critical core competency at KEMET. Over the last cycle, extending from the Asian crisis in fiscal 1999 through the industry-wide capacity shortage in fiscal 2001, KEMET's net income as a percentage of sales was 15.3%, demonstrating the strengths of KEMET's business model and the capabilities of our management team.



# LETTER TO OUR STOCKHOLDERS

**DAVID MAGUIRE**  
*CHAIRMAN AND CHIEF EXECUTIVE OFFICER*

Dear Fellow Stockholder:

Fiscal 2001 was the most successful year in KEMET's history. Financially, we realized record sales and earnings. Our business model, from our extended plant concept through our industry-leading global logistics, is tuned to earning the preferred supplier position at the world's most successful electronics companies. Our flexibility, reliability, and customer service set the standard for our industry. Our product development efforts have made significant progress toward our goal of being on the leading edge of technology across the fastest-growing capacitor segments: surface-mount tantalum, multilayer ceramic, and solid aluminum capacitors. KEMET is poised to take the next leap in the company's progress over the next several years.

KEMET's total sales for FY01 were \$1.406 billion, up 71% from \$822.1 million in FY00. Net earnings for FY01 increased to a new record high of \$352.3 million, or \$4.00 per diluted share, up from \$70.1 million, or \$0.85 per diluted share, for the prior year.

While electronics is a high growth, but cyclical, industry and last year saw tremendous

success, we have already entered the next cycle. In my forty-two years with KEMET this is cycle number ten. They are all somewhat the same, but each is also different in its own way. I am impressed by the rapidity with which this inventory correction has occurred compared to previous cycles. Rest assured, though, that this too will pass.

The extraordinary financial results of fiscal 2001 come at the end of a cycle that began with the Asian crisis in fiscal 1999, which was a very challenging year. KEMET's net income as a percentage of revenue averaged 15.3% over the thirty-six months from the beginning of fiscal 1999 through the end of fiscal 2001. This performance validates KEMET's successful business model, focused on earning the preferred supplier position at the world's most successful electronics firms, as well as the capabilities of our experienced management team. KEMET ended fiscal 2001 with \$361 million in cash, \$100 million in long-term debt, and \$886 million in stockholders' equity, the strongest financial position in the company's history. We anticipate using these resources to take advantage of significant market opportunities, including high-frequency tantalum, high-capacitance ceramic, and new solid aluminum capacitors.

While cycles will ebb and flow, I remain very confident in the long-term prospects of the electronics industry. To remain competitive long term, KEMET must maintain strong relationships with our key customers, we must be on the leading edge of technology in core products, and we must continually drive production costs down the learning curve while maintaining near-perfect quality and delivery reliability. The expenses that support this are Selling, General, and Administrative and Research and Development. In recent years, we have maintained these investments at roughly consistent levels regardless of where we are in the cycle.

	<u>FY1998</u>	<u>FY1999</u>	<u>FY2000</u>	<u>FY2001</u>
	(In Millions)			
SG&A	\$48.8	\$46.6	\$48.5	\$55.7
R&D	\$23.8	21.1	\$23.9	\$26.2

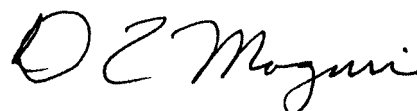
We also manage capital expenditures for the long term. "Facilities and cost reduction" capital expenditures are long-term investments that maintain KEMET's ability to be cost competitive

and to have floor space to add equipment lines as needed to respond to market demands. "Production capacity" is equipment and other manufacturing assets that can be added incrementally during the year as market demand dictates. Our willingness to invest in capacity through the last cycle positioned us to realize the extraordinary gains last year during the upstroke of the cycle.

	<u>FY1998</u>	<u>FY1999</u>	<u>FY2000</u>	<u>FY2001</u>
	(In Millions)			
Production Capacity	\$85	\$35	\$61	\$135
Facilities and Cost Reduction	\$30	\$24	\$21	\$76

An added challenge to the most recent cycle has been a significant increase in raw material costs, particularly of tantalum powder and palladium. In the past year the cost of tantalum ore increased dramatically from around \$50 per pound to over \$300 per pound. The capacitor industry responded to this increase with a partial cost pass-through to our customers. KEMET entered into a tantalum mining joint venture in Western Australia, known as Tantalum Australia, establishing an independent source to assure an adequate supply and to mitigate the cost of tantalum. To offset the increased palladium costs, we have accelerated our use of base metal electrode technologies, displacing approximately fifty percent of our palladium usage.

Over time KEMET has persistently pursued our vision—to **establish a distinctive competence that differentiates KEMET as the unquestioned Best-in-Class supplier**. With a high-growth industry, a proven business strategy, an experienced management team, and the contributions of the 13,900 KEMET employees worldwide, I remain very bullish on KEMET's future.



David E. Maguire  
Chairman and CEO

2001  
FINANCIALS



# Management's Discussion and Analysis of Results of Operations and Financial Condition

## *Business Outlook*

The fiscal year ended March 31, 2001, was the most financially successful year in the history of the Company. The Company's net income for the year ended March 31, 2001, of \$352.3 million, exceeded the earnings from all previous periods combined. The Company also ended the fiscal year in the strongest financial position in its history with \$360.8 million in cash, \$100.0 million in long-term debt, and \$886.2 million in stockholders' equity. The Company believes this performance validates its business model as well as the capabilities of its experienced management team. The Company anticipates using these resources to take advantage of significant market opportunities, including high-frequency tantalum, high-capacitance ceramic, and new solid aluminum capacitors. The electronics industry is a high-growth, cyclical industry. The extraordinary financial results for the fiscal year ended March 31, 2001, coincidentally came near the end of a cycle that began with the Asian crisis in fiscal year 1999.

The industry is now in another correction phase of the long-term growth trend. The Company is of the opinion that the rapidity with which this inventory/capacity correction is occurring is unprecedented compared to previous cycles. The Company's near-term visibility is limited because of the general uncertainty in the industry. The Company estimates, given the high level of economic uncertainty, that revenues for the quarter ending June 30, 2001, will be down over 40% from the quarter ended March 31, 2001, due to an inventory correction in the electronics industry. The backlog entering the quarter ending June 30, 2001, of \$168.6 million, is less than half that of a year ago. Selling prices for tantalum capacitors increased significantly during the 15 months ended March 31, 2001, due to strong demand and the dramatic rise in the cost of tantalum ore. The Company expects selling prices for tantalum capacitors to decline indus-

try-wide during calendar 2001 as demand decreases due to the inventory correction and shortages in the world supply of tantalum powder are alleviated. The Company thinks that the gross margin percentage for the fiscal year ending March 31, 2002, will average in the range of 30% to 35%. The Company believes the quarter ending June 30, 2001, will be the low point in the correction phase of the current cycle. In this environment, the Company will continue to focus its efforts on cost reduction and development of new products so it will again be well positioned to benefit as the industry recovers. Please refer to the discussion under the caption "Safe Harbor Statement" below for a discussion of certain risks and uncertainties relating to the statements made above.

During fiscal year 2001, the Company entered into a 50/50 joint venture agreement with Australasian Gold Mines NL ("AGM") to establish an independent source of tantalum to meet the increasing demand for tantalum capacitors from key customers. This transaction closed in April 2001. The Company's initial investment in the joint venture is approximately \$4.9 million. The Company also acquired a 10 percent interest in AGM for approximately \$2.3 million. The Company has the right to acquire all processed tantalum products from the initial production plant, which began operations in the March quarter, and from any future processing operations. These tantalum products are expected to be toll converted into tantalum powder necessary for the production of capacitors. The Company anticipates that current mining operations will initially provide up to 15% of its annual tantalum requirements.

## Management's Discussion and Analysis of Results of Operations and Financial Condition (continued)

### *Comparison of Fiscal Year 2001 to Fiscal Year 2000*

Net sales for fiscal year 2001 were \$1,406.1 million, which represented a 71% increase from fiscal year 2000 net sales of \$822.1 million. The increase in net sales was attributed to the strong growth in demand for electronic products such as computers and peripherals, cell phones, and automotive electronic systems. Average selling prices continued an upward trend that began in the prior fiscal year. Unit volumes increased approximately 15% to 36.1 billion units in fiscal year 2001, from 31.5 billion units in fiscal year 2000. The Company experienced growth in both domestic and export markets as domestic sales increased 57% and export sales increased 85%.

Cost of sales, exclusive of depreciation, for the year ended March 31, 2001, was \$693.7 million as compared to \$569.7 million for the year ended March 31, 2000. As a percentage of net sales, cost of sales, exclusive of depreciation, for fiscal year 2001 was 49% as compared to 69% for fiscal year 2000. The decrease in cost of sales as a percentage of net sales was attributed to higher average selling prices during fiscal year 2001, gains from manufacturing efficiencies due to higher unit volume, and the results of the Company's cost reduction programs such as reduced palladium usage in ceramic capacitors.

Selling, general, and administrative expenses for the year ended March 31, 2001, were \$55.7 million, or 4% of net sales, as compared to \$48.5 million, or 6% of net sales, for the year ended March 31, 2000. The decrease in selling, general, and administrative expenses as a percentage of sales is primarily due to the impact of higher sales volume and increased average selling prices.

Research, development, and engineering expenses were \$26.2 million for fiscal year 2001, compared to \$23.9 million for fiscal year 2000. These costs reflect the Company's continuing commitment to the development and introduction of new products, such as aluminum capacitors, along with the improvement of product performance and production efficiencies.

Depreciation and amortization for fiscal year 2001 was \$63.6 million, an increase of \$7.9 million, or 14%, from \$55.7 million for fiscal year 2000. The increase resulted primarily from depreciation expense associated with increased capital expenditures during the current and prior fiscal years.

Operating income was \$567.0 million for fiscal year 2001, compared to \$124.3 million for fiscal year 2000. The increase in operating income resulted primarily from the increase in net sales and improvements in cost of sales as discussed above.

Income tax expense for fiscal year 2001 was 38% of net earnings before income taxes. Both federal and state taxes increased over fiscal year 2000 as loss carryforwards and credits were not available in fiscal year 2001 to the extent they were available in the prior fiscal year.

## Management's Discussion and Analysis of Results of Operations and Financial Condition (continued)

### *Comparison of Fiscal Year 2000 to Fiscal Year 1999*

Net sales for fiscal year 2000 were \$822.1 million, which represents a 45% increase from fiscal year 1999 net sales of \$565.6 million. The increase in net sales was attributed to the strong growth in demand for electronic products such as computers and peripherals, cell phones, and automotive electrical systems. This growth in demand led to increased unit volume and an improvement in the pricing environment as average selling prices increased from their previously depressed levels. Demand for surface-mount capacitors contributed to the growth as net sales increased 55% to \$711.0 million for fiscal year 2000. The Company experienced growth in both domestic and export markets as domestic sales increased 39% and export sales increased 52%, partially due to the recovery of the Asian economy.

Cost of sales, exclusive of depreciation, for the year ended March 31, 2000, was \$569.7 million as compared to \$428.4 million for the year ended March 31, 1999. As a percentage of net sales, cost of sales, exclusive of depreciation, for fiscal year 2000 was 69% as compared to 76% for fiscal year 1999. The decrease in cost of sales as a percentage of net sales was attributed to higher sales in fiscal year 2000, gains from manufacturing efficiencies due to higher unit volume, and the results of the Company's cost reduction programs such as reduced palladium usage in ceramic capacitors.

Selling, general, and administrative expenses for the year ended March 31, 2000, were \$48.5 million, or 6% of net sales, compared to \$46.6 million, or 8% of net sales, for the year ended March 31, 1999. The decrease in selling, general, and administrative expenses as a percentage of sales is primarily due to the impact of higher sales volume and increased average selling prices.

Research, development, and engineering expenses were \$23.9 million for fiscal year 2000, compared to \$21.1 million for fiscal year 1999. These costs reflect the Company's continuing commitment to the development and introduction of new products, along with the improvement of product performance and production efficiencies.

Depreciation and amortization for fiscal year 2000 was \$55.7 million, an increase of \$8.8 million, or 19%, from \$46.9 million for fiscal year 1999. The increase resulted primarily from depreciation expense associated with increased capital expenditures during the current and prior fiscal years.

Operating income was \$124.3 million for fiscal year 2000, compared to \$22.6 million for fiscal year 1999. The increase in operating income resulted primarily from the increase in net sales and improvements in cost of sales as discussed above.

Income tax expense for fiscal year 2000 was 34% of net earnings before income taxes. The decrease from the federal statutory rate of 35% is primarily the result of increased foreign sales corporation benefits and lower state tax expense.

## Management's Discussion and Analysis of Results of Operations and Financial Condition (continued)

### Quarterly Results of Operations

The following table sets forth certain quarterly information for the years ended March 31, 2001 and 2000. This information is unaudited but, in the opinion of the Company's management, reflects all adjustments (consisting only of normal recurring adjustments) necessary to present fairly this information when read in conjunction with the Consolidated Financial Statements and notes thereto included elsewhere herein.

Fiscal year ended March 31, 2001					
Dollars in Thousands (except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Net sales	\$329,169	\$364,049	\$374,930	\$337,999	\$1,406,147
Gross profit (exclusive of depreciation) (1)	\$159,333	\$187,875	\$194,011	\$171,269	\$712,488
Net earnings	\$80,235	\$96,264	\$97,403	\$78,444	\$352,346
Net earnings per common share (basic)	\$0.92	\$1.10	\$1.11	\$0.91	\$4.05
Net earnings per common share (diluted)	\$0.90	\$1.08	\$1.10	\$0.90	\$4.00
Weighted average shares outstanding (basic)	87,324,021	87,414,074	87,416,454	86,362,252	86,930,965
Weighted average shares outstanding (diluted)	88,915,974	88,804,300	88,678,409	87,414,105	88,181,118

Fiscal year ended March 31, 2000					
Dollars in Thousands (except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Net sales	\$162,649	\$186,187	\$215,139	\$258,120	\$822,095
Gross profit (exclusive of depreciation) (1)	\$39,665	\$49,794	\$65,501	\$97,429	\$252,389
Net earnings	\$4,694	\$9,199	\$18,160	\$38,066	\$70,119
Net earnings per common share (basic)	\$0.06	\$0.12	\$0.23	\$0.44	\$0.87
Net earnings per common share (diluted)	\$0.06	\$0.11	\$0.22	\$0.44	\$0.85
Weighted average shares outstanding (basic)	78,571,116	78,822,996	79,713,170	85,554,814	80,650,376
Weighted average shares outstanding (diluted)	79,778,122	80,614,798	81,199,048	87,379,088	82,411,634

(1) Gross profit (exclusive of depreciation) as a percentage of net sales fluctuates from quarter to quarter due to a number of factors, including net sales fluctuations, product mix, the timing and expense of moving product lines to lower cost locations, and the relative mix of sales between distributors and original equipment manufacturers.

## Management's Discussion and Analysis of Results of Operations and Financial Condition (continued)

### *Liquidity and Capital Resources*

The Company's liquidity needs arise from working capital requirements, capital expenditures, and principal and interest payments on its indebtedness. The Company intends to satisfy its liquidity requirements primarily with funds provided by operations and borrowings under its bank credit facilities.

During fiscal year 2001, the Company generated \$385.5 million in net cash from operating activities as compared to \$177.7 million in fiscal year 2000. In turn, this led to a significant increase in cash and short-term investments to \$360.8 million from \$199.4 million at March 31, 2001 and 2000, respectively. The increase in cash flow from operating activities was primarily a result of the increase in net income and, to a lesser extent, the timing of cash flows from current assets and liabilities, such as accounts receivable, inventory, accounts payable, accrued liabilities, and income taxes payable.

Inventories increased to \$202.3 million at March 31, 2001, from \$131.0 million at March 31, 2000, due to an increase in units as well as higher raw material prices. Current liabilities increased to \$285.1 million at March 31, 2001, versus \$189.1 million at March 31, 2000, commensurate with the increase in business activity in fiscal year 2001 versus fiscal year 2000.

The Company invested \$210.6 million in capital expenditures in fiscal year 2001 versus \$82.0 million in fiscal year 2000, and expects to invest approximately \$100.0 to \$150.0 million in fiscal year 2002. The fiscal year 2001 capital was primarily invested in surface-mount manufacturing capacity as the Company expects continued future growth in capacitor demand.

The Company is subject to restrictive covenants which, among others, restrict its ability to make loans or advances or to make investments, and require it to meet financial tests related principally to funded debt, cash flows, and net worth. At March

31, 2001, the Company was in compliance with such covenants. Borrowings are secured by guarantees of certain of the Company's wholly-owned subsidiaries.

During fiscal year 2000, the Company's long-term debt decreased \$44.0 million, as the Company reduced its indebtedness with the proceeds from the January 2000 Secondary Offering. At March 31, 2001, the Company had unused availability under its revolving credit facility and its swingline credit facility, both of which expire in October 2002, of \$150.0 million and \$10.0 million, respectively.

On January 20, 2000, the Company sold 6,500,000 shares of its common stock in a public offering for \$142.6 million in net cash proceeds after deducting underwriting fees and offering expenses. Included in the offering were 2,193,220 shares sold by a stockholder of the Company which were shares of non-voting common stock that were converted into common stock on a share-for-share basis. The net proceeds were used to repay outstanding debt under the Company's short-term credit facility and to fund capital expenditures.

In August 2000, the Company announced that its Board of Directors had authorized a program to purchase up to 4.0 million shares of its common stock in the open market. As of March 31, 2001, the Company had made direct purchases of 1.6 million shares for \$29.3 million and had outstanding put option obligations for 1.9 million shares with an average exercise price of \$18.31 under the program. The program was fulfilled in April 2001, at which time the Company announced that its Board of Directors had authorized a second 4.0 million stock purchase program. The amount and timing of purchases will depend on market conditions and other factors. The program will be funded from existing cash, and a combination of direct purchases and put options may be used to execute the program.



## Management's Discussion and Analysis of Results of Operations and Financial Condition (continued)

Additional liquidity is generated by the Company through its accounts receivable discounting arrangements. For the past several years, KEMET Electronics, S.A., a wholly-owned subsidiary of the Company, has been a party to accounts receivable discounting agreements with both Swiss Bank Corporation and Union Bank of Switzerland. As a result of the merger of these two entities in 1998, KEMET Electronics, S.A., entered into a single replacement discounting agreement with UBS AG on November 19, 1998, which allows for the sale of up to \$80.0 million of accounts receivable at any one time outstanding at a discount rate of .60% above LIBOR.

In May 1998, the Company sold \$100.0 million of its Senior Notes pursuant to the terms of a Note Purchase Agreement dated as of May 1, 1998, between the Company and the eleven purchasers of the Senior Notes named therein. These Senior Notes have a final maturity date of May 4, 2010, with required principal repayments beginning on May 4, 2006. The Senior Notes bear interest at a fixed rate of 6.66%, with interest payable semiannually beginning November 4, 1998. The terms of the Note Purchase Agreement include various restrictive covenants typical of transactions of this type, and require the Company to meet certain financial tests including a minimum net worth test and a maximum ratio of debt to total capitalization. The net proceeds from the sale of the Senior Notes were used to repay existing indebtedness and for general corporate purposes.

The Company presently has a total of eight manufacturing facilities in Matamoros, Monterrey, and Ciudad Victoria, Mexico, with over 60% of the Company's employees located there. In fiscal year 2001, the volatility of the Mexican peso did not have a material impact on the Company's performance.

As discussed in Note 12 to the Consolidated Financial Statements, the Company or its subsidiaries are at any one time parties to a number of lawsuits arising out of their respective operations, including workers' compensation or work place safety cases and environmental issues, some of which involve claims of substantial damages. Although there can be no assurance, based upon information known to the Company, the Company does not believe that any liability which might result from an adverse determination of such lawsuits would have a material adverse effect on the Company.

The Company believes its strong financial position will permit the financing of its business needs and opportunities. It is anticipated that ongoing operations will be financed primarily by internally generated funds. In addition, the Company has the flexibility to meet short-term working capital and other temporary requirements through utilization of borrowings under its bank credit facilities.

### ***Adoption of Accounting Standards***

Effective October 1, 2000, the Company adopted SFAS No.133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No.138.

SFAS No.133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and hedging activities. It requires the recognition of all derivative instruments as either assets or liabilities in the consolidated balance sheet and measurement of those instruments at fair value. The accounting treatment of changes in fair value is dependent upon whether or not a derivative instrument is designated as a hedge and, if so, the type of hedge. For derivatives designated as cash flow hedges, to the extent effective, changes in fair value are recognized in accumulated other comprehensive income ("AOCI") until the hedged item is

## Management's Discussion and Analysis of Results of Operations and Financial Condition (continued)

recognized in earnings. Ineffectiveness is recognized immediately in earnings. For derivatives designated as fair value hedges, changes in fair value are recognized in earnings.

Prior to adoption of SFAS No.133, the Company recorded gains and losses related to the hedges of forecasted foreign currency transactions directly to earnings ("Other income and expense"), and gains and losses related to hedges of firm commitments were deferred and recognized in earnings as adjustments of carrying amounts when the transactions occurred.

The adoption of SFAS No.133 did not result in a significant transition adjustment and is therefore not separately captioned in the statement of earnings as cumulative effect of a change in accounting principle. The transition adjustment as of October 1, 2000, was a gain of approximately \$0.9 million net of tax, and is included in cost of goods sold for the period.

The Company adopted the Securities and Exchange Commission's Staff Accounting Bulletin No.101 (the "SAB") effective January 1, 2001. The SAB requires that a company recognize revenue only when all of the following criteria are met: (1) Persuasive evidence of an arrangement exists; (2) Delivery has occurred or services have been rendered; (3) The seller's price to the buyer is fixed or determinable; and (4) Collectibility is reasonably assured. Upon adoption of the SAB, there was no impact on the Company's results of operations or financial condition.

### **Safe Harbor Statement**

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. The Company intends that these forward-looking statements be subject to the safe har-

bor created by that provision. These forward looking statements involve risks and uncertainties beyond the Company's control. The inclusion of this forward-looking information should not be regarded as a representation by the Company that the future events, plans, or expectations contemplated by the Company will be achieved. Furthermore, past performance in operations and share price is not necessarily predictive of future performance. Finally, the Company cannot assume responsibility for certain information that is based upon market estimates.

The Company wishes to caution readers that the following important factors, among others, in some cases have affected, and in the future could affect, KEMET's actual results and could cause KEMET's actual consolidated results for the first quarter of fiscal year 2002 and beyond to differ materially from those expressed in any forward-looking statements made by, or on behalf of, the Company whether contained herein, in other documents subsequently filed by the Company with the SEC, or in oral statements:

A moderating growth rate in end-use products which incorporate the Company's products and the effects of a downturn in the general economy or in general business conditions;

Underutilization of KEMET's plants and factories, or of any plant expansion or new plant, including, but not limited to, those in Mexico, resulting in production inefficiencies and higher costs; start-up expenses, inefficiencies, delays, and increased depreciation costs in connection with the start of production in new plants and expansions; capacity constraints that could limit the ability to continue to meet rising demand for surface-mount capacitors;

Occurrences affecting the slope or speed of decline of the pricing curve for the Company's products, or affecting KEMET's ability to reduce product

## Management's Discussion and Analysis of Results of Operations and Financial Condition (continued)

and other costs and to increase productivity; the effect of changes in the mix of products sold and the resulting effects on gross margins;

Difficulties in obtaining raw materials, supplies, power, natural resources, and any other items needed for the production of capacitors; the effects of quality deviations in raw materials, particularly tantalum powder and ceramic dielectric materials; the effects of significant price increases for tantalum or palladium, or an inability to obtain adequate supplies of tantalum from the limited number of suppliers;

The amount and rate of growth in the Company's selling, general, and administrative expenses, and the impact of unusual items resulting from KEMET's ongoing evaluation of its business strategies, asset valuations, and organizational structure;

The acquisition of fixed assets and other assets, including inventories and receivables; the making or incurring of any expenditures and expenses, including, but not limited to, depreciation and research and development expenses; any revaluation of assets or related expenses; and the amount of and any changes to tax rates;

The effect of any changes in trade, monetary, and fiscal policies, laws, and regulations; other activities of governments, agencies, and similar organizations; social and economic conditions, such as trade restrictions or prohibitions, inflation, and monetary fluctuations; import and other charges or taxes; the ability or inability of KEMET to obtain, or hedge against, foreign currency; foreign exchange rates and fluctuations in those rates, particularly a strengthening of the U.S. dollar; nationalization; unstable governments and legal systems; intergovernmental disputes; the costs and other effects of legal and administrative cases and proceedings (whether civil, such as environmental and product-related, or criminal); settlements, investigations, claims, and changes in those items; developments

or assertions by or against the Company relating to intellectual property rights and intellectual property licenses; adoptions of new or changes in accounting policies and practices and the application of such policies and practices; the effects of changes within KEMET's organization, particularly at the executive officer level, or in compensation and benefit plans; the amount, type, and cost of the financing which the Company has and any changes to that financing; the effects of severe weather on KEMET's operations, including disruptions at manufacturing facilities; the effects of a disruption in KEMET's computerized ordering systems; and the effects of a disruption in KEMET's communications systems.

### ***Effect of Inflation***

Inflation generally affects the Company by increasing the cost of labor, equipment, and raw materials. The Company does not believe that inflation has had any material effect on the Company's business over the past three years.

### **Quantitative and Qualitative Disclosure About Market Risk**

#### ***Interest Rate Risk***

The Company's debt financing alternatives include a revolving credit agreement which is priced on a floating rate basis at a spread over U.S. dollar LIBOR. Accordingly, any movement in U.S. dollar LIBOR would impact the Company's interest expense, except for the fact that the outstanding balance under this facility at March 31, 2001, was \$0. The Company has not historically used interest rate swaps, interest rate caps, or other derivative financial instruments for the purpose of hedging fluctuations in interest rates on its floating rate debt.

## Management's Discussion and Analysis of Results of Operations and Financial Condition (continued)

### *Foreign Currency Exchange Rate Risk*

A portion of the Company's sales to its customers in Europe are denominated in local European currencies, thereby creating an exposure to foreign currency exchange rate risk. Also, a portion of the Company's cost in its Mexican operations is denominated in Mexican pesos, creating an exposure to exchange rate risk. In order to minimize its exposure to such risk, the Company will periodically enter into forward foreign exchange contracts in which the net long or short position in a local European currency or Mexico peso is hedged against the U.S. dollar.

The impact of changes in the relationship of other currencies to the U.S. dollar has historically not been significant, and such changes in the future are not expected to have a material impact on the Company's results of operations or cash flows. The Company does not use derivative financial instruments for speculative purposes or if there is no underlying business transaction supporting or related to the derivative financial instrument.

### *Commodity Price Risk*

The Company purchases various precious metals used in the manufacture of capacitors and is therefore exposed to certain commodity price risks. These precious metals consist primarily of palladium and tantalum.

Palladium is a precious metal used in the manufacture of multilayer ceramic capacitors and is mined primarily in Russia and South Africa. Currently, the Company uses forward contracts and spot buys to secure the acquisition of palladium and manage the price volatility in the market. There has been a dramatic increase in the price of palladium attributed to delays from the Russian supply of the metal which has caused the price to fluctuate between \$554 and \$1,090 per troy ounce during fiscal year 2001. As a result, the Company is aggressively pursuing ways to reduce palladium usage in ceramic capacitors and minimize the price risk.

Tantalum powder is a metal used in the manufacture of tantalum capacitors and is primarily purchased under annual contracts. Management believes the tantalum needed has generally been available in sufficient quantities to meet manufacturing requirements. However, the increase in demand for tantalum capacitors during fiscal year 2001, along with the limited number of tantalum powder suppliers, led to increases in tantalum prices and impacted availability. Tight supplies of tantalum raw material and some tantalum powders caused the price to increase from under \$50 per pound early in calendar 2000 to over \$300 per pound late in the year. The Company was able to pass price increases to its customers due to the strong demand for capacitors but may not be able to do so in the future. Although the price of tantalum is down from its peak, the Company is exploring various alternative sources of supply to ensure a supply of tantalum at reasonable prices.

## Independent Auditors' Report

The Board of Directors  
KEMET Corporation:

We have audited the accompanying consolidated balance sheets of KEMET Corporation and subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of earnings, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended March 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of KEMET Corporation and subsidiaries as of March 31, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

Greenville, South Carolina  
April 27, 2001

**KPMG LLP**

## KEMET Corporation and Subsidiaries

### Consolidated Balance Sheets

March 31,

Dollars in Thousands Except per Share Data	2001	2000
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 360,758	\$ 75,735
Short-term investments (note 15)	-	123,687
Accounts receivable, net (notes 10 and 11)	96,583	94,127
Inventories:		
Raw materials and supplies	79,002	53,532
Work in process	81,975	58,220
Finished goods	41,300	19,207
Total inventories	202,277	130,959
Prepaid expenses and other current assets (note 15)	50,493	4,688
Deferred income taxes (note 7)	35,018	20,099
Total current assets	745,129	449,295
Property and equipment, net (note 11)	567,262	423,399
Intangible assets, net (note 2)	44,027	46,198
Other assets	10,112	8,364
Total assets	\$1,366,530	\$927,256
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable, trade (note 10)	\$ 201,767	\$123,708
Accrued expenses (notes 11)	49,229	42,045
Income taxes payable	34,078	23,388
Total current liabilities	285,074	189,141
Long-term debt, excluding current installments (note 3)	100,000	100,000
Other non-current obligations (note 4)	51,084	54,757
Deferred income taxes (note 7)	44,196	35,902
Total liabilities	480,354	379,800
Stockholders' equity (notes 8, 13 and 16):		
Common stock, par value \$.01, authorized 300,000,000 shares, issued 87,619,517 and 87,025,908 shares at March 31, 2001 and 2000, respectively	876	870
Additional paid-in capital	322,068	308,724
Retained earnings	590,192	237,846
Accumulated other comprehensive income	2,355	16
Treasury stock, at cost (1,600,040 shares at March 31, 2001)	(29,315)	-
Total stockholders' equity	886,176	547,456
Contingencies and commitments (notes 10 and 12)		
Total liabilities and stockholders' equity	\$1,366,530	\$927,256

See accompanying notes to consolidated financial statements.

## KEMET Corporation and Subsidiaries Consolidated Statement of Earnings

Dollars in Thousands Except per Share Data	Years ended March 31,		
	2001	2000	1999
Net sales	<b>\$1,406,147</b>	\$822,095	\$565,569
Operating costs and expenses:			
Cost of goods sold, exclusive of depreciation	<b>693,659</b>	569,706	428,409
Selling, general and administrative expenses	<b>55,713</b>	48,457	46,552
Research and development	<b>26,188</b>	23,918	21,132
Depreciation and amortization	<b>63,601</b>	55,699	46,872
<b>Total operating costs and expenses</b>	<b>839,161</b>	697,780	542,965
<b>Operating income</b>	<b>566,986</b>	124,315	22,604
Other income and expense:			
Interest income	<b>(16,713)</b>	(2,079)	-
Interest expense	<b>7,507</b>	9,135	9,287
Other (note 11)	<b>7,892</b>	11,695	4,273
<b>Earnings before income taxes</b>	<b>568,300</b>	105,564	9,044
<b>Income tax expense (note 7)</b>	<b>215,954</b>	35,445	2,894
<b>Net earnings</b>	<b>\$ 352,346</b>	\$ 70,119	\$ 6,150
Net earnings per share (notes 13, 14 and 16):			
Basic	<b>\$4.05</b>	\$0.87	\$0.08
Diluted	<b>\$4.00</b>	\$0.85	\$0.08
Weighted-average shares outstanding:			
Basic	<b>86,930,965</b>	80,650,376	78,441,440
Diluted	<b>88,181,118</b>	82,411,634	79,027,860

See accompanying notes to consolidated financial statements.

## KEMET Corporation and Subsidiaries

### Consolidated Statements of Stockholders' Equity and Comprehensive Income

Dollars in Thousands	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity
	Shares	Amount					
Balance at March 31, 1998	78,321,358	\$783	\$143,908	\$161,577	\$ (8)	-	\$306,260
Comprehensive income:							
Net earnings	-	-	-	6,150	-	-	6,150
Foreign currency translation gain	-	-	-	-	80	-	80
Total comprehensive income							<u>6,230</u>
Exercise of stock options (note 8)	53,120	-	164	-	-	-	164
Tax benefit on exercise of stock options	-	-	72	-	-	-	72
Purchases of stock by Employee Savings Plan	135,322	2	946	-	-	-	948
Balance at March 31, 1999	78,509,800	785	145,090	167,727	72	-	313,674
Comprehensive income:							
Net earnings	-	-	-	70,119	-	-	70,119
Foreign currency translation loss	-	-	-	-	(56)	-	(56)
Total comprehensive income							<u>70,063</u>
Exercise of stock options (note 8)	1,944,260	20	11,052	-	-	-	11,072
Tax benefit on exercise of stock options	-	-	9,315	-	-	-	9,315
Purchases of stock by Employee Savings Plan	71,848	-	724	-	-	-	724
Secondary offering (note 16)	6,500,000	65	142,543	-	-	-	142,608
Balance at March 31, 2000	87,025,908	870	308,724	237,846	16	-	547,456
Comprehensive income:							
Net earnings	-	-	-	352,346	-	-	352,346
Unrealized gain on foreign exchange contracts, net of tax \$1,398	-	-	-	-	2,594	-	2,594
Foreign currency translation loss	-	-	-	-	(255)	-	(255)
Total comprehensive income							<u>354,685</u>
Exercise of stock options (note 8)	549,720	5	3,204	-	-	-	3,209
Tax benefit on exercise of stock options	-	-	4,325	-	-	-	4,325
Purchases of stock by Employee Savings Plan	43,889	1	1,094	-	-	-	1,095
Put options proceeds (note 13)	-	-	4,721	-	-	-	4,721
Treasury stock purchases (note 16)	(1,600,040)	-	-	-	-	(29,315)	(29,315)
<b>Balance at March 31, 2001</b>	<b>86,019,477</b>	<b>\$876</b>	<b>\$322,068</b>	<b>\$590,192</b>	<b>\$2,355</b>	<b>\$(29,315)</b>	<b>\$886,176</b>

See accompanying notes to consolidated financial statements.



## KEMET Corporation and Subsidiaries Consolidated Statements of Cash Flows

Dollars in Thousands	Years ended March 31,		
	2001	2000	1999
Sources (uses) of cash:			
Operating activities:			
Net earnings	\$ 352,346	\$ 70,119	\$ 6,150
Adjustments to reconcile net earnings to net cash from operating activities:			
Depreciation and amortization	63,601	55,699	46,872
Postretirement and unfunded pension	(3,662)	(14,586)	(236)
Loss on sale and disposal of equipment	5,266	11,579	985
Deferred income taxes	(6,625)	2,931	9,997
Changes in other non-current assets and liabilities	(1,759)	(2,950)	(782)
Changes in assets and liabilities:			
Accounts receivable	(2,456)	(38,025)	4,256
Inventories	(71,318)	(5,140)	(11,136)
Prepaid expenses	(45,805)	(55)	(36)
Accounts payable, trade	78,059	58,958	(23,961)
Accrued expenses and income taxes	17,874	39,187	(11,292)
Net cash from operating activities	<b>385,521</b>	177,717	20,817
Investing activities:			
Purchase of short-term investments	(202,354)	(123,687)	-
Proceeds from maturity of short-term investments	326,041	-	-
Additions to property and equipment	(210,559)	(82,009)	( 59,047)
Other	2,339	81	( 197)
Net cash used by investing activities	<b>(84,533)</b>	(205,615)	( 59,244)
Financing activities:			
Proceeds from sale of common stock to Employee Savings Plan	1,095	724	947
Proceeds from exercise of stock options including related tax benefit	7,534	20,387	236
Proceeds from secondary offering	-	142,608	-
Proceeds from put options (note 13)	4,721	-	-
Purchases of treasury stock	(29,315)	-	-
Net proceeds from (payments to) revolving loan and demand note	-	(64,000)	(60,000)
Issuance of senior notes, net of debt issue costs	-	-	99,357
Net cash provided by financing activities	<b>(15,965)</b>	99,719	40,540
Net increase (decrease) in cash	<b>285,023</b>	71,821	2,113
Cash and cash equivalents at beginning of period	<b>75,735</b>	3,914	1,801
Cash and cash equivalents at end of period	<b>\$ 360,758</b>	\$ 75,735	\$ 3,914

### Supplemental Cash Flow Statement Information:

Interest paid	\$7,361	\$ 9,477	\$ 7,730
Income taxes paid	<b>\$ 209,186</b>	\$ 7,179	\$ 3,065

See accompanying notes to consolidated financial statements.

# KEMET Corporation and Subsidiaries

## Notes To Consolidated Financial Statements

### Note 1: Organization and Significant Accounting Policies

**Nature of Business and Organization:** KEMET Corporation and subsidiaries ("KEMET" or the "Company") is the world's largest manufacturer of solid tantalum capacitors, the fourth largest manufacturer of multilayer ceramic capacitors, and a leader in the development of solid aluminum capacitors. The Company is headquartered in Greenville, South Carolina, and has thirteen manufacturing plants located in South Carolina, North Carolina, and Mexico. Additionally, the Company has wholly-owned foreign subsidiaries which primarily sell KEMET's products in foreign markets.

**Principles of Consolidation:** The accompanying consolidated financial statements of the Company include the accounts of its wholly-owned subsidiaries. Intercompany balances and transactions have been eliminated in consolidation.

**Cash Equivalents:** Cash equivalents consist of direct obligations of U.S. government agencies and investment-grade commercial paper with an initial term of less than three months. For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

**Short-Term Investments:** Short-term investments consist of direct obligations of U.S. government agencies and investment-grade commercial paper with original maturities of greater than three months, but less than one year. These investments are considered to be held-to-maturity and are therefore stated at cost that approximates market value.

**Derivative Financial Instruments:** Derivative financial instruments are utilized by the Company to reduce exposures to volatility of foreign currencies and commodities impacting the cost of its products. The Company does not enter into financial instruments for trading or speculative purposes. Effective October 1, 2000, the Company adopted SFAS No.133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No.138. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and hedging activities. It requires the recognition of all derivative instruments as either assets or liabilities in the consolidated balance sheet and measurement of those instruments at fair value. The accounting treatment of changes in fair value is dependent upon whether or not a derivative

instrument is designated as a hedge and, if so, the type of hedge. For derivatives designated as cash flow hedges, to the extent effective, changes in fair value are recognized in accumulated other comprehensive income until the hedged item is recognized in earnings. Ineffectiveness is recognized immediately in earnings. For derivatives designated as fair value hedges, changes in fair value are recognized in earnings. Prior to adoption of SFAS No.133, the Company recorded gains and losses related to the hedges of forecasted foreign currency transactions directly to earnings ("Other income and expense"), and gains and losses related to hedges of firm commitments were deferred and recognized in earnings as adjustments of carrying amounts when the transactions occurred. The adoption of SFAS No. 133 did not result in a significant transition adjustment and is therefore not separately captioned in the statement of earnings as cumulative effect of a change in accounting principle. The transition adjustment as of October 1, 2000, was a gain of approximately \$0.9 million net of tax, and is included in cost of goods sold for the period.

**Inventories:** Inventories are stated at the lower of cost or market. These costs do not include depreciation or amortization, the impact of which is not material to the consolidated financial statements. The cost of most inventories is determined by the "first-in, first-out"(FIFO) method. Approximately 7% and 6% of inventory costs of certain raw materials at March 31, 2001 and 2000, respectively, have been determined on the "last-in, first-out"(LIFO) basis. It is estimated that if all inventories had been costed using the FIFO method, they would have been approximately \$902 and \$854 higher than reported at March 31, 2001 and 2000, respectively.

**Property and Equipment:** Property and equipment are carried at cost. Depreciation is calculated principally using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized using the straight-line method over the lesser of the estimated useful lives of the assets or the terms of the respective leases. Expenditures for maintenance are expensed; expenditures for renewals and improvements are generally capitalized. Upon sale or retirement of property and equipment, the related cost and accumulated depreciation are removed and any gain or loss is recognized. Reviews are regularly

# KEMET Corporation and Subsidiaries

## Notes To Consolidated Financial Statements

### (continued)

performed to determine whether facts and circumstances exist which indicate that the carrying amount of assets may not be recoverable. The Company assesses the recoverability of its assets by comparing the projected undiscounted net cash flows associated with the related asset or group of assets over their remaining life against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets.

**Intangible Assets:** Patents and technology are amortized using the straight-line method over twenty-five years. Goodwill and trademarks are amortized using the straight-line method over a forty-year period. The Company assesses the recoverability of its intangible assets by determining whether the amortization of the intangible's balance over its remaining life can be recovered through undiscounted future operating cash flows of the acquired assets. The amount of intangible impairment, if any, is measured based on projected discounted future operating cash flows. The assessment of the recoverability of intangibles will be impacted if estimated future operating cash flows are not achieved.

**Other Assets:** Other assets consist principally of the cash surrender value of life insurance policies.

**Deferred Income Taxes:** Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

**Stock-based Compensation:** The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No.25, "Accounting for Stock Issued to Employees," and its related interpretations in accounting for stock options. As such, compensation

expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. The Company has elected the "disclosure only" provisions of SFAS No.123, "Accounting for Stock Based Compensation," which provide pro forma disclosure of earnings as if stock compensation were recognized on the fair value basis.

**Concentrations of Credit Risk:** The Company sells to customers located throughout the United States and the world. Credit evaluations of its customers' financial conditions are performed periodically, and the Company generally does not require collateral from its customers.

**Foreign Operations:** Financial statements of the Company's Mexican operations are prepared using the U.S. dollar as its functional currency. Translation of the Mexican operations, as well as gains and losses from non-U.S. dollar foreign currency transactions, such as those resulting from the settlement of foreign receivables or payables, are reported in the Consolidated Statements of Earnings. Translation of other foreign operations to U.S. dollars occurs using the current exchange rate for balance sheet accounts and an average exchange rate for results of operations. Such translation gains or losses are recognized as a component of equity in "Accumulated Other Comprehensive Income."

**Comprehensive Income:** Comprehensive income consists of net earnings and foreign currency translation gains or losses and unrealized gains and losses from forward contracts and is presented in the Consolidated Statements of Stockholders' Equity and Comprehensive Income.

**Revenue Recognition:** Revenue is recognized from sales when a product is shipped. A portion of sales is made to distributors under agreements allowing certain rights of return and price protection on unsold merchandise held by distributors (see note 10). The Company adopted the Securities and Exchange Commission's Staff Accounting Bulletin No.101 (the "SAB") effective January 1, 2001. The SAB requires that a company recognize revenue only when all of the following criteria are met: (1) Persuasive evidence of an arrangement exists; (2) Delivery has occurred or services have been rendered; (3) The seller's price to the buyer is fixed or determinable; and (4) Collectibility is reasonably

## KEMET Corporation and Subsidiaries

### Notes To Consolidated Financial Statements

(continued)

assured. Upon adoption of the SAB, there was no impact on the Company's results of operations or financial condition.

**Earnings per Share:** The Company calculates earnings per share in accordance with SFAS No.128, "Earnings per Share." Basic earnings per share is computed using the weighted-average number of shares outstanding. Diluted earnings per share is computed using the weighted-average number of shares outstanding adjusted for the incremental shares attributed to outstanding options to purchase common stock. On June 1, 2000, the Company issued additional shares in connection with the two-for-one stock split. The per common share amounts in the Consolidated Financial Statements and accompanying notes have been adjusted to reflect the stock splits.

**Environmental Cost:** The Company recognizes liabilities for environmental remediation when it is probable that a liability has been incurred and can be reasonably estimated. The Company determines its liability on a site-by-site basis, and it is not discounted or reduced for possible recoveries from insurance carriers. Expenditures that extend the life of the related property or mitigate or prevent future environmental contamination are capitalized.

**Business Segments:** The Company has determined, using the criteria in SFAS No.131, "Disclosures about Segments of an Enterprise and Related Information," that it operates in a single reporting segment. The Company's products may be categorized generally based upon primary raw material (tantalum or ceramic) or method of attachment (surface-mount or leaded), and are sold to original equipment manufacturers, electronics manufacturing services providers, and electronics distributors. Two customers each accounted for more than 10% of net sales in the fiscal year ended March 31, 2001, and one customer accounted for more than 10% of net sales in the fiscal years ended March 31, 2000 and 1999. Geographic information is included in note 9.

**Use of Estimates:** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contin-

gent assets and liabilities at the date of the financial statements. In addition, they affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and assumptions.

**Reclassification:** Certain prior year amounts have been reclassified to conform to 2001 presentation and for the effect of the June 1, 2000, stock split (see note 16).

#### Note 2: Intangible Assets

Intangible assets consist of the following:

Dollars in Thousands	March 31,	
	2001	2000
Goodwill	<b>\$40,709</b>	\$40,709
Trademarks	<b>10,000</b>	10,000
Patents and technology	<b>12,000</b>	12,000
Other	<b>1,143</b>	1,143
	<b>63,852</b>	63,852
Accumulated amortization	<b>19,825</b>	17,654
Net intangible assets	<b>\$44,027</b>	\$46,198

## KEMET Corporation and Subsidiaries

### Notes To Consolidated Financial Statements

(continued)

#### Note 3: Debt

A summary of long-term debt follows:

Dollars in Thousands	March 31,	
	2001	2000
Senior notes, interest payable semiannually at a rate of 6.66% with a final maturity date of May 4, 2010	<b>\$100,000</b>	\$100,000
	<b>100,000</b>	100,000
Less current installments	-	-
Long-term debt, excluding current installments	<b>\$100,000</b>	\$100,000

In May 1998, the Company sold \$100,000 of its Senior Notes pursuant to the terms of a Note Purchase Agreement dated May 1, 1998, between the Company and the eleven purchasers of the Senior Notes named therein. The Senior Notes have a final maturity date of May 4, 2010, and begin amortizing on May 4, 2006. The Senior Notes bear interest at a fixed rate of 6.66%, with interest payable semiannually beginning November 4, 1998. The aggregate maturities of the debt subsequent to March 31, 2001, follow: 2007, \$20,000; 2008, \$20,000; 2009, \$20,000; 2010, \$20,000; and 2011, \$20,000.

The Company had two unsecured and unused credit facilities during the fiscal year ended March 31,

2001: a \$150.0 million revolving credit facility and a \$10.0 million swingline credit facility. The annual fee for the revolving credit facility is approximately \$190 and both facilities expire on October 18, 2002.

The Company is subject to restrictive covenants under its loan agreements which, among others, restrict its ability to make loans or advances or to make investments and require it to meet financial tests related principally to funded debt, cash flows, and net worth. At March 31, 2001, the Company was in compliance with such covenants. Borrowings are secured by guarantees of certain of the Company's wholly owned subsidiaries.

#### Note 4: Other Non-Current Obligations

Non-current obligations are summarized as follows:

Dollars in Thousands	March 31,	
	2001	2000
Unfunded projected pension benefit obligation (note 5)	<b>\$12,098</b>	\$18,337
Unfunded postretirement medical plans (note 6)	<b>36,820</b>	34,243
Other	<b>2,166</b>	2,177
Other non-current obligations	<b>\$51,084</b>	\$54,757

Included as a part of other non-current obligations is the Company's accrual for environmental liabilities.

## KEMET Corporation and Subsidiaries

### Notes To Consolidated Financial Statements

(continued)

#### Note 5: Employee Pension and Savings Plans

The Company has a non-contributory pension plan (Plan) which covers substantially all employees in the United States who meet age and service requirements. The Plan provides defined benefits that are based on years of credited service, average compensation (as defined), and the primary social security benefit. The effective date of the Plan is April 1, 1987.

The cost of pension benefits under the Plan is determined by an independent actuarial firm using the "projected unit credit" actuarial cost method. Currently payable contributions to the Plan are limited to amounts that are currently deductible for income tax reporting purposes, and are included in accrued expenses in the consolidated balance sheets.

Components of net periodic pension cost include the following:

Dollars in Thousands	Years ended March 31,		
	2001	2000	1999
Service cost	\$4,246	\$4,544	\$3,472
Interest cost	8,462	8,071	6,494
Expected return on assets	(8,862)	(6,323)	(6,084)
Amortization of:			
Transition asset	(6)	(6)	(6)
Prior service cost	(84)	(83)	(90)
Actuarial loss	-	650	-
Gain on curtailment of employee benefit plan	-	-	(1,818)
<b>Total net periodic pension cost</b>	<b>\$3,756</b>	<b>\$6,853</b>	<b>\$1,968</b>

The weighted-average rates used in determining pension cost for the Plan are as follows:

	Years ended March 31,		
	2001	2000	1999
Discount rate	7.0%	7.50%	7.00%
Rate of compensation increase	5.0%	5.00%	4.00%
Expected return on plan assets	9.0%	9.00%	9.50%

## KEMET Corporation and Subsidiaries

### Notes To Consolidated Financial Statements

(continued)

A reconciliation of the Plan's projected benefit obligation, fair value of the Plan assets, and funding status is as follows:

Dollars in Thousands	March 31,	
	2001	2000
Projected benefit obligation:		
Net obligation at beginning of year	\$111,698	\$ 96,830
Service cost	4,246	4,544
Interest cost	8,462	8,071
Actuarial (gain) loss	8,991	7,164
Gross benefits paid	(4,739)	(4,911)
Net benefit obligation at end of year	\$128,658	\$111,698
Fair value of plan assets:		
Fair value of plan assets at beginning of year	\$ 94,880	\$ 62,153
Actual return on plan assets	(7,743)	11,343
Employer contributions	11,500	26,295
Gross benefits paid	(4,739)	(4,911)
Fair value of plan assets at end of year	\$ 93,898	\$ 94,880
Funding status:		
Funded status at end of year	\$ (34,760)	\$ (16,818)
Unrecognized net actuarial (gain) loss	31,687	6,091
Unrecognized prior service cost	(399)	(482)
Unrecognized net transition obligation (asset)	-	(7)
Net amount recognized at end of year	\$ (3,472)	\$ (11,216)

The Company sponsors an unfunded Deferred Compensation Plan for key managers. This plan is non-qualified and provides certain key employees defined pension benefits which would equal those provided by the Company's non-contributory pension plan if the plan was not limited by the Employee Retirement Security Act of 1974 and the Internal Revenue Code. Expenses related to the deferred compensation plan totaled \$1,504 in fiscal 2001, \$988 in fiscal 2000, and \$885 in fiscal 1999. Total benefits accrued under this plan were \$8,626 at March 31, 2001, and \$7,121 at March 31, 2000.

In addition, the Company has a defined contribution plan (Savings Plan) in which all U. S. employees who meet certain eligibility requirements may participate. A participant may direct the Company to contribute amounts, based on a percentage of the participant's compensation, to the Savings Plan through the execution of salary reduction agreements. In addition, the participants may elect to make after-tax contributions. The Company will make annual matching contributions to the Savings Plan of 30% to 50%. The Company contributed \$2,061 in fiscal 2001, \$1,801 in fiscal 2000, and \$1,786 in fiscal 1999.

## KEMET Corporation and Subsidiaries

### Notes To Consolidated Financial Statements

(continued)

#### Note 6: Postretirement Medical and Life Insurance Plans

The Company provides health care and life insurance benefits for certain retired employees who reach retirement age while working for the Company. The components of the expense for postretirement medical and life insurance benefits are as follows:

Dollars in Thousands	Years ended March 31,		
	2001	2000	1999
Service cost	\$1,268	\$1,479	\$ 701
Interest cost	2,985	2,834	2,086
Amortization of actuarial gain	111	248	(23)
Curtailement gain	-	-	(611)
Total net periodic benefits cost	\$4,364	\$4,561	\$2,153

A reconciliation of the postretirement medical and life insurance plan's projected benefit obligation, fair value of plan assets, and funding status is as follows:

Dollars in Thousands	March 31,	
	2001	2000
Projected benefit obligation:		
Net obligation at beginning of year	\$ 40,396	\$ 29,241
Service cost	1,268	1,479
Interest cost	2,985	2,834
Actuarial (gain) loss	347	8,880
Gross benefits paid	(1,786)	(2,038)
Net benefit obligation at end of year	\$ 43,210	\$ 40,396
Fair value of plan assets:		
Employer contributions	\$ 1,786	\$ 2,038
Gross benefits paid	(1,786)	(2,038)
Fair value of plan assets at end of year	\$ -	\$ -
Funding status:		
Funded status at end of year	\$(43,210)	\$(40,396)
Unrecognized net actuarial (gain) loss	6,390	6,153
Net amount recognized at end of year	\$(36,820)	\$(34,243)



## KEMET Corporation and Subsidiaries

### Notes To Consolidated Financial Statements

(continued)

The weighted-average rates used in determining postretirement medical and life insurance costs are as follows:

Dollars in Thousands	Years ended March 31,		
	2001	2000	1999
Discount rate	7.00%	7.50%	7.00%
Rate of compensation increase	5.00%	5.00%	4.00%
Health care cost trend on covered charges	<b>8.0% decreasing to ultimate trend of 6.0% in 2008</b>	9.5% decreasing to ultimate trend of 7.0% in 2008	8.0% decreasing to ultimate trend of 7.0% in 2008
Sensitivity of retiree welfare results:			
Effect of a one percentage point increase in assumed health care cost trend:			
• on total service and interest cost components	<b>\$ 143</b>	\$ 538	\$ 140
• on postretirement benefit obligation	<b>\$ 933</b>	\$3,487	\$1,023
Effect of a one percentage point decrease in assumed health care cost trend:			
• on total service and interest cost components	<b>\$(131)</b>	\$ (472)	\$ (128)
• on postretirement benefit obligation	<b>\$(885)</b>	\$(3,196)	\$ (970)

#### Note 7: Income Taxes

The components of earnings before income taxes consist of:

Dollars in Thousands	Years ended March 31,		
	2001	2000	1999
Domestic	<b>\$530,128</b>	\$ 91,373	\$4,449
Foreign	<b>38,172</b>	14,191	4,595
	<b>\$568,300</b>	\$105,564	\$9,044

The provision for income tax expense for continuing operations:

Dollars in Thousands	Years ended March 31,		
	2001	2000	1999
Current:			
Federal	<b>\$197,522</b>	\$27,342	\$(9,810)
State and local	<b>16,384</b>	1,051	232
Foreign	<b>10,071</b>	4,121	2,475
	<b>223,977</b>	32,514	(7,103)
Deferred:			
Federal	<b>(7,859)</b>	2,568	9,969
State and local	<b>(499)</b>	193	447
Foreign	<b>335</b>	170	(419)
	<b>(8,023)</b>	2,931	9,997
Provision for income taxes	<b>\$215,954</b>	\$35,445	\$ 2,894

## KEMET Corporation and Subsidiaries

### Notes To Consolidated Financial Statements

(continued)

A reconciliation of the statutory federal income tax rate to the effective income tax rate is as follows:

	Years ended March 31,		
	2001	2000	1999
Statutory federal income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal taxes	1.9	.8	4.9
Foreign sales corporation	(1.8)	(1.9)	(10.7)
Goodwill amortization	.1	.3	3.8
Other	2.8	(0.6)	(1.0)
Effective income tax rate	38.0%	33.6%	32.0%

The components of deferred tax assets and liabilities are as follows:

Dollars in Thousands	March 31,	
	2001	2000
Deferred tax assets:		
Pension benefits	\$ 4,424	\$ 6,768
Medical benefits	14,296	12,116
Sales and product allowances	35,853	15,911
All other	1,896	5,365
	56,469	40,160
Deferred tax liabilities:		
Depreciation and differences in basis	(57,095)	(50,892)
Amortization of intangibles	(4,678)	(5,071)
Tax effect of hedging	(1,398)	-
All other	(2,476)	-
	(65,647)	(55,963)
Net deferred income tax liability	\$ (9,178)	\$(15,803)

The net deferred income tax liability is reflected in the accompanying 2001 and 2000 balance sheets as a \$35,018 and \$20,099 current asset and a \$44,196 and \$35,902 non-current liability, respectively.

Based on the scheduled reversal of deferred tax liabilities and projected future taxable income, the Company believes that the deferred tax assets will ultimately be realized. Accordingly, no valuation allowance has been provided for in 2001 or 2000.

#### Note 8: Stock Option Plans

The Company has two option plans that reserve shares of common stock for issuance to executives and key employees. The Company has adopted the disclosure-

At March 31, 2001, unremitted earnings of the subsidiaries outside the United States were deemed to be permanently invested. No deferred tax liability was recognized with regard to such earnings. It is not practicable to estimate the income tax liability that might be incurred if such earnings were remitted to the United States.

only provisions of Statement of Financial Accounting Standards No.123, "Accounting for Stock-Based Compensation." On July 1, 2000, the Company adopted

## KEMET Corporation and Subsidiaries

### Notes To Consolidated Financial Statements

(continued)

the provisions of FASB Interpretation No.44, "Accounting for Certain Transactions Involving Stock Compensation," which requires variable accounting treatment on certain re-priced options. This requires that any increase in the stock price above the July 1, 2000, adoption date stock price be recognized immediately as compensation expense. For fiscal years 2001, 2000, and 1999, no compensation cost has been recog-

nized for the stock option plans. Had compensation costs for the Company's two stock option plans been determined based on the fair value at the grant date for awards in fiscal years 2001, 2000, and 1999, consistent with the provisions of SFAS No. 123, the Company's net earnings and earnings per share would have been reduced to the pro forma amounts indicated below:

Years ended March 31,

Dollars in Thousands Except per Share Data		2001	2000	1999
Net earnings	As reported	<b>\$352,346</b>	\$70,119	\$6,150
	Pro forma	<b>\$348,628</b>	\$64,286	\$4,203
Earnings per share:				
Basic	As reported	<b>\$4.05</b>	\$0.87	\$0.08
	Pro forma	<b>\$4.01</b>	\$0.80	\$0.06
Diluted	As reported	<b>\$4.00</b>	\$0.85	\$0.08
	Pro forma	<b>\$3.95</b>	\$0.78	\$0.06

The pro forma amounts indicated above recognize compensation expense on a straight-line basis over the vesting period of the grant. The pro forma effect on net income for fiscal year 2001 is not representative of the pro forma effects on net income in future years because it does not take into consideration pro forma compensation expense related to grants made prior to 1996.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: expected life of 5 years for 2001, 2000, and 1999; a risk-free interest rate of 5.1% for 2001, 6.8% for 2000, and 5.4% for 1999; expected volatility of 58.0% for 2001, 49.7% for 2000, and 45.1% for 1999; and a dividend yield of 0.0% for all three years.

Under the 1992 Executive Stock Option Plan approved by the Company in April 1992, 1,905,120 options were granted to certain executives. In May 1992, the Company also approved the 1992 Key Employee Stock Option Plan, which authorizes the granting of options to purchase 2,310,000 shares of Common Stock. In addition, stockholders approved the 1995 Executive Stock Option Plan at the 1996 Annual Meeting. This plan provides for the issuance

of options to purchase 3,800,000 shares of common stock to certain executives.

These plans provide that shares granted come from the Company's authorized but unissued common stock. The price of the options granted thus far pursuant to these plans is no less than 100% of the value of the shares on the date of grant. Also, the options may not be exercised within two years from the date of grant and no options will be exercisable after ten years from the date of grant.

In fiscal 1999, the Company's Board of Directors approved an option re-price program for the Key Employee Stock Option Plan and Executive Stock Option Plan, effective February 1, 1999, and April 1, 1999, respectively. Under this program, options to purchase 658,260 shares under the Key Employee Stock Option Plan and 1,048,000 shares under the Executive Stock Option Plan at prices ranging from \$9.63 to \$16.07 per share were canceled and reissued at \$5.00 and \$6.00 per share, respectively. The reissued price was the fair market value at the time. The vesting date of the options originally granted in 1995 and 1996 was changed to April 2000. The vesting date for those options originally issued in 1997 remains at October 1999.

## KEMET Corporation and Subsidiaries

### Notes To Consolidated Financial Statements

(continued)

A summary of the status of the Company's three stock option plans as of March 31, 2001, 2000, and 1999, and changes during the years ended on those dates, is presented below:

	March 31,					
	2001		2000		1999	
Fixed Options	Shares	Weighted-Average Exercisable Price	Shares	Weighted-Average Exercisable Price	Shares	Weighted-Average Exercisable Price
Options outstanding at beginning of year	2,632,020	\$10.09	3,286,000	\$ 6.81	2,502,040	\$10.10
Options granted	828,000	17.51	2,379,000	10.71	1,869,140	5.48
Options exercised	(549,720)	5.62	(1,944,260)	5.83	(53,120)	3.51
Options canceled	(69,280)	11.10	(1,088,720)	9.66	(1,032,060)	12.55
Options outstanding at end of year	2,841,020	\$13.12	2,632,020	\$10.09	3,286,000	\$ 6.81
Option price range at end of year	\$2.50 to \$19.38		\$2.50 to \$16.07		\$2.50 to \$16.07	
Option price range for exercised shares	\$2.50 to \$16.07		\$2.50 to \$16.07		\$2.50 to \$7.10	
Options available for grant at end of year	2,647,870		1,412,590		2,414,580	
Options exercisable at year-end	723,020		504,210		624,860	
Weighted-average fair value of options granted during the year	\$9.61		\$7.54		\$2.69	

The following table summarizes information about stock options outstanding at March 31, 2001:

Range of Exercisable Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at 3/31/01	Weighted-Average Remaining Contractual Life	Weighted-Average Exercisable Price	Number Exercisable at 3/31/01	Weighted-Average Exercisable Price
\$2.50	9,200	1.6 years	\$ 2.50	9,200	\$2.50
\$5.00 to \$6.75	713,820	6.0 years	\$ 5.62	713,820	\$5.62
\$14.50 to \$19.38	2,118,000	9.0 years	\$15.70	-	-
	2,841,020	8.2 years	\$13.12	723,020	\$5.58

## KEMET Corporation and Subsidiaries

### Notes To Consolidated Financial Statements

(continued)

#### Note 9: Geographic Information

The following geographic information includes net sales based on product shipment destination (1):

Dollars in Thousands	Years ended March 31,		
	2001	2000	1999
United States	\$ 642,406	\$408,890	\$293,427
Asia Pacific	273,853	190,289	119,938
Germany	124,980	49,670	34,142
Mexico (2)	86,779	-	-
Other countries (3)	278,129	173,246	118,062
	<b>\$1,406,147</b>	<b>\$822,095</b>	<b>\$565,569</b>

(1) Revenues are attributed to countries or regions based on the location of the customer. The Company sold \$231,801 and \$148,158 to two customers and each accounted for more than 10% of net sales in the fiscal year ended March 31, 2001. One customer accounted for more than 10% of net sales as the Company sold \$129,600 and \$59,367 to it in the fiscal years ended March 31, 2000 and 1999, respectively.

(2) Did not exceed 5% of sales in 2000 and 1999 and included with "Other countries."

(3) No country in this group exceeded 5% of consolidated net sales.

The following geographic information includes long-lived assets based on physical location:

Dollars in Thousands	March 31,		
	2001	2000	1999
United States	\$314,980	\$243,385	\$247,966
Mexico	251,331	179,092	157,795
Other	951	922	974
	<b>\$567,262</b>	<b>\$423,399</b>	<b>\$406,735</b>

#### Note 10: Commitments

(a) The Company has agreements with distributor customers which, under certain conditions, allow for returns of overstocked inventory and provide protection against price reductions initiated by the Company. Allowances for these commitments are included in the consolidated balance sheets as reductions in trade accounts receivable (note 11). The Company adjusts sales to distributors through the use of allowance accounts based on historical experience.

(b) A subsidiary of the Company sells certain receivables discounted at .60 of 1% above LIBOR for the number of days the receivables are outstanding, with a recourse provision not to exceed 5% of the face amount of the factored receivables. The Company has issued a joint and several guarantee in an aggregate amount up to but not to exceed \$4,000 to guarantee this recourse provision. The Company transferred receivables and incurred factoring costs of \$529,946 and \$5,236 in fiscal 2001, \$372,656 and \$3,444 in fiscal 2000, and \$258,619 and \$2,988 in fiscal 1999.

Included in accounts payable, trade, is \$30,310 and \$44,212 at March 31, 2001 and 2000, respectively, which represents factored receivables collected but not remitted.

(c) The Company's leases consist primarily of manufacturing equipment and expire principally between 2001 and 2006. A number of leases require that the Company pay certain executory costs (taxes, insurance, and maintenance) and certain renewal and purchase options. Annual rental expense for operating leases are included in results of operations and were approximately \$7,346 in fiscal 2001, \$8,300 in fiscal 2000, and \$10,229 in fiscal 1999. Future minimum lease payments over the next five years under non-cancelable operating leases at March 31, 2001, are as follows:

Dollars in Thousands	
2002	\$3,997
2003	2,245
2004	852
2005	422
2006	50
Total	<b>\$7,566</b>

## KEMET Corporation and Subsidiaries

### Notes To Consolidated Financial Statements

#### (continued)

#### Note 11: Supplementary Balance Sheet and Income Statement Detail

Dollars in Thousands	March 31,		
	2001	2000	
Accounts receivable:			
Trade	\$143,681	\$103,139	
Other	6,273	6,767	
Total accounts receivable	149,954	109,906	
Less:			
Allowance for doubtful accounts	882	262	
Allowance for price protection and customer returns (note 10)	52,489	15,517	
Net accounts receivable	\$ 96,583	\$ 94,127	
Property and equipment, at cost	Useful Life		
Land and land improvements	20 years	\$ 12,817	\$ 12,946
Buildings	20-40 years	94,462	86,465
Machinery and equipment	10 years	653,645	522,514
Furniture and fixtures	4-10 years	41,368	36,989
Construction in progress		75,894	41,326
Total property and equipment		878,186	700,240
Accumulated depreciation		310,924	276,841
Net property and equipment		\$567,262	\$423,399
Accrued expenses:			
Salaries, wages and related employee costs		\$ 23,795	\$ 18,254
Vacation		9,526	8,752
Other		15,908	15,039
Total accrued expenses		\$ 49,229	\$ 42,045
Dollars in Thousands	Years ended March 31,		
	2001	2000	1999
Other (income)/expense:			
Loss on retirement of assets	\$3,380	\$ 9,405	\$ 985
Accounts receivable discounting	5,236	3,444	2,988
Unrealized gain on foreign currency forward contracts	(941)	(1,682)	-
Other	217	528	300
	\$7,892	\$11,695	\$4,273

# KEMET Corporation and Subsidiaries

## Notes To Consolidated Financial Statements

### (continued)

#### Note 12: Legal Proceedings

The Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (CERCLA) and certain analogous state laws impose retroactive, strict liability upon certain defined classes of persons associated with releases of hazardous substances into the environment. Among those liable under CERCLA (known collectively as "potentially responsible parties" or "PRPs") is any person who "arranged for disposal" of hazardous substances at a site requiring response action under the statute. While a company's liability under CERCLA is often based upon its proportionate share of overall waste volume or other equitable factors, CERCLA has been widely held to permit imposition of joint and several liabilities on each PRP. The Company has periodically incurred, and may continue to incur, liability under CERCLA and analogous state laws with respect to sites used for off-site management or disposal of Company-derived wastes. The Company has been named as a PRP at the Seaboard Chemical Site in Jamestown, North Carolina. The Company is participating in the clean-up as a "de minimis" party and does not expect its total exposure to be material. In addition, Union Carbide Corporation (Union Carbide), the former owner of the Company, is a PRP at certain sites relating to the off-site disposal of wastes from properties presently owned by the Company. The Company is participating in coordination with Union Carbide in certain PRP-initiated activities related to these sites. The Company expects that it will bear some portion of the liability with respect to these sites; however, any such share is not presently expected to be material to the Company's financial condition or results of operations. In connection with the acquisition in 1990, Union Carbide agreed, subject to certain limitations, to indemnify the Company with respect to the foregoing sites.

The Company or its subsidiaries are at any one time parties to a number of lawsuits arising out of their respective operations, including workers' compensation or work place safety cases, some of which involve claims of substantial damages. Although there can be no assurance, based upon information known to the Company, the Company does not believe that any liability which might result from an adverse determination of such lawsuits would have a material adverse effect on the Company's financial condition or results of operations.

#### Note 13: Put Options

During the fiscal year ended March 31, 2001, the Company sold put options to institutional parties as part of a program to purchase up to 4.0 million (note 16) of its common shares. Premiums generated from the sale of the put options were \$4.7 million and have been accounted for as Additional Paid-In Capital. The fair value of the put options at March 31, 2001, totaled \$4.4 million. The Company had the maximum potential obligation to purchase 1.9 million shares of its common stock at a weighted average purchase price of \$18.31 for an aggregate of \$34.8 million at March 31, 2001. The put options are exercisable only at maturity and expire between April and October 2001. The Company has the right to settle the put options through physical settlement or net share settlement using shares of the Company's common stock.

## KEMET Corporation and Subsidiaries

### Notes To Consolidated Financial Statements

(continued)

#### Note 14: Earnings Per Share

Basic and diluted earnings per share (EPS) are calculated as follows:

Dollars in Thousands Except per Share Data	Years ended March 31,		
	2001	2000	1999
Net earnings	<b>\$352,346</b>	\$70,119	\$6,150
Weighted-average shares outstanding (Basic)	<b>86,930,965</b>	80,650,376	78,441,440
Stock options	<b>1,250,153</b>	1,761,258	586,420
Weighted-average shares outstanding (Diluted)	<b>88,181,118</b>	82,411,634	79,027,860
Basic earnings per share	<b>\$4.05</b>	\$0.87	\$0.08
Diluted earnings per share	<b>\$4.00</b>	\$0.85	\$0.08

#### Note 15: Derivatives, Hedging, and Financial Instruments

The Company uses certain derivative financial instruments to reduce exposures to volatility of foreign currencies and commodities impacting the costs of its products.

##### **Hedging Foreign Currencies**

Certain operating expenses at the Company's Mexican facilities are paid in Mexican pesos. In order to hedge these forecasted cash flows, management purchases forward contracts to buy Mexican pesos for periods and amounts consistent with the related underlying cash flow exposures. These contracts are designated as hedges at inception and monitored for effectiveness on a routine basis. At March 31, 2001, the Company had outstanding forward exchange contracts that mature within one year to purchase Mexican pesos with notional amounts of \$89.3 million. The fair values of these contracts at March 31, 2001, totaled \$5.0 million, which is recorded as a derivative asset on the Company's balance sheet as other current assets. Changes in the derivatives' fair values are deferred and recorded as a component of "Accumulated Other Comprehensive Income (Loss)" (AOCI), until

the underlying transaction is recorded in earnings. When the hedged item affects earnings, gains or losses are reclassified from AOCI to the consolidated statement of earnings as cost of goods sold. The Company anticipates all amounts in AOCI as of March 31, 2001, will be reclassified into earnings within one year. Any ineffectiveness in the Company's hedging relationships is recognized immediately in earnings.

Prior to adoption of SFAS No.133 (as amended by SFAS No.138), the Company recorded gains from foreign currency contracts of \$0.9 million, \$1.7 million, and \$0 in fiscal 2001, fiscal 2000, and fiscal 1999, respectively, as a component of other income and expense in its statement of earnings. Subsequent to adoption of the new standard, the Company recorded \$2.8 million of gains from foreign currency contracts as a component of cost of goods sold in fiscal 2001. The Company formally documents all relationships between hedging instruments and hedged items, as well as risk management objectives and strategies for undertaking various hedge transactions.



# KEMET Corporation and Subsidiaries

## Notes To Consolidated Financial Statements

### (continued)

#### ***Hedging Commodity Prices***

The Company occasionally enters into contracts for the purchase of its raw materials, primarily palladium, which are considered to be derivatives or embedded derivatives with underlyings not clearly and closely related to the host contract. As such, the fair values of these embedded derivatives are recorded on the balance sheet as derivative assets or liabilities and the change in fair values is recorded as a component of cost of goods sold. At March 31, 2001, the Company had derivative assets from these embedded derivatives of \$3.7 million included in other current assets on the balance sheet, and the change in fair values of such derivatives since adoption of the new standard in fiscal 2001 was a gain of \$2.1 million. All other contracts to purchase raw materials qualify for the normal purchases exclusion and are not accounted for as derivatives.

#### ***Other Financial Instruments***

The carrying values of cash and cash equivalents, short-term investments, accounts receivable, and accounts payable approximate their fair values. The fair value of the Company's debt outstanding at March 31, 2001 and 2000, was \$96.5 million and \$92.1 million, respectively, which was determined based on quotes from lending institutions.

#### **Note 16: Common Stock**

In August 2000, the Company announced that its Board of Directors had authorized a program to purchase up to 4.0 million shares of its common stock in the open market. Through March 31, 2001, the Company had acquired 1.6 million shares for \$29.3 million and had outstanding put option obligations for 1.9 million shares with an average exercise price of \$18.31. The program was fulfilled in April 2001, at which time the Company announced that its Board of Directors had authorized a second 4.0 million stock purchase program. The amount and timing of purchases will depend on market conditions and other factors. The program will be funded from

existing cash and a combination of direct purchases and/or put options may be used to execute the program.

On May 15, 2000, the Company's Board of Directors declared a two-for-one stock split. The record date for the split was May 24, 2000, with distribution of the additional shares on June 1, 2000. All references in the consolidated financial statements to number of shares outstanding, price per share, per share amounts, and stock option plan data have been restated to reflect the split.

On January 20, 2000, the Company sold 6,500,000 shares of its common stock in a public offering for \$142.6 million in net cash proceeds after deducting underwriting fees and offering expenses. Included in the offering were 2,193,220 shares sold by a stockholder of the Company which were shares of non-voting common stock that were converted into common stock on a share-for-share basis. The net proceeds were used to repay outstanding debt under the Company's short-term credit facility and to fund capital expenditures.

#### **Note 17: Joint Venture**

During the fiscal year ended March 31, 2001, the Company entered into a 50/50 joint venture agreement with Australasian Gold Mines NL (AGM) to establish an independent source of tantalum to meet the increasing demand for tantalum capacitors from key customers. This transaction closed in April 2001. The Company's initial investment in the joint venture is approximately \$4.9 million. The Company also acquired a 10 percent interest in AGM for approximately \$2.3 million. The Company has the right to acquire all processed tantalum products from the initial production plant, which began operations in the quarter ended March 31, 2001, and from any future processing operations of the joint venture. These tantalum products are expected to be toll converted into tantalum powder necessary for the production of capacitors.

## Board of Directors



**David E. Maguire**  
Chairman and Chief Executive Officer



**Charles M. Culbertson II**  
President and Chief Operating Officer



**E. Erwin Maddrey, II**  
Chief Executive Officer  
Maddrey and Associates, an investment and consulting firm



**Charles E. Volpe**  
Former President and Chief Operating Officer



**Paul C. Schorr IV**  
Managing Director Citicorp  
Venture Capital, Ltd.



**Stewart A. Kohl**  
Managing General Partner  
The Riverside Company

## Officers

**David E. Maguire**  
Chairman and Chief Executive Officer

**Charles M. Culbertson II**  
President and Chief Operating Officer

**Glenn H. Spears (Retired 4/01)**  
Executive Vice President and Secretary

**Harris L. Crowley**  
Senior Vice President, Technology  
and Engineering

**D. Ray Cash**  
Senior Vice President and Chief  
Financial Officer

**William W. Johnson**  
Vice President, Sales Worldwide

**Raymond L. Beck**  
Vice President, Quality and Marketing

**C. Ross Patterson**  
Vice President and Chief  
Information Officer

**Larry W. Sheppard**  
Vice President, Human Resources

**James A. Bruorton**  
Vice President, Worldwide Distribution

**Eugene J. DiCianni**  
Vice President, Sales Americas

**Derek Payne**  
Vice President/Managing Director, Europe

**Ravi G. Sastry**  
Vice President International Sales

**Manuel A. Cappella**  
Vice President/Managing Director,  
Mexico Tantalum

**James P. McClintock**  
Vice President, Ceramic Operations

**Dr. Larry A. Mann**  
Vice President, Ceramic Technology

**Dr. Daniel F. Persico**  
Vice President, Tantalum Technology

**Michael W. Boone**  
Treasurer/Director of Finance  
and Secretary

**Stock Information**

The common stock of KEMET Corporation is traded on The New York Stock Exchange under the symbol KEM.

**Registrar and Transfer Agent**

Boston EquiServe  
Limited Partnership  
150 Royall Street  
Canton, Massachusetts 02021

Inquiries regarding stock transfers, lost certificates, or address changes should be directed to the Stock Transfer Department at the address above.

**Independent Auditors**

KPMG LLP  
Greenville, South Carolina

**Stockholder Inquiries and Availability of Form 10-K Report**

A copy of the Company's annual report on Form 10-K for the year ended March 31, 2001, filed with the Securities and Exchange Commission is available to stockholders free of charge from the following:

John Warner,  
Director of Investor and Public Relations  
KEMET Corporation  
Post Office Box 5928  
Greenville, South Carolina 29606  
Email: investorrelations@kemet.com  
Website: <http://www.kemet.com>

**Dividend Policy**

The Company has not declared or paid any cash dividends on its Common Stock. The Company currently intends to retain earnings to support its growth strategy and does not anticipate paying dividends in the foreseeable future. Any future determination to pay dividends will be at the discretion of the Company's Board of Directors and will depend upon, among other factors, the capital requirements, operating results, and financial condition of the Company from time to time.

**Price Range of Common Stock**

As of December 9, 1999, the Company's Common Stock began trading on the New York Stock Exchange under the symbol KEM. Prior to that date, the Common Stock was traded on the Nasdaq Stock Market under the symbol KMET. The following table represents the high and low sale prices of the Common Stock as reported by the appropriate exchange for the periods indicated:

	High	Low
Fiscal Year Ended March 31, 2001:		
First Quarter	\$44.22	\$24.19
Second Quarter	33.94	22.50
Third Quarter	29.19	13.75
Fourth Quarter	23.31	14.25
Fiscal Year Ended March 31, 2000:		
First Quarter	\$11.63	\$5.72
Second Quarter	16.50	10.57
Third Quarter	22.69	13.19
Fourth Quarter	40.00	16.00

On June 1, 2001, the last sale price of the Common Stock as reported on The New York Stock Exchange was \$19.00.



## **CORPORATE OFFICES**

**KEMET Corporation  
Post Office Box 5928  
Greenville, South Carolina 29606  
(864) 963-6300**

## **SUBSIDIARIES**

**KEMET Electronics Corporation  
2835 Kemet Way  
Simpsonville, South Carolina 29681**

**KEMET de Mexico S.A. de C.V.  
Av. Carlos Salazar y Blv. Manuel  
Cavazos Lerma #15  
Matamoros, Tamaulipas, Mexico 87380**

**KEMET Electronics S.A.  
1-3, Avenue de la Paix  
Ch-1211 Geneva 20  
Switzerland**

**KEMET Electronics Asia Ltd.  
4A Chuan Hing Industrial Building  
14 Wang Tai Road  
Kowloon Bay, Hong Kong**