Preferred Supplier of High Performance Solutions

2002

Annual Report

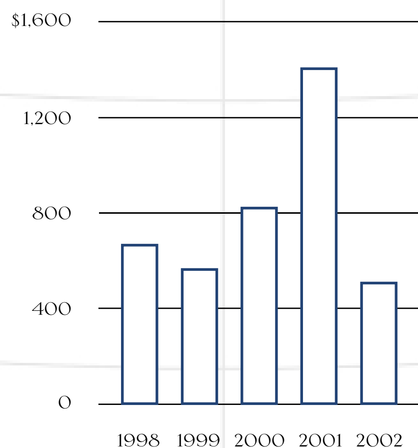
Profile

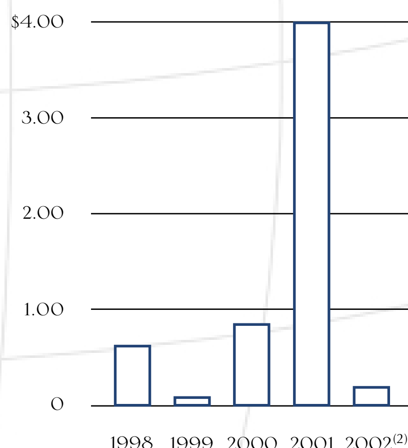
KEMET Corporation is the world's largest manufacturer of solid tantalum capacitors, and a world leader in the manufacturing of multilayer ceramic capacitors and solid aluminum capacitors. These surface-mount technologies are the fastest growing segment of the capacitor industry. Capacitors, which store, 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.

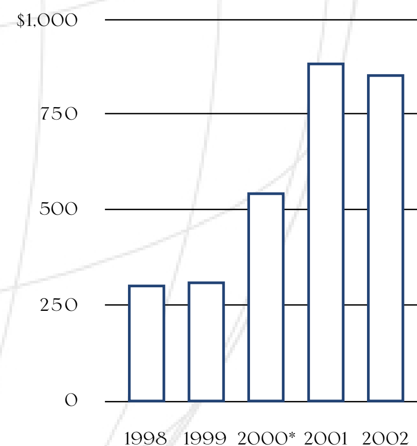
Highlights of Fiscal 2002

Years ended March 31, *(Dollars in thousands except per share data)*	2000	2001	**2002(2)**
Net sales	$822,095	$1,406,147	**$508,555**
Net earnings before nonrecurring charges	$ 70,119	$ 325,346	**$ 16,516**
Net earnings (loss)	$ 70,119	$ 352,346	**$ (27,289)**
Net earnings before nonrecurring charges/Net sales	8.5%	25.1%	**3.2%**
Net earnings before nonrecurring charges per share, diluted(1)	$ 0.85	$ 4.00	**$ 0.19**
Selling, general and administrative expenses	$ 48,457	$ 55,713	**$ 46,626**
Research and development expenses	$ 23,918	$ 26,188	**$ 25,106**
Fixed asset expenditures	$ 82,009	$ 210,559	**$ 78,546**
Percent debt to capital	15.4%	10.1%	**10.5%**
Year-end number of employees	14,000	13,900	**6,900**

(1) Reflects the impact of 2-for-1 stock split effective June 1, 2000.
(2) Excludes nonrecurring, pre-tax charges of $66,537.







Includes $143 million from secondary stock offering

High-Performance Solutions

KEMET produces the most complete line of surface-mount capacitors.

- Tantalum
- Multilayer ceramic
- Solid aluminum

KEMET leads the industry in easy-to-buy-from service.

- Perfect quality
- Delivered 100% on time
- Any customer location in the world
- Competitive prices

Being easy to buy from is deeply embedded in KEMET's corporate culture. A preferred supplier position is earned each day by excelling at delivering solutions, from technology to service, important to customers.

KEMET's mission is to earn and enhance the preferred capacitor supplier position at the most successful electronics equipment companies in the world. We lead our industry in producing high-performance capacitor solutions, including the world's most complete line of surface-mount tantalum, ceramic, and aluminum capacitor technologies provided with near perfect quality and on-time delivery at competitive prices to customer locations worldwide. Electronics is a high-growth, but cyclical industry. By focusing exclusively on capacitors and by growing organically, KEMET has developed very efficient operations that can deliver a high-performance solution to each customer as defined by their needs. In fast-developing sectors, like notebook computers, video games, and increasingly broadband infrastructure, advances in electronics are creating new demands for innovative capacitor solutions to deliver higher capacitance at higher frequencies. In more mature sectors, like PCs and wireless handsets, operational excellence is key to simplifying processes and driving out excess costs to deliver products at a competitive price.

Technology

Competitive Prices

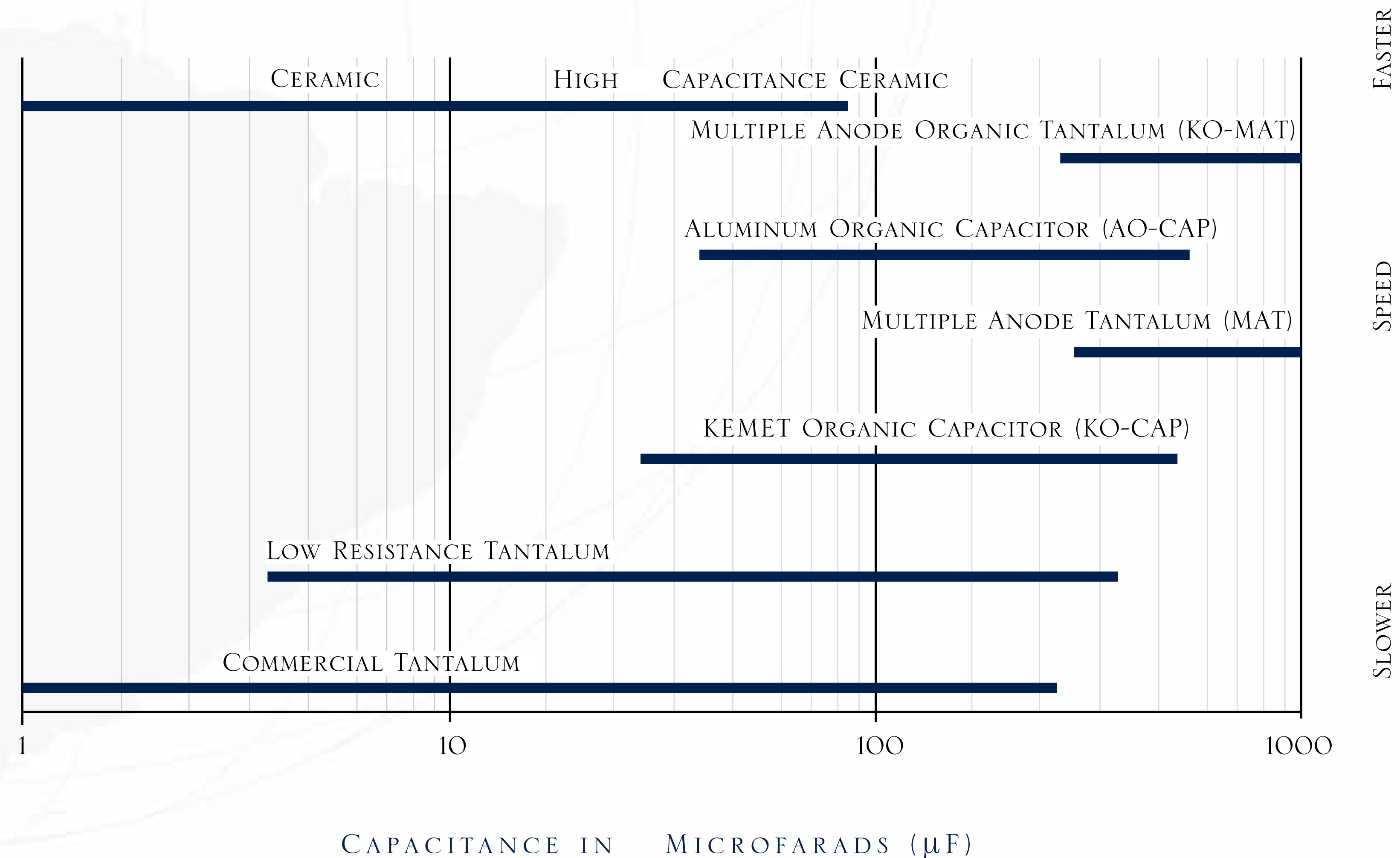
Electronics is a high-growth industry, because each company in the electronics supply chain delivers to its customers more value for less cost every year. KEMET's focused plant concept is key to delivering products at competitive prices while maintaining acceptable profit margins. KEMET has sixteen manufacturing and distribution facilities in the Southeastern United States and Mexico, each focused on a limited number of production processes. Each day, a KEMET plant manager's job is to produce perfect parts delivered 100 percent on-time at declining costs. World-class information technologies seamlessly tie together manufacturing facilities thousands of miles apart into a virtual factory. During fiscal 2002, KEMET executed significant productivity enhancement and cost reduction initiatives, positioning KEMET to be cost-competitive as the industry recovers.

Innovative Products

In recent years, KEMET has made substantial advances in capacitor technologies, in particular those directed at high-frequency electronics that require high capacitance, such as microprocessors operating at clock speeds of greater than 1 gigahertz. Industry sources estimate that microprocessor speeds will increase three times within the next five years and eight times within the next ten. KEMET is a leader in the capacitor technology necessary to manage the power for these high-frequency microprocessors. High-capacitance ceramics have evolved from forty to over four hundred layers of ceramic and metal in a product measuring .03 centimeters by .08 centimeters. Recently KEMET introduced the world's fastest tantalum capacitor, whose frequency response approaches that of ceramic, while providing significantly more capacitance per volume. During fiscal 2002, KEMET introduced solid aluminum capacitors that cost-effectively address certain high-frequency applications. Together, KEMET's tantalum, ceramic, and solid aluminum products represent the most complete line of high-performance capacitor solutions in the world.

Focused manufacturing in low-cost locations, along with productivity and cost initiatives, allow KEMET to be cost-competitive.

Most Complete Line of Surface-Mount Capacitors



The most complete line of surface-mount capacitors allows KEMET to provide the best solution to the customer regardless of technology.

Global Logistics

Finished manufactured parts from KEMET's production plants are transferred from our U.S. Distribution Center in Brownsville, Texas to local distribution hubs around the world from Asia to Europe. Our benchmark just-in-time logistics systems allow us to provide the kind of reliable delivery customers might expect from a local supplier. KEMET's industry leading, "Easy to Buy From" information systems allow us to do business with local buyers, in their local language, using their local currency. As a result, KEMET delivers parts with near perfect quality and on-time delivery to any customer location anywhere in the world. Combined with the focused manufacturing strategy, KEMET's systems allow the Company to achieve the most reliable order fulfillment in our industry and among the lowest total costs in the world.

Customers can place an order, receive an on-line confirmation and a delivery date within seconds, and experience on-time delivery anywhere in the world.

KEMET's key customers are among the largest, most successful electronics original equipment manufacturers (OEM), electronic manufacturing services (EMS) providers, and distributors. Approximately 35 percent of our revenue is generated through sales to distributors, with the remaining split roughly evenly between OEM and EMS customers. Over the past decade, our EMS customers have captured approximately 15 percent of the world electronics manufacturing market from facilities acquired from electronics OEMs. Industry sources anticipate this penetration doubling within five years. KEMET's service-oriented, easy-to-buy-from philosophy positions us to grow along with our service-oriented EMS customers.

KEMET's industry leading service positions the Company to grow along with our customers as they gain market share globally.

Service

Letter to Our Shareholders

Following the most successful year in KEMET's history, fiscal 2002 was one of the most challenging. Total sales for fiscal 2002 were $509 million, down from $1.4 billion in fiscal 2001.

Electronics is a high-growth, but cyclical, industry. During most of calendar 2000, shipments in the electronics industry were at an unsustainably high level. Because many customers did not immediately respond to their sales slowdown late in 2000 by reducing purchases of capacitors, by March 2001 some customers had accumulated inventory that was five times the normal level prior to the bubble.

To reduce this huge pile of excess inventory, throughout most of fiscal 2002 customers purchased new capacitors at a rate that was half the rate at which they were consuming capacitors. In my forty-three years with KEMET, spanning eleven industry cycles, I have never previously experienced a correction of this magnitude and rapidity.

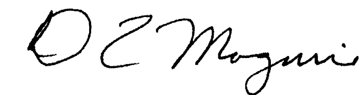
KEMET has an experienced management team, and I am proud of their performance in these exceptional circumstances. Costs were substantially reduced to adjust to the new level of business. From June 2000 through March 2002, the employee base was reduced from 16,000 to 6,900, as we downsized to match demand. Significant productivity initiatives were implemented, which will result in additional cost savings as our industry recovers. On approximately one-third of the revenue of the year earlier, KEMET achieved a break-even level of profitability from the June 2001 quarter through the March 2002 quarter, before nonrecurring charges, which is a significant accomplishment by the entire KEMET team.

KEMET's strategy remains earning the preferred supplier position at the world's most successful electronic manufacturers and distributors. To service our key accounts, KEMET incurs selling, general, and administrative (SG&A) expenses of approximately $48 million per year, primarily in a direct, salaried sales force and the supporting information technologies. We consider this a long-term investment in our customer relationships, and our SG&A does not vary much from year to year. Likewise, annually, we invest approximately $24 million in research and development (R&D) to create innovative capacitor solutions and achieve world class costs. We maintain these relatively fixed SG&A and R&D investment costs during a down year like fiscal 2002, and this business model gives us considerable upside leverage when the capacitor industry does recover.

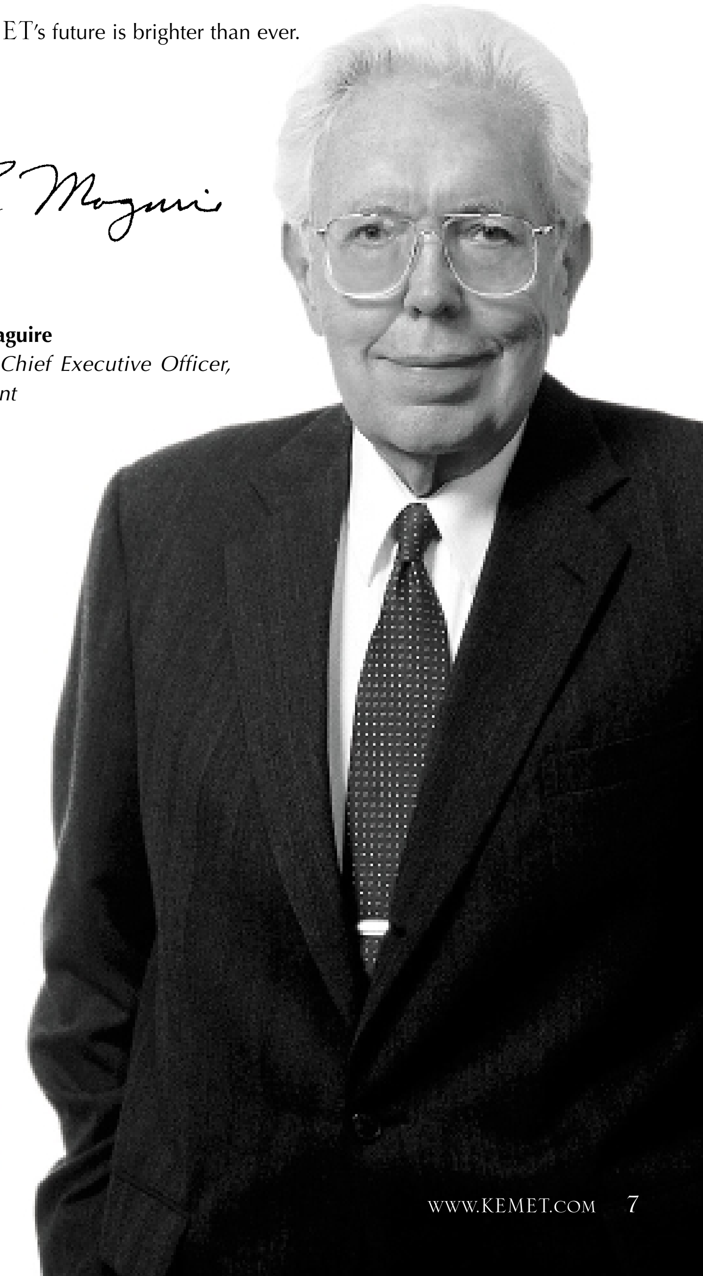
I am particularly enthusiastic about the fiscal 2002 new product development activities. During the year, Dr. Jeffrey Graves joined KEMET from GE Corporation to accelerate our research and development. Also during the year, KEMET formally launched the AO-CAP, a solid surface-mountable aluminum capacitor. This is an emerging capacitor sector where we believe we are the technology leader and are becoming the worldwide market leader. Along with our tantalum and ceramic capacitors, AO-CAPs allow KEMET to deliver to customers the most complete line of surface-mount capacitor technology in the world. In recent years, KEMET has made significant progress in the development of high-capacitance ceramic capacitors, which is a high-growth sector, and we will make important new high-capacitance, ceramic capacitor introductions during fiscal 2003. We continue to make advances in tantalum capacitors in which we are the world leader. Shortly after the end of the fiscal year, KEMET launched the world's fastest tantalum capacitor targeted at power management of high-frequency electronics, such as notebooks, advanced video games, and high-end servers.

While fiscal 2002 was one of the most challenging in KEMET's history, I remain optimistic about KEMET's future. The inventory correction is coming to an end. Electronic end markets are beginning to recover. Our business model, from our focused concept through our global logistics, is tuned to earning the preferred supplier position at the world's most successful electronics companies. We have a broader portfolio of innovative products to capture a larger share of our customers' capacitor dollars than ever before. We have a strong financial position and one of the most experienced teams in our industry.

KEMET's future is brighter than ever.



David E. Maguire
Chairman, Chief Executive Officer, and President



With highly efficient operations, a broad portfolio of innovative products, a strong balance sheet, and an experienced management team, KEMET is well positioned for the future.

Leadership

DEPTH

KEMET as a company is entering its eleventh electronics industry cycle since it began producing tantalum capacitors in the 1950s. KEMET's seventeen corporate officers have served the Company on average over twenty years and managed through five of those cycles. Since before the Company went public in 1992, the KEMET team has a long history of pursuing a consistent strategy to be the preferred capacitor supplier to the world's most successful electronics manufacturers and distributors. The Company's growth has been entirely organic, resulting in tightly integrated and highly efficient operations. At the end of fiscal 2002, KEMET had a strong balance sheet, with over $234 million in cash, $855 million in shareholders' equity, and only $100 million in long-term debt. As the up cycle begins, KEMET is poised with strong depth in both management and financial resources.

back row, left to right: MANUEL A. CAPPELLA, Vice President/Managing Director, Mexico Tantalum; JAMES P. MCCLINTOCK, Vice President, Ceramic Operations; C. ROSS PATTERSON, Vice President and Chief Information Officer; RICK C. RICKENBACH, Vice President, Tantalum U.S.
front row, left to right: LARRY W. SHEPPARD, Vice President, Human Resources; HARRIS L. CROWLEY, Executive Vice President; D. RAY CASH, Senior Vice President and Chief Financial Officer

EXPERIENCE

Selected Financial Data

Dollars in thousands except per share data	Years ended March 31, **2002**	2001	2000	1999	1998
Income Statement Data:					
Net sales	**$ 508,555**	$1,406,147	$822,095	$565,569	$667,721
Operating income (loss)	**(40,365)**	566,986	124,315	22,604	82,202
Interest income	**(9,809)**	(16,713)	(2,079)	—	—
Interest expense	**6,736**	7,507	9,135	9,287	7,305
Net earnings (loss)	**(27,289)**	352,346	70,119	6,150	49,190
Per Share Data:					
Net earnings (loss) per share—basic	**$ (0.32)**	$ 4.05	$ 0.87	$ 0.08	$ 0.63
Net earnings (loss) per share—diluted	**$ (0.32)**	$ 4.00	$ 0.85	$ 0.08	$ 0.62
Weighted-average shares outstanding					
—basic	**85,773,763**	86,930,965	80,650,376	78,441,440	78,146,444
—diluted	**85,773,763**	88,181,118	82,411,634	79,027,860	78,854,328
Balance Sheet Data:					
Total assets	**$1,171,714**	$1,366,530	$927,256	$663,690	$642,109
Working capital	**454,776**	460,055	260,154	90,371	48,772
Long-term debt	**100,000**	100,000	100,000	144,000	104,000
Stockholders' equity	**855,045**	886,176	547,456	313,674	306,260
Other Data:					
Cash flow from operating activities	**$ (34,219)**	$ 392,440	$183,052	$ 20,817	$ 88,153
Capital expenditures	**78,546**	210,559	82,009	59,047	114,516
Research and development	**25,106**	26,188	23,918	21,132	23,766

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

Results of Operations

Overview

KEMET estimates that the compounded annual growth rate for capacitors was approximately 20% during the 1990s. Underlying the strong demand for capacitors is the cyclical nature of the electronics industry. The Company believes that the industry entered into another correction phase of a long-term growth trend during calendar 2001. The Company considers that the rapidity with which this inventory/capacity correction occurred was unprecedented compared to previous cycles. After achieving record revenues and profits in fiscal 2001, demand for capacitors fell considerably in fiscal 2002.

Comparison of Fiscal Year 2002 to Fiscal Year 2001

Net sales for fiscal year 2002 were $508.6 million, which represented a 64% decrease from fiscal year 2001 net sales of $1,406.1 million. There was a substantial decrease in demand across market segments during the year ended March 31, 2002. The Company believes that shipments were down significantly compared to the prior year due to the correction. The Company regards the decline as the most pronounced in its history, and it resulted from two factors. First, customers' capacitor consumption fell off as demand turned down. Second, customers were purchasing capacitors significantly below their level of consumption as they used up inventory.

The decrease in net sales was attributable to a decline in both tantalum and ceramic capacitor unit volume and lower average selling prices. Unit volumes decreased 64% to approximately 12.9 billion units in fiscal 2002 from approximately 36.1 billion units in fiscal 2001. After increasing throughout fiscal 2001, average selling prices decreased each quarter during fiscal 2002. Sales of surface-mount capacitors for fiscal 2002 were $399.6 million, a decrease of 72% from the prior year. Both export and domestic sales decreased 64% to $277.0 and $231.6 million, respectively.

Cost of sales, exclusive of depreciation, for the year ended March 31, 2002 was $367.5 million, as compared to $693.7 million for the year ended March 31, 2001. The year ended March 31, 2002 includes approximately $29.8 million of nonrecurring charges (See Nonrecurring Charges) as opposed to none in the prior year. As a percentage of net sales, cost of sales, exclusive of depreciation, was 72% for the year ended March 31, 2002, as compared to 49% for the prior year. Excluding $29.8 million of nonrecurring charges and depreciation expense, cost of sales was 66% of sales for the year ended March 31, 2002. Manufacturing throughput was down in response to the decrease in demand, which resulted in the absorption of fixed costs over fewer units than in the same period in the prior year. Combined with nonrecurring charges and decreasing average selling prices, this resulted in an increase in the cost of sales as a percentage of sales in the current year as compared to the prior year.

Selling, general, and administrative expenses for the year ended March 31, 2002 were $46.6 million, or 9% of net sales, as compared to $55.7 million, or 4% of net sales, for the year ended March 31, 2001. Selling, general, and administrative expenses decreased compared to the prior year primarily due to the Company's efforts to control overhead expenses in anticipation of declining capacitor demand. Selling, general, and administrative expenses increased as a percent of sales largely as the result of lower sales in the current year.

Research, development, and engineering expenses were $25.1 million for fiscal year 2002, compared to $26.2 million for fiscal year 2001. 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, amortization, and impairment charges for the year ended March 31, 2002 were $109.7 million, as compared to $63.6 million for the prior period. The primary reason for the increase is that $36.8 million of asset impairment charges were reflected in the year ended March 31, 2002. There were no asset impairment charges in the year ended March 31, 2001. The increase, net of impairment charges, was the result of the Company's investment in additional capacity to support existing and new product expansions and reflects the depreciation on those capital expenditures.

The operating loss for the year ended March 31, 2002 was $40.4 million, compared to $567.0 million of operating income in the prior year. The change from operating income in the prior year to operating loss in the current year resulted primarily from a combination of the aforementioned lower sales levels, nonrecurring charges, and the corresponding reduction in manufacturing margins.

Income tax benefit for fiscal year 2002 was $13.4 million, as compared to income tax expense of $216.0 million in the prior year. The benefit in the current year versus the expense in the prior year was the result of a current year pre-tax loss compared to a pre-tax profit in the prior year.

Quarterly Results of Operations

The following table sets forth certain quarterly information for the years ended March 31, 2002 and 2001. 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, 2002				
Dollars in thousands except per share data	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**Total**
Net sales	**$152,721**	**$120,636**	**$117,296**	**$117,902**	**$ 508,555**
Gross profit (exclusive of depreciation)(1)	**$ 58,240**	**$ 38,254**	**$ 14,177**	**$ 30,356**	**$ 141,027**
Net earnings (loss)	**$ 13,051**	**$ 990**	**$ (26,919)**	**$ (14,411)**	**$ (27,289)**
Net earnings (loss) per share (basic)	**$ 0.15**	**$ 0.01**	**$ (0.31)**	**$ (0.17)**	**$ (0.32)**
Net earnings (loss) per share (diluted)	**$ 0.15**	**$ 0.01**	**$ (0.31)**	**$ (0.17)**	**$ (0.32)**
Weighted-average shares outstanding (basic)	**85,815,664**	**85,653,867**	**85,916,721**	**85,873,025**	**85,773,763**
Weighted-average shares outstanding (diluted)	**86,737,292**	**86,399,931**	**85,916,721**	**85,873,025**	**85,773,763**

	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 share (basic)	$ 0.92	$ 1.10	$ 1.11	$ 0.91	$ 4.05
Net earnings per 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

(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, nonrecurring charges, product mix, the timing and expense of moving product lines to lower cost locations, and the relative mix of sales between distributors, original equipment manufacturers, and electronic manufacturing services providers.

Nonrecurring Charges

The Company incurred nonrecurring charges in the quarters ended December 31, 2001 and March 31, 2002. A summary of the nonrecurring charges incurred follows (dollars in millions):

	Quarter ended			Classification	
	Dec. 31	Mar. 31	Total	COGS*	Impairment
Inventory charges	$13.3	$ 3.7	$17.0	X	
Impaired long-lived assets	11.6	21.5	33.1		X
Personnel reductions	9.9	2.9	12.8	X	
Joint venture termination	3.7	—	3.7		X
Total	$38.5	$28.1	$66.6		

*Cost of Goods Sold

Nonrecurring Charges in the Quarter Ended December 31, 2001

Following two years of tremendous growth in product shipments during calendar years 1999 and 2000, the electronics industry experienced a severe inventory correction. The Company anticipated that lower production levels would continue well into calendar 2002. The Company acted by streamlining manufacturing facilities, accelerating productivity improvement programs, and reducing manufacturing and support personnel in the Company's U.S. and Mexican facilities. The nonrecurring charges related to the aforementioned activities in the quarter ended December 31, 2001 were:

Inventory—Inventory charges consisted of obsolete or scrapped inventory and the loss on sale of excess precious metal inventory, primarily palladium, sold during the quarter and charged to Cost of Goods Sold.

Impaired long-lived assets—Certain long-lived assets used in production, as well as costs related to the disposal of those assets, were charged to Depreciation, Amortization, and Impairment Charges. These assets were retired as part of the effort to streamline manufacturing facilities and in response to lack of anticipated product demand associated with the productive assets.

Personnel reductions—The Company made manufacturing and support personnel reductions of approximately 600 and 1,000 employees in the U.S. and Mexico, respectively. A charge of $9.9 million was reflected in Cost of Goods Sold. The Company anticipates an annualized savings of approximately $30 million related to the reductions.

Termination of joint venture—Through its wholly-owned subsidiary, the Company agreed with Australasian Gold Mines NL (AGM) to sell KEMET's interest in Tantalum Australia, a joint venture in Australia. The investment was written down to its net realizable value and $3.7 million was charged to Depreciation, Amortization, and Impairment Charges. In conjunction with this transaction, the agreement for the Company to purchase product from Tantalum Australia was also canceled. The Company continues to hold a 10% equity interest in AGM.

Nonrecurring Charges in the Quarter Ended March 31, 2002

The Company announced enhancements to its high-frequency products organization. High-frequency electronics include products such as notebook computers, advanced video games, and high-end servers using microprocessors operating at frequencies greater than 1 gHz. Two product lines are targeted at these applications, KEMET organic capacitors (KO-CAP), and solid aluminum organic capacitors (AO-CAP). The nonrecurring charges incurred in the quarter ended March 31, 2002 were:

Inventory—Inventory charges consisted of obsolete or scrapped inventory during the quarter and were charged to Cost of Goods Sold.

Impaired long-lived assets—Certain long-lived assets used in production, as well as costs related to the disposal of those assets, were charged to Depreciation, Amortization, and Impairment Charges. These assets were the first generation of high-frequency solid aluminum production equipment.

Personnel reductions—Consolidation of certain manufacturing and support personnel resulted in a reduction of approximately 350 manufacturing personnel in the U.S. and Mexico in March 2002, with an annualized savings of approximately $15 million at a cost of approximately $2.9 million.

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.

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, short-term investments and borrowings under its Loan Agreement.

Cash flows from operating activities for the year ended March 31, 2002 used $34.2 million, compared to a $392.4 million surplus in the prior year. The reduction in cash flow was primarily a result of the $27.3 million loss in fiscal 2002 versus the $352.3 million fiscal 2001 profit, combined with the timing of cash flows from current assets and liabilities such as accounts receivable, inventories, accounts payable, accrued liabilities, and income taxes payable.

Capital expenditures were $78.5 million for the year ended March 31, 2002, compared to $210.6 million for the prior year. Capital expenditures in the prior year principally reflect capacity added to meet demand. The current period's expenditures are principally the completion of projects initiated during fiscal 2001. They represent the Company's commitment to improve product quality, expand into new products, and improve manufacturing efficiencies. The Company estimates its capital expenditures for fiscal 2003 to be approximately $50 million.

Inventories increased to $259.4 million at March 31, 2002, from $202.3 million at March 31, 2001, due to an increase in units as well as higher raw material prices. Current liabilities decreased to $112.4 million at March 31, 2002 versus $285.1 million at March 31, 2001, commensurate with the decrease in business activity in fiscal year 2002 versus fiscal year 2001.

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 and net worth. At March 31, 2002, the Company was in compliance with such covenants. Borrowings are secured by guarantees of certain of the Company's wholly-owned subsidiaries.

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.

The Board of Directors has authorized programs to purchase up to 8.0 million shares of its common stock on the open market. Through March 31, 2002, the Company made purchases of 2.1 million shares for $38.7 million. Approximately 240,000 shares were subsequently reissued for the exercise of employee stock options. At March 31, 2002, the Company held approximately 1,860,000 treasury shares at a cost of $34.3 million and had outstanding put option obligations for approximately 0.3 million shares at a weighted-average purchase price of $21.09 ($18.12 net of put premiums received) per share under the purchase program. The amount and timing of future purchases will depend on market conditions and other factors and will be funded from existing cash.

The agreement whereby a subsidiary of the Company sells certain non-U.S. accounts receivable expired in April 2002. The Company is in the process of determining if it will replace this facility. Approximately $40.1 million in proceeds to the Company related to the sale of these non-U.S. accounts receivable at March 31, 2002.

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 was in compliance with its covenants at March 31, 2002, and at the time of this filing.

In April 2002, the Company entered into the Loan Agreement with a bank. The Loan Agreement is an uncommitted credit facility which allows borrowings by the Company in an aggregate principal amount not to exceed $50.0 million for a term not to exceed 180 days for any single borrowing. The interest rate charged on any borrowing under the Loan Agreement is mutually agreed upon by the Bank and the Company at the time of such borrowing.

The Company presently has a total of nine manufacturing facilities in Matamoros, Monterrey, and Ciudad Victoria, Mexico, with approximately 70% of the Company's employees located there. In fiscal year 2002, 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 workplace 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 and cash on hand.

Business Outlook

The Company believes that major cost saving initiatives that occurred throughout fiscal 2002 positioned KEMET to maintain a strong financial position and further enhance earnings capability.

From a peak of 16,000 employees in the summer of 2000, the number of employees at June 1, 2002, was reduced to approximately 6,900. This was achieved through a variety of programs, such as attrition, leaves of absences, early retirement programs, and reductions-in-force. The Company also established other cost reduction or cost containment

programs, including the aforementioned nonrecurring charges, in response to the business downturn. The Company believes these actions will result in annualized savings of approximately $110.0 million.

KEMET anticipates four drivers of growth as it enters the growth phase of the current cycle.

- First, the Company's preferred capacitor supplier relationships with the world's most successful electronics companies remain strong.
- Second, capacitor shipments will increase as customers' businesses recover. Some electronics end markets, such as notebook computers and servers, appear to have stabilized and begun growing again.
- Third, KEMET's customer-service-oriented strategy has the Company particularly well positioned with Electronics Manufacturing Services providers, and the Company believes that it will be a net beneficiary as global electronics manufacturing continues to shift to our large EMS customers. Some analysts predict that the percentage of global electronics manufacturing that is outsourced will double by 2005.
- Finally, the Company believes it has the world's most complete line of surface-mount capacitor technologies, including innovative high-frequency tantalum, high-capacitance ceramic, and newly introduced solid aluminum capacitors. These high-performance capacitor solutions will allow KEMET to continue to earn a greater share of our customers' capacitor business.

The Company believes that unit shipments may have reached the low point of the current cycle in the quarter ended September 30, 2001, as unit shipments increased during subsequent quarters. The increase in the following quarters was broadly based across original equipment manufacturers, electronics manufacturing services providers, and distributors. The best visibility into customers' inventories is through the distributor channel, where March 2002 capacitor inventory levels were reduced approximately 66% from a January 2001 peak. Sales to distributors increased 17% sequentially over the December 2001 quarter, as some excess capacitor inventories were consumed. The Company believes unit shipments will continue to increase through the rest of calendar 2002 as customers' capacitor purchases in the coming months continue to approach their consumption. The Company believes that unit shipments in the quarter ending June 30, 2002 will exceed the volumes shipped in the quarter ended March 31, 2002.

Average selling prices for the March 2002 quarter decreased approximately 9% from average selling prices for the December 2001 quarter, following quarterly declines of 10% in the December 2001 quarter, 10% in the September 2001 quarter, and 11% in the June 2001 quarter. These declines are from average selling prices that were abnormally high in historical terms as a result of exceptional product demand and higher raw materials costs that were passed through to customers during the fiscal year ended March 2001. As the industry reaches the end of the inventory correction and unit volumes begin to increase toward the actual level of capacitor consumption, the Company believes the decline in average selling prices should begin to moderate in the June 2002 quarter.

The Company's best current estimate, given the high level of economic uncertainty, is that revenues for the quarter ending June 30, 2002 will be approximately equal to those for the quarter ended March 31, 2002, and that net income will be positive. The Company expects that the gross margin percentage for the quarter ending June 30, 2002 will be in the range of 30% to 32%.

For fiscal 2003, the Company anticipates maintaining its investments in key customer relationships through its direct sales and customer service professionals, as well as through research and development, to maintain its position at the leading edge of technology in the capacitor industry.

Capital expenditures for fiscal 2003 are anticipated to be approximately $50 million, compared to $79 million in fiscal 2002. The Company continued to transfer the production of its smaller sizes of commercial tantalum products to its newest, low-cost manufacturing facility in Mexico.

Commitments

As of March 31, 2002, the Company had contractual obligations in the form of non-cancelable operating leases (see note 10 to the Consolidated Financial Statements), long-term contracts for the purchase of tantalum powder and wire (see note 10 to the Consolidated Financial Statements), and debt (see note 3 to the Consolidated Financial Statements), as follows (dollars in thousands):

	Fiscal years ended March 31,						
Description	2003	2004	2005	2006	2007	Thereafter	Total
Operating leases	$ 2,389	$ 979	$493	$80	$ 21	$ —	$ 3,962
Tantalum	77,000	65,000	—	—	—	—	142,000
Debt	—	—	—	—	20,000	80,000	100,000
Total	$79,389	$65,979	$493	$80	$20,021	$80,000	$245,962

Cabot Corporation

On April 10, 2002, the Company was sued by Cabot Corporation ("Cabot") in the Superior Court of the Commonwealth of Massachusetts (Suffolk Co. Civil Action No. 02-1585-BLS) with respect to its existing supply agreement with Cabot for tantalum powder, ore and wire. The action arises out of a tantalum supply agreement entered into between Cabot and a KEMET subsidiary in December 2000. This agreement requires the subsidiary to purchase and Cabot to sell certain specified amounts of tantalum powder and tantalum wire in the years 2001 through 2003 and tantalum ore in 2001 and 2002. The supply agreement specifies a variety of tantalum powder and wire products and their associated year-by-year prices per pound.

The complaint requests various injunctive and declaratory relief requiring KEMET to purchase the contracted products at regular intervals throughout the year, to specifically identify products that it intends to purchase under the agreement and to inspect products when and as they are produced and tendered by Cabot. The complaint also seeks damages in an unspecified amount relating to an alleged repudiation of the agreement to purchase 80,000 pounds of tantalum ore during 2002.

The Company denies any liability under the supply agreement and intends to defend itself vigorously. The Company will exercise all of its rights and remedies afforded by law.

Critical Accounting Policies

The Company's significant accounting policies are summarized in Note 1 to the Consolidated Financial Statements. The following identifies a number of policies which require significant judgments or estimates.

The Company's estimates and assumptions are based on historical data and other assumptions that KEMET believes are reasonable in the circumstances. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent 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.

The judgments are based on management's assessment as to the effect certain estimates, assumptions, or future trends or events may have on the financial condition and results of operations reported in the Consolidated Financial Statements. It is important that a reader of the financial statements understand that actual results could differ from these estimates, assumptions, and judgments.

KEMET's management believes the following critical accounting policies contain the most significant judgments and estimates used in the preparation of the Consolidated Financial Statements.

Estimates for Nonrecurring Charges. In fiscal 2002, KEMET recorded nonrecurring charges of approximately $66.6 million. The nonrecurring charges were related to its high-frequency products organization and in response to reduced product demand as the electronics industry entered into another correction phase of a long-term growth trend during calendar 2001. These activities were designed to cut both fixed and variable costs and included the consolidation of operations, inventory write downs, charges for impaired assets, and the termination of employees. These costs are recorded based upon estimates and may differ from the actual costs incurred. Any difference will be adjusted in a future period.

Revenue Recognition. Revenue is recognized from sales when a product is shipped. A portion of sales is made to distributor customers which, under certain conditions, allows for returns of overstocked inventory and provides protection against price reductions initiated by the Company. At the time sales to distributors are recorded, allowances are also recognized against net sales for estimated product returns and price protection. Historical distributor returns and price adjustments on both a consolidated level and on an individual distributor level as well as the economic climate are considered in determining the allowance. These procedures require the exercise of significant judgments, but the Company believes they reasonably estimate future credits for returns and price adjustments.

Inventories. Inventories are valued at the lower of cost or market, with cost determined under the first-in, first-out method and market based upon net realizable value. The valuation of inventories requires management to make estimates. For instance, unit volume decreased substantially compared to the prior year, which resulted in higher finished goods inventories cost and quantities. The Company computes an obsolescence reserve by gauging the current demand for a specific product, comparing it with historical trends, and taking into account general economic conditions. The Company also must assess the prices at which it believes the finished goods inventory can be sold compared to its cost.

Pension and Other Nonpension Post-retirement Benefits. KEMET engages an independent actuarial firm to perform an actuarial valuation of the fair values of its post-retirement plans' assets and benefit obligations. Management provides the actuarial firm with certain assumptions that have a significant effect on the fair value of the assets and obligations such as the:

Weighted-average discount rate—used to arrive at the net present value of the obligation;

Return on assets—used to estimate the growth in invested asset value available to satisfy certain obligations;

Salary increases—used to calculate the impact future pay increases will have on post-retirement obligations; and

Medical cost inflation—used to calculate the impact future medical costs will have on post-retirement obligations.

Management understands that these assumptions directly impact the actuarial valuation of the assets and obligations recorded on the balance sheet and the income or expense that flows through the Consolidated Statement of Operations.

Management bases its assumptions on either historical or market data that it considers reasonable in the circumstances. Variations in these assumptions could have a significant effect on the amounts reported through the Consolidated Statement of Operations.

Taxes. 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. Management evaluates its tax assets and liabilities on a periodic basis

and adjusts these balances on a timely basis as appropriate. Management believes that it has adequately provided for its future tax consequences based upon current facts and circumstances and current tax law. However, should management's tax positions be challenged and not prevail, different outcomes could result and have a significant impact on the amounts reported through the Consolidated Statement of Operations.

The carrying value of the Company's net deferred tax assets (tax benefits expected to be realized in the future) assumes that KEMET will be able to generate, based on certain estimates and assumptions, sufficient future taxable income in certain tax jurisdictions to utilize these deferred tax benefits. If these estimates and related assumptions change in the future, the Company may be required to reduce the value of the deferred tax assets resulting in additional income tax expense.

Management believes that it is more likely than not that the deferred tax assets will be realized, based on the scheduled reversal of deferred tax liabilities and projected future taxable income. However, there can be no assurance that we will meet our expectations of future income. Management evaluates the deferred tax assets on a periodic basis and assesses the need for additional valuation allowances.

ADOPTION OF ACCOUNTING STANDARDS

Effective October 1, 2000, the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," (Statement No. 133) as amended by Statement No. 138. Statement 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 the 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 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 Statement 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 Statement No. 133 did not result in a significant transition adjustment and is therefore not separately captioned in the statement of earnings as a 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.

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 141, "Business Combinations" (Statement No. 141), and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (Statement No. 142). Statement No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Statement No. 141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. Statement No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment. Any unamortized negative goodwill must be written off at the date of adoption. Statement No. 142 is effective for fiscal years beginning after December 15, 2001, and was adopted by the Company effective April 1, 2002.

The Company believes that income will increase by $1.85 million in the year ending March 31, 2003, as the result of the adoption of Statement 142. As of the date of the adoption, the Company expects to have unamortized goodwill, trademarks, and patents and technology of approximately $28.4 million, $7.2 million, and $5.5 million, respectively, which will be subject to the provisions of Statement No. 142. In addition, the Company had $0.6 million of negative goodwill at March 31, 2002. Amortization expense related to goodwill, trademarks, and patents and technology was approximately $1.0 million, $0.3 million, and $0.4 million, respectively, for the year ended March 31, 2002. The Company anticipates that under Statement 142 it will increase income by $0.6 million by writing off negative goodwill in the quarter ending June 30, 2002, and goodwill and trademarks will not be amortized in the year ending March 31, 2003, reducing amortization expense by approximately $1.3 million. Patent and technology amortization is expected to remain the same in fiscal 2003.

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" (Statement No. 143). Statement No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the Company is required to capitalize a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Statement No. 143 is effective for fiscal years beginning after June 15, 2002, and will be adopted by the Company effective April 1, 2003. The Company believes the adoption of Statement No. 143 will not significantly impact financial results.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (Statement No. 144). Statement No. 144 requires entities to test a long-lived asset, excluding goodwill and other intangible assets that are not amortized, for recoverability whenever events or changes in circumstances indicate that the entity may not be

able to recover the carrying value of the asset. An impairment loss would be recognized for an asset that is assessed as being impaired. Statement No. 144 is effective for fiscal years beginning after December 15, 2001, and was adopted by the Company effective April 1, 2002. The Company believes the adoption of Statement No. 144 will not significantly impact financial results.

Safe Harbor Statement

From time to time, information provided by the Company, including but not limited to statements in this report or other statements made by or on behalf of the Company, may contain "forward-looking" information within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities and Exchange Act of 1934. Such statements involve a number of risks and uncertainties. The Company's actual results could differ materially from those discussed in the forward-looking statements. The cautionary statements set forth in the Company's 2002 Annual Report under the heading Safe Harbor Statement identify important factors that could cause actual results to differ materially from those in any forward-looking statements made by or on behalf of the Company.

This Annual Report 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 harbor 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 2003 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 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; adoption 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 except for the following discussion in Commodity Price Risk.

Quantitative and Qualitative Disclosure about Market Risk

Interest Rate Risk

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's long-term debt obligations and interest rate swaps. The Company also has an uncommitted debt financing alternative in the form of an Offering Basis Loan Agreement for $50 million which is priced on a mutually agreed upon rate by the bank and the Company at the time of such borrowing. The Company had not historically used interest rate swaps, interest rate caps, or other derivative financial instruments for the purpose of hedging fluctuations in interest rates, but entered into interest rate swap agreements subsequent to March 31, 2002. The Company will use interest rate swap agreements to effectively convert a portion of its fixed rate debt to a floating rate basis, reducing interest expense. Interest rate swaps are designated as fair value hedges. The interest rate differential to be received or paid on the swaps is recognized over the lives of the swaps as an adjustment to interest expense.

Foreign Currency Exchange Rate Risk

A portion of the Company's sales to its customers in Europe are denominated in the Euro, thereby creating an exposure to foreign currency exchange rates. Also, a portion of the Company's costs are in its Mexican operations and are denominated in Mexican pesos, creating an exposure to exchange rates. In order to minimize its exposure, the Company will periodically enter into forward foreign exchange contracts in which the net long or short position in the Euro or Mexican 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. The Company is also 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 in calendar 2001. 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. The Company's contractual commitments for the supply of tantalum are at prices well above market prices that traded during calendar 2002 through the date this document was filed.

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, 2002 and 2001, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended March 31, 2002. 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, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Greenville, South Carolina
April 26, 2002

KEMET CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

	March 31,	
Dollars in thousands except per share data	**2002**	2001
Assets		
Current assets:		
Cash and cash equivalents	**$ 234,622**	$ 360,758
Accounts receivable (notes 10 and 11)	**22,101**	96,583
Inventories:		
Raw materials and supplies	**118,527**	79,002
Work in process	**68,318**	81,975
Finished goods	**72,547**	41,300
Total inventories	**259,392**	202,277
Prepaid expenses and other current assets (note 15)	**10,791**	50,493
Deferred income taxes (note 7)	**40,255**	35,018
Total current assets	**567,161**	745,129
Property and equipment, net (note 11)	**539,785**	567,262
Intangible assets, net (note 2)	**41,856**	44,027
Other assets	**22,912**	10,112
Total assets	**$1,171,714**	$1,366,530
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable, trade (note 10)	**$ 73,057**	$ 201,767
Accrued expenses (note 11)	**32,252**	49,229
Income taxes payable	**7,076**	34,078
Total current liabilities	**112,385**	285,074
Long-term debt (note 3)	**100,000**	100,000
Other non-current obligations (note 4)	**48,926**	51,084
Deferred income taxes (note 7)	**55,358**	44,196
Total liabilities	**316,669**	480,354
Stockholders' equity (notes 8, 10, 14 and 16):		
Common stock, par value $.01, authorized 300,000,000 shares, issued 87,783,060 and 87,619,517 shares at March 31, 2002 and 2001, respectively	**878**	876
Additional paid-in capital	**321,734**	322,068
Retained earnings	**562,903**	590,192
Accumulated other comprehensive income	**3,808**	2,355
Treasury stock, at cost (1,859,695 and 1,600,040 shares at March 31, 2002 and 2001, respectively)	**(34,278)**	(29,315)
Total stockholders' equity	**855,045**	886,176
Commitments and contingencies (notes 10 and 12)		
Total liabilities and stockholders' equity	**$1,171,714**	$1,366,530

See accompanying notes to consolidated financial statements.

KEMET CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations

Dollars in thousands except per share data	Years ended March 31, 2002	2001	2000
Net sales	**$508,555**	$1,406,147	$822,095
Operating costs and expenses:			
Cost of goods sold, exclusive of depreciation	**367,528**	693,659	569,706
Selling, general, and administrative expenses	**46,626**	55,713	48,457
Research and development	**25,106**	26,188	23,918
Depreciation, amortization, and impairment charges	**109,660**	63,601	55,699
Total operating costs and expenses	**548,920**	839,161	697,780
Operating income (loss)	**(40,365)**	566,986	124,315
Other income and expense:			
Interest income	**(9,809)**	(16,713)	(2,079)
Interest expense	**6,736**	7,507	9,135
Other expense (note 11)	**3,438**	7,892	11,695
Earnings (loss) before income taxes	**(40,730)**	568,300	105,564
Income tax expense (benefit) (note 7)	**(13,441)**	215,954	35,445
Net earnings (loss)	**$ (27,289)**	$ 352,346	$ 70,119
Net earnings (loss) per share (notes 10, 14 and 16):			
Basic	**$ (0.32)**	$ 4.05	$ 0.87
Diluted	**$ (0.32)**	$ 4.00	$ 0.85
Weighted-average shares outstanding:			
Basic	**85,773,763**	86,930,965	80,650,376
Diluted	**85,773,763**	88,181,118	82,411,634

See accompanying notes to consolidated financial statements.

KEMET CORPORATION AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity and Comprehensive Income

Dollars in thousands except share amounts	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Stock-holders' Equity
Balance at March 31, 1999	78,509,800	$785	$145,090	$167,727	$ 72	—	$313,674
Comprehensive income (loss):							
Net earnings	—	—	—	70,119	—	—	70,119
Foreign currency translation loss	—	—	—	—	(56)	—	(56)
Total comprehensive income	—	—	—	—	—	—	70,063
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 (loss):							
Net earnings	—	—	—	352,346	—	—	352,346
Unrealized gain on foreign exchange contracts, net of $1,398 tax	—	—	—	—	2,594	—	2,594
Foreign currency translation loss	—	—	—	—	(255)	—	(255)
Total comprehensive income	—	—	—	—	—	—	354,685
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 10)	—	—	4,721	—	—	—	4,721
Treasury stock purchases (note 16)	(1,600,040)	—	—	—	—	(29,315)	(29,315)
Balance at March 31, 2001	86,019,477	876	322,068	590,192	2,355	(29,315)	886,176
Comprehensive income (loss):							
Net loss	—	—	—	(27,289)	—	—	(27,289)
Unrealized gain on foreign exchange contracts, net of $1,267 tax	—	—	—	—	2,143	—	2,143
Unrealized securities loss, net of $425 tax	—	—	—	—	(756)	—	(756)
Foreign currency translation gain	—	—	—	—	66	—	66
Total comprehensive income (loss)	—	—	—	—	—	—	(25,836)
Exercise of stock options (note 8)	299,315	1	(1,893)	—	—	4,430	2,538
Tax benefit on exercise of stock options	—	—	1,048	—	—	—	1,048
Purchases of stock by Employee Savings Plan	104,573	1	1,319	—	—	—	1,320
Put options proceeds (note 10)	—	—	599	—	—	—	599
Treasury stock purchases (note 16)	(500,000)	—	(1,407)	—	—	(9,393)	(10,800)
Balance at March 31, 2002	**85,923,365**	**$878**	**$321,734**	**$562,903**	**$3,808**	**$(34,278)**	**$855,045**

See accompanying notes to consolidated financial statements.

KEMET CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Dollars in thousands	Years ended March 31, **2002**	2001	2000
Sources (uses) of cash			
Operating activities:			
Net earnings (loss)	**$ (27,289)**	$ 352,346	$ 70,119
Adjustments to reconcile net earnings (loss) to net cash from operating activities:			
Depreciation, amortization, and impairment charges	**109,660**	63,601	55,699
Post-retirement and unfunded pension	**(2,158)**	(3,662)	(14,586)
Loss on sale and disposal of equipment	**1,043**	5,266	11,579
Deferred income taxes	**5,084**	(8,023)	2,931
Changes in other non-current assets and liabilities	**(5,987)**	2,233	(2,950)
Changes in assets and liabilities:			
Accounts receivable	**74,482**	(2,456)	(38,025)
Inventories	**(57,115)**	(71,318)	(5,140)
Prepaid expenses and other current assets	**39,702**	(45,805)	(55)
Accounts payable, trade	**(128,710)**	78,059	58,958
Accrued expenses and income taxes	**(43,979)**	17,874	39,187
Tax benefit of stock options exercised	**1,048**	4,325	9,315
Net cash provided (used) by operating activities	**(34,219)**	392,440	187,032
Investing activities:			
Purchases of short-term investments	**(57,819)**	(202,354)	(123,687)
Proceeds from maturity of short-term investments	**57,819**	326,041	—
Additions to property and equipment	**(78,546)**	(210,559)	(82,009)
Investment in affiliates	**(7,207)**	—	—
Other	**179**	(255)	81
Net cash used by investing activities	**(85,574)**	(87,127)	(205,615)
Financing activities:			
Proceeds from sale of common stock to Employee Savings Plan	**1,320**	1,095	724
Proceeds from exercise of stock options	**2,538**	3,209	11,072
Proceeds from secondary offering	**—**	—	142,608
Proceeds from put options (note 10)	**599**	4,721	—
Purchases of treasury stock	**(10,800)**	(29,315)	—
Net payments to revolving loan and demand note	**—**	—	(64,000)
Net cash provided (used) by financing activities	**(6,343)**	(20,290)	90,404
Net increase (decrease) in cash	**(126,136)**	285,023	71,821
Cash and cash equivalents at beginning of period	**360,758**	75,735	3,914
Cash and cash equivalents at end of period	**$ 234,622**	$ 360,758	$ 75,735
Supplemental Cash Flow Statement Information:			
Interest paid	**$ 7,671**	$ 7,361	$ 9,477
Income taxes paid	**$ 20,047**	$ 209,186	$ 7,179

See accompanying notes to consolidated financial statements.

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 fifth largest manufacturer of multilayer ceramic capacitors, and a leader in the development of solid aluminum capacitors. The Company is headquartered in Simpsonville, South Carolina, and has fourteen 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.

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 Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by Statement No. 138. Statement 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 Statement 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 Statement No. 133 did not result in a significant transition adjustment and is therefore not separately captioned in the statement of operations as a 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 6% and 7% of inventory costs of certain raw materials at March 31, 2002 and 2001, 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 $824 and $902 higher than reported at March 31, 2002 and 2001, 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. Maintenance costs 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 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.

Goodwill

Goodwill, which represents the excess of purchase price over fair value of net assets acquired, is amortized on a straight-line basis over the expected period to be benefited and does not exceed 40 years. KEMET assesses the recoverability of this intangible asset by determining whether the amortization of the goodwill balance over its remaining life can be recovered through undiscounted future net cash flows. The amount of goodwill impairment, if any, is measured based on projected discounted future operating cash flows using a discount rate reflecting our average cost of funds. KEMET recorded goodwill amortization of approximately $1.0 million in 2002, 2001, and 2000. Unamortized goodwill totaled $27.7 million and $28.7 million at March 31, 2002 and 2001, respectively.

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 142, "Goodwill and Other Intangible Assets." Under Statement No. 142, goodwill and intangible assets with indefinite useful lives will no longer be amortized, but will be tested for impairment at least on an annual basis in accordance with the provisions of Statement No. 142. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized prior to the adoption of Statement No. 142, which KEMET adopted on April 1, 2002. As of March 31, 2002, KEMET has unamortized

goodwill in the amount of $27.7 million. Effective April 1, 2002, KEMET will no longer amortize its goodwill. In connection with Statement No. 142's transitional goodwill impairment evaluation, KEMET will be required to perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. To accomplish this, KEMET must identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill, to those reporting units as of the date of adoption. KEMET will then have six months from the date of adoption to determine the fair value of each reporting unit and compare it to the carrying amount of the reporting unit. The Company believes that income will increase by $1.85 million in the year ending March 31, 2003 as the result of the adoption of Statement No. 142. As of the date of the adoption, the Company expects to have unamortized goodwill, trademarks, and patents and technology of approximately $27.7 million, $7.2 million, and $5.5 million, respectively, which will be subject to the provisions of Statement No. 142. In addition, the Company had $0.6 million of negative goodwill at March 31, 2002. Amortization expense related to goodwill, trademarks, and patents and technology was approximately $1.0 million, $0.25 million, and $0.4 million, respectively, for the year ended March 31, 2002. The Company anticipates that under Statement No. 142 it will increase income by $0.6 million by writing off negative goodwill in the quarter ending June 30, 2002, and goodwill and trademarks will not be amortized in the year ending March 31, 2003, reducing amortization expense by approximately $1.25 million.

Intangible Assets

Patents and technology are amortized using the straight-line method over twenty-five years. 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, prepaid pension benefits, and marketable equitable securities designated as available-for-sale.

The cost, gross unrealized holding losses, and fair value of available-for-sale marketable equity securities at March 31, 2002 were $2,261, $932, and $1,329, respectively.

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 Statement 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, foreign currency translation gains or losses, unrealized gains or losses from available-for-sale securities, 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 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 Statement 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 Statement 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, palladium, or aluminum) or method of attachment (surface-mount or leaded), and are sold to original equipment manufacturers, electronics manufacturing services providers, and electronics distributors. No customer accounted for more than 10% of net sales in fiscal 2002. 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 year ended March 31, 2000. Geographic information is included in note 9.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent 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 2002 presentation.

Other

All amounts are presented in thousands unless otherwise noted.

NOTE 2: INTANGIBLE ASSETS

Intangible assets consist of the following (dollars in thousands):

	March 31,	
	2002	2001
Goodwill	**$ 40,709**	$ 40,709
Trademarks	**10,000**	10,000
Patents and technology	**12,000**	12,000
Other	**1,143**	1,143
	63,852	63,852
Accumulated amortization	**21,996**	19,825
Intangible assets, net	**$ 41,856**	$ 44,027

NOTE 3: DEBT

A summary of long-term debt follows (dollars in thousands):

	March 31,	
	2002	2001
Senior notes, interest payable semiannually at a rate of 6.66% with a final maturity date of May 4, 2010	**$100,000**	$100,000
Less current installments	**—**	—
Long-term debt, excluding current installments	**$100,000**	$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, 2002 follow: 2007, $20,000; 2008, $20,000; 2009, $20,000; 2010, $20,000; and 2011, $20,000.

In April 2002, the Company entered into an Offering Basis Loan Agreement (the "Loan Agreement") with a bank. The Loan Agreement is an uncommitted credit facility which allows borrowings by the Company in an aggregate principal amount not to exceed $50.0 million for a term not to exceed 180 days for any single borrowing. The interest rate charged on any borrowing under the Loan Agreement is mutually agreed upon by the Bank and the Company at the time of such borrowing.

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 and net worth. At March 31, 2002, 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,	
	2002	2001
Deferred compensation and pension benefit liabilities (note 5)	**$10,336**	$12,098
Accrued post-retirement medical plan liability (note 6)	**36,448**	36,820
Other	**2,142**	2,166
Other non-current obligations	**$48,926**	$51,084

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

Note 5: Employee Pension and Savings Plans

The Company has a non-contributory pension plan (the "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,		
	2002	2001	2000
Service cost	**$ 4,891**	$ 4,246	$ 4,544
Interest cost	**9,201**	8,462	8,071
Expected return on assets	**(9,612)**	(8,862)	(6,323)
Amortization of:			
Transition asset	**(1)**	(6)	(6)
Prior service cost	**(76)**	(84)	(83)
Actuarial loss	**1,199**	—	650
Curtailment	**(121)**	—	—
Special termination benefits	**1,518**	—	—
Total net periodic pension cost	**$ 6,999**	$ 3,756	$ 6,853

The special termination benefits and curtailment were the result of personnel reductions occurring within fiscal 2002.

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

	Years ended March 31,		
	2002	2001	2000
Discount rate	**7.00%**	7.00%	7.50%
Rate of compensation increase	**5.00%**	5.00%	5.00%
Expected return on Plan assets	**9.00%**	9.00%	9.00%

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,	
	2002	2001
Accumulated benefit obligation	**$ 94,242**	$ 86,530
Projected benefit obligation:		
Net obligation at beginning of year	**128,658**	111,698
Service cost	**4,891**	4,246
Interest cost	**9,201**	8,462
Actuarial gain	**205**	8,991
Gross benefits paid	**(6,198)**	(4,739)
Curtailment	**(4,629)**	—
Special termination benefits	**1,518**	—
Net benefit obligation at end of year	**$133,646**	$128,658
Fair value of Plan assets:		
Fair value of Plan assets at beginning of year	**$ 93,898**	$ 94,880
Actual return on Plan assets	**2,050**	(7,743)
Employer contributions	**21,200**	11,500
Gross benefits paid	**(6,198)**	(4,739)
Fair value of Plan assets at end of year	**$110,950**	$ 93,898
Funding status:		
Funded status at end of year	**(22,696)**	(34,760)
Unrecognized net actuarial loss	**33,620**	31,687
Unrecognized prior service cost	**(195)**	(399)
Unrecognized net transition asset	**—**	—
Net prepaid asset (accrued benefit liability)	**$ 10,729**	$ (3,472)

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 were not limited by the Employee Retirement Security Act of 1974 and the Internal Revenue Code. Expenses related to the deferred compensation plan totaled $1,710 in fiscal 2002, $1,504 in fiscal 2001, and $988 in fiscal 2000. Total benefits accrued under this plan were $10,336 at March 31, 2002 and $8,626 at March 31, 2001.

In addition, the Company has a defined contribution plan (the "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 $1,914 in fiscal 2002, $2,061 in fiscal 2001, and $1,801 in fiscal 2000.

NOTE 6: POST-RETIREMENT 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 post-retirement medical and life insurance benefits are as follows (dollars in thousands):

	Years ended March 31,		
	2002	2001	2000
Service cost	**$1,375**	$1,268	$1,479
Interest cost	**2,688**	2,985	2,834
Amortization of actuarial loss	**—**	111	248
Expected return on assets	**(140)**	—	—
Curtailment	**251**	—	—
Special termination benefits	**306**	—	—
Total net periodic benefits cost	**$4,480**	$4,364	$4,561

A reconciliation of the post-retirement 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,	
	2002	2001
Projected benefit obligation:		
Net obligation at beginning of year	**$ 43,210**	$ 40,396
Service cost	**1,375**	1,268
Interest cost	**2,688**	2,985
Actuarial (gain) loss	**(4,813)**	347
Curtailment	**109**	—
Special termination benefits	**306**	—
Gross benefits paid	**(2,452)**	(1,786)
Net benefit obligation at end of year	**$ 40,423**	$ 43,210
Fair value of plan assets:		
Employer contributions	**$ 4,852**	$ 1,786
Actual return on plan assets	**25**	—
Gross benefits paid	**(2,452)**	(1,786)
Fair value of plan assets at end of year	**$ 2,425**	$ —
Funding status:		
Funded status at end of year	**$(37,998)**	$(43,210)
Unrecognized net actuarial loss	**1,550**	6,390
Net accrued benefit liability	**$(36,448)**	$(36,820)

The weighted-average rates used in determining post-retirement medical and life insurance costs are as follows (dollars in thousands):

	Years ended March 31,		
	2002	2001	2000
Discount rate	**7.00%**	7.00%	7.50%
Rate of compensation increase	**5.00%**	5.00%	5.00%
Health care cost trend on covered charges	**7.5% decreasing to ultimate trend of 6.0% in 2005**	8.0% decreasing to ultimate trend of 6.0% in 2008	9.5% 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	**$ 129**	$ 143	$ 538
• On post-retirement benefit obligation	**$ 737**	$ 933	$ 3,487
Effect of a one percentage point decrease in assumed health care cost trend:			
• On total service and interest cost components	**$(118)**	$(131)	$ (472)
• On post-retirement benefit obligation	**$(698)**	$(885)	$(3,196)

NOTE 7: INCOME TAXES

The components of earnings (loss) before income taxes consist of (dollars in thousands):

	Years ended March 31,		
	2002	2001	2000
Domestic	**$(50,111)**	$530,128	$ 91,373
Foreign	**9,381**	38,172	14,191
	$(40,730)	$568,300	$105,564

The provision for income tax expense (benefit) is as follows (dollars in thousands):

	Years ended March 31,		
	2002	2001	2000
Current			
Federal	**$(22,376)**	$197,522	$ 27,342
State and local	**(469)**	16,384	1,051
Foreign	**4,321**	10,071	4,121
	(18,524)	223,977	32,514
Deferred			
Federal	**4,629**	(7,859)	2,568
State and local	**512**	(499)	193
Foreign	**(58)**	335	170
	5,083	(8,023)	2,931
Provision for income taxes	**$(13,441)**	$215,954	$ 35,445

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

	Years ended March 31,		
	2002	2001	2000
Statutory federal income tax rate	**(35.0)%**	35.0%	35.0%
State income taxes, net of federal taxes	**(0.3)**	1.9	0.8
Foreign sales corporation	**(2.1)**	(1.8)	(1.9)
Goodwill amortization	**0.9**	0.1	0.3
Other	**3.5**	2.8	(0.6)
Effective income tax rate	**(33.0)%**	38.0%	33.6%

The components of deferred tax assets and liabilities are as follows (dollars in thousands):

	March 31,	
	2002	2001
Deferred tax assets:		
Pension benefits	**$ —**	$ 4,424
Medical benefits	**14,565**	14,296
Sales and inventory allowances	**41,638**	35,853
All other	**4,363**	1,896
	60,566	56,469
Deferred tax liabilities:		
Depreciation and differences in basis	**(67,003)**	(57,095)
Amortization of intangibles	**(4,515)**	(4,678)
Tax effect of hedging	**(2,665)**	(1,398)
All other	**(1,486)**	(2,476)
	(75,669)	(65,647)
Net deferred income tax liability	**$(15,103)**	$ (9,178)

The net deferred income tax liability is reflected in the accompanying 2002 and 2001 balance sheets as a $40,255 and $35,018 current asset and a $55,358 and $44,196 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 2002 or 2001.

At March 31, 2002, 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.

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-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (Statement No. 123). On July 1, 2000, the Company adopted 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 2002, 2001, and 2000, no compensation cost has been recognized 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 2002, 2001, and 2000, consistent with the provisions of Statement No. 123, the Company's net earnings and earnings per share would have been reduced to the pro forma amounts indicated below (dollars in thousands except per share data):

		Years ended March 31,		
		2002	2001	2000
Net earnings (loss)	As reported	**$(27,289)**	$352,346	$70,119
	Pro forma	**$(32,185)**	$348,628	$64,286
Earnings (loss) per share:				
Basic	As reported	**$ (0.32)**	$ 4.05	$ 0.87
	Pro forma	**$ (0.38)**	$ 4.01	$ 0.80
Diluted	As reported	**$ (0.32)**	$ 4.00	$ 0.85
	Pro forma	**$ (0.38)**	$ 3.95	$ 0.78

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 2002 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 4.9% for 2002, 5.1% for 2001, and 6.8% for 2000; expected volatility of 57.8% for 2002, 58.0% for 2001, and 49.7% for 2000; 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 or treasury stock. The prices of the options granted thus far pursuant to these plans are 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.

A summary of the status of the Company's three stock option plans as of March 31, 2002, 2001, and 2000, and changes during the years ended on those dates is presented below:

	March 31,					
	2002		2001		2000	
Fixed Options	**Shares**	**Weighted-Average Exercisable Price**	Shares	Weighted-Average Exercisable Price	Shares	Weighted-Average Exercisable Price
Options outstanding at beginning of year	**2,841,020**	**$13.12**	2,632,020	$10.09	3,286,000	$ 6.81
Options granted	**824,250**	**16.59**	828,000	17.51	2,379,000	10.71
Options exercised	**(299,315)**	**8.35**	(549,720)	5.62	(1,944,260)	5.83
Options cancelled	**(7,500)**	**16.50**	(69,280)	11.10	(1,088,720)	9.66
Options outstanding at end of year	**3,358,455**	**$14.39**	2,841,020	$13.12	2,632,020	$10.09
Option price range at end of year	**$2.50 to $19.80**		$2.50 to $19.38		$2.50 to $16.07	
Option price range for exercised shares	**$2.50 to $18.19**		$2.50 to $16.07		$2.50 to $16.07	
Options available for grant at end of year	**1,823,620**		2,647,870		1,412,590	
Options exercisable at end of year	**1,717,205**		723,020		504,210	
Weighted-average fair value of options granted during the year	**$9.01**		$9.61		$7.54	

The following table summarizes information about stock options outstanding at March 31, 2002:

Options Outstanding			Options Exercisable		
Range of Exercisable Prices	Number Outstanding at 3/31/02	Weighted-Average Remaining Contractual Life	Weighted-Average Exercisable Price	Number Exercisable at 3/31/02	Weighted-Average Exercisable Price
$ 2.50	9,200	.6 years	$ 2.50	9,200	$ 2.50
$ 4.00 to $ 8.00	502,005	5.3 years	$ 5.54	502,005	$ 5.54
$12.00 to $16.00	1,194,000	6.7 years	$14.50	1,194,000	$14.50
$16.00 to $20.00	1,653,250	8.5 years	$17.06	12,000	$18.19
	3,358 455	7.4 years	$14.39	1,717,205	$11.84

NOTE 9: GEOGRAPHIC INFORMATION (dollars in thousands):

	Years ended March 31,[1]		
	2002	2001	2000
United States	**$231,605**	$ 642,406	$408,890
Asia Pacific	**94,133**	273,853	190,289
Germany	**35,980**	124,980	49,670
Mexico[2]	**45,312**	86,779	—
Other countries[3]	**101,525**	278,129	173,246
	$508,555	$1,406,147	$822,095

(1) Revenues are attributed to countries or regions based on the location of the customer. No customer accounted for more than 10% of net sales in the fiscal year ended March 31, 2002. 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 it $129,600 in the fiscal year ended March 31, 2000.
(2) Did not exceed 5% of sales in 2000 and is 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,	
	2002	2001
United States	**$290,705**	$314,980
Mexico	**248,222**	251,331
Other	**858**	951
	$539,785	$567,262

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 for anticipated returns and price protection changes based on historical experience. Charges against sales in fiscal 2002, fiscal 2001, and fiscal 2000 were $33,509, $72,575, and $54,212 respectively. Actual applications against the allowances in fiscal 2002, fiscal 2001, and fiscal 2000, were $63,692, $35,603, and $44,623, respectively.

(b) A subsidiary of the Company sells certain receivables discounted at .60% 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 $306,693 and $2,399 in fiscal 2002, $529,946 and $5,236 in fiscal 2001, and $372,656 and $3,444 in fiscal 2000. The facility expired in April 2002, and the Company is determining if it will be replaced.

Included in accounts payable, trade, is $19,974 and $30,310 at March 31, 2002 and 2001, respectively, which represents factored receivables collected but not remitted.

(c) The Company sold put options to institutional parties as part of a program to purchase up to 8.0 million shares of its common stock. Net premiums generated from the sale of outstanding put options were $0.6 million and $4.7 million in fiscal 2002 and 2001, respectively, and accounted for as Additional Paid-in Capital. During the year ended March 31, 2002, the Company purchased 500,000 shares of treasury stock in connection with the exercise of such put options. At March 31, 2002, the Company had the maximum potential obligation to purchase approximately 342,000 shares of its common stock at a weighted-average purchase price of $21.09 ($18.12 net of put premiums received) for an aggregate of $7.2 million. The put options are exercisable only at maturity and expire in April and August of 2002 and had a fair value in favor of the holder of approximately $1.0 million at March 31, 2002. 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.

(d) The Company has a contract to purchase tantalum, a metal used in the manufacture of tantalum capacitors, through 2003. The contractual agreement requires the Company to purchase specific amounts of tantalum ore, powder and wire at fixed prices. The contracted amounts are estimated to be $77 million and $65 million for calendar 2002 and 2003, respectively.

(e) The Company's leases consist primarily of manufacturing equipment and expire principally between 2003 and 2007. A number of leases require that the Company pay certain executory costs (taxes, insurance, and maintenance) and contain certain renewal and purchase options. Annual rental expense for operating leases were included in results of operations and were approximately $6,011 in fiscal 2002, $7,346 in fiscal 2001, and $8,300 in fiscal 2000. Future minimum lease payments over the next five fiscal years under non-cancelable operating leases at March 31, 2002 are as follows (dollars in thousands):

	2003	2004	2005	2006	2007	Total
Minimum lease payments	$2,389	$979	$493	$80	$21	$3,962

NOTE 11: SUPPLEMENTARY BALANCE SHEET AND INCOME STATEMENT DETAIL (dollars in thousands):

		March 31,	
		2002	2001
ACCOUNTS RECEIVABLE:			
Trade		**$ 42,360**	$143,681
Other		**2,708**	6,273
		45,068	149,954
Less:			
Allowance for doubtful accounts		**661**	882
Allowance for price protection and customer returns (note 10)		**22,306**	52,489
Net accounts receivable		**$ 22,101**	$ 96,583
PROPERTY AND EQUIPMENT, AT COST:	Useful life		
Land and land improvements	20 years	**$ 12,834**	$ 12,817
Buildings	20–40 years	**112,426**	94,462
Machinery and equipment	10 years	**746,928**	653,645
Furniture and fixtures	4–10 years	**44,424**	41,368
Construction in progress	—	**31,145**	75,894
Total property and equipment		**947,757**	878,186
Accumulated depreciation		**407,972**	310,924
Net property and equipment		**$539,785**	$567,262
ACCRUED EXPENSES:			
Salaries, wages and related employee costs		**$ 13,361**	$ 23,795
Vacation		**8,848**	9,526
Other		**10,043**	15,908
Total accrued expenses		**$ 32,252**	$ 49,229

	Years ended March 31,		
	2002	2001	2000
Other (income) expense:			
Loss on retirement of assets	**$ 931**	$3,380	$ 9,405
Accounts receivable discounting	**2,399**	5,236	3,444
Unrealized gain on foreign currency exchange gains	**—**	(941)	(1,682)
Other	**108**	217	528
	$3,438	$7,892	$11,695

NOTE 12: LEGAL PROCEEDINGS

Cabot Corporation

On April 10, 2002, the Company was sued by Cabot Corporation ("Cabot") in the Superior Court of the Commonwealth of Massachusetts (Suffolk Co. Civil Action No. 02-1585-BLS) with respect to its existing supply agreement with Cabot for tantalum powder, ore and wire. The action arises out of a tantalum supply agreement entered into between Cabot and a KEMET subsidiary in December 2000. This agreement requires the subsidiary to purchase and Cabot to sell certain specified amounts of tantalum powder and tantalum wire in the years 2001 through 2003 and tantalum ore in 2001 and 2002. The supply agreement specifies a variety of tantalum powder and wire products and their associated year-by-year prices per pound.

The complaint requests various injunctive and declaratory relief requiring KEMET to purchase the contracted products at regular intervals throughout the year, to specifically identify products that it intends to purchase under the agreement and to inspect products when and as they are produced and tendered by Cabot. The complaint also seeks damages in an unspecified amount relating to an alleged repudiation of the agreement to purchase 80,000 pounds of tantalum ore during 2002.

The Company has not recorded any liability associated with the Cabot lawsuit. See commitments in note 10(d).

Other

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 workplace 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: NONRECURRING CHARGES

Certain nonrecurring charges were incurred during the quarters ended December 31, 2001, and March 31, 2002. The charges totaled $66.6 million in fiscal 2002 pre-tax and were included in the statement of operations under two captions: $29.8 million in cost of goods sold and $36.8 million in depreciation, amortization, and impairment charges. Demand for the Company's products decreased substantially during the first nine months of fiscal 2002, requiring a reevaluation of the Company's cost structure resulting in (1) charges of $9.9 million associated with personnel reductions of approximately 600 and 1,000 employees in the U.S. and Mexico, respectively, (2) charges of $13.3 million in connection with excess and obsolete inventories, including precious metals, and (3) asset impairment charges of $15.3 million including $11.6 million of machinery and equipment and a $3.7 million loss associated with the termination of the Company's Australian joint venture, all of which were recorded in the quarter ended December 31, 2001.

The Company announced enhancements to its high-frequency products organization that resulted in the following charges in the quarter ended March 31, 2002: (1) charges of $2.9 million associated with personnel reductions of approximately 350 employees in the U.S. and Mexico, (2) charges of $3.7 million in connection with excess and obsolete inventories, and (3) asset impairment charges of $21.5 million, primarily machinery and equipment.

At March 31, 2002, approximately $2.5 million related to the reduction in the labor force is included in accrued expenses. This amount is expected to be paid within one year.

NOTE 14: EARNINGS (LOSS) PER SHARE

Basic and diluted earnings (loss) per share are calculated as follows (dollars in thousands except per share data):

	Years ended March 31,		
	2002	2001	2000
Net earnings (loss)	**$(27,289)**	$352,346	$70,119
Weighted-average shares outstanding (basic)	**85,773,763**	86,930,965	80,650,376
Stock options	**—**	1,250,153	1,761,258
Weighted-average shares outstanding (diluted)	**85,773,763**	88,181,118	82,411,634
Basic earnings (loss) per share	**$ (0.32)**	$ 4.05	$ 0.87
Diluted earnings (loss) per share	**$ (0.32)**	$ 4.00	$ 0.85

The year ended March 31, 2002 excluded potentially dilutive securities of 766,279 in the computation of diluted earnings per share because the effect would have been anti-dilutive.

NOTE 15: DERIVATIVES, HEDGING, AND OTHER 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, 2002 and 2001, the Company had outstanding forward exchange contracts that mature within approximately one year to purchase Mexican pesos with notional amounts of $93.0 million and $89.3 million, respectively. The fair values of these contracts at March 31, 2002 and 2001 totaled $7.4 million and $5.0 million, respectively, and are 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, 2002 and 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 Statement No. 133 (as amended by Statement No. 138), the Company recorded gains from foreign currency contracts of $0.9 million and $1.7 million in 2001 and 2000, respectively, as a component of other income and expense in its statement of operations. Subsequent to adoption of the new standard, the Company recorded

$16.5 and $2.8 million of gains from foreign currency contracts as a component of cost of goods sold in 2002 and 2001, respectively.

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.

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, 2002 and 2001, the Company had derivative assets from these embedded derivatives of $0 and $3.7 million, respectively, 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 loss of $3.7 million and a gain of $2.1 million in 2002 and 2001, respectively.

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, accounts receivable, and accounts payable approximate their fair values. The fair value of the Company's debt outstanding at March 31, 2002 and 2001 was $96.5 million and $96.5 million, respectively, which was determined based on indications from a lending institution.

Note 16: Common Stock

The Board of Directors has authorized programs to purchase up to 8.0 million shares of its common stock in the open market. Through March 31, 2002, the Company made purchases of 2.1 million shares for $38.7 million. Approximately 240,000 shares were subsequently reissued in connection with employee stock option exercises. At March 31, 2002, the Company held approximately 1,860,000 treasury shares at a cost of $34.3 million. The amount and timing of future 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 to the Company were used to repay outstanding debt under the Company's short-term credit facility and to fund capital expenditures.

Corporate Information

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, 2002, 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
Phone: 864-963-6300
Email: investorrelations@kemet.com
Website: www.kemet.com/ir

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, 2002		
First Quarter	**$22.50**	**$15.95**
Second Quarter	**20.70**	**13.90**
Third Quarter	**19.35**	**15.75**
Fourth Quarter	**19.96**	**15.75**

	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

Board of Directors

David E. Maguire
Chairman,
Chief Executive Officer,
and President

E. Erwin Maddrey, II
President
Maddrey and Associates,
an investment and consulting firm

Charles E. Volpe
Former President
and Chief Operating Officer

Paul C. Schorr, IV
Managing Director
Citigroup Venture Capital
Equity Partners, LP

Stewart A. Kohl
Managing General Partner
The Riverside Company

Officers

David E. Maguire
Chairman, Chief Executive Officer,
and President

Harris L. Crowley
Executive Vice President

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 (Retired 7/02)
Vice President, Human Resources

Dr. Jeffrey A. Graves
Vice President, Technology and Engineering

James A. Bruorton
Vice President, Worldwide Distribution

Eugene J. DiCianni
Vice President, Sales Americas

Ravi G. Sastry
Vice President, International Sales

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

James P. McClintock
Vice President, Ceramic Operations

Rick C. Rickenbach
Vice President, Tantalum U.S.

Dr. Larry A. Mann
Vice President, Ceramic Technology

Dr. Daniel F. Persico
Vice President,
Organic Process Technology

Michael W. Boone
Treasurer/Director of Finance
and Secretary

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