

annual report
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NAKAYO

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President's Message



Chairman Rikio Hoshino



President Hisayoshi Takeuchi

More than half a century has passed since the establishment of Nakayo as a telecommunications equipment manufacturer in 1944, and the new millennium is about to bloom.

Thanks to your support and encouragement, we have been able to remain stable in the face of the economic upheavals and occasional encounters with social unrest. Your loyalty and support have helped to make Nakayo the success that it is today.

We now have a bright future before us, thanks to such factors as; the expansion of computer networks, globalization of the telecommunications industry, plus further development in the telecommunications technology. We are constantly aware of our environment, and, take great pride in doing all that we can to ensure the preservation of it. At Nakayo, we believe that our social responsibilities are as important as our corporate responsibilities.

Over the generations, our guiding principles have remained unchanged. They are: 1. To be a public corporation; 2. To be receptive to global trends; 3. To be responsive to public demands.

With these goals in mind, we will adjust to the rapidly changing world and continue to work in the best interests of society.

But, for us to do our job, we depend upon your continued support and cooperation. We thank you for your past support and look forward to serving you into the 21st century.

Non-Consolidated Balance Sheets

At March 31, 2000 and 1999

	Yen (Millions)		U.S. dollars (Thousands)	
	2000	1999	2000	1999 (restated)
Assets				
Current assets:				
Cash and cash equivalents	¥ 3,859	¥4,027	\$ 36,403	\$ 37,990
Short-term investments	3,521	2,765	33,218	26,082
Trade receivables:				
Notes	57	368	542	3,476
Accounts	5,115	5,851	48,256	55,196
Less allowance for doubtful accounts	(32)	(40)	(310)	(374)
Net receivables	5,140	6,179	48,488	58,298
Inventories:				
Finished goods	478	466	4,510	4,396
Raw materials and work in process	1,226	1,203	11,569	11,353
	1,704	1,669	16,079	15,749
Deferred taxes	188	-	1,779	-
Other assets	37	59	346	553
Total current assets	14,449	14,699	136,313	138,672
Property, plant and equipment:				
Land	1,034	1,034	9,755	9,755
Buildings and structures	3,286	3,230	30,997	30,471
Machinery and equipment	2,057	2,048	19,406	19,319
Automobiles and vehicles	24	24	229	229
Tools, furniture and fixtures	3,231	3,133	30,485	29,558
Construction in progress	13	4	120	37
	9,645	9,473	90,992	89,369
Less accumulated depreciation	(6,883)	(6,677)	(64,938)	(62,990)
Net property, plant and equipment	2,762	2,796	26,054	26,379
Investments and other assets:				
Investment securities	1,609	1,578	15,183	14,889
Guaranty deposit	35	45	326	426
Other assets	484	545	4,569	5,135
Total investment and other assets	2,128	2,168	20,078	20,450
Total	¥19,339	¥19,663	\$ 182,445	\$ 185,501

	Yen (Millions)		U.S. dollars (Thousands)	
	2000	1999	2000	1999 (restated)
Liabilities and Shareholders' Equity				
Current liabilities:				
Short-term bank loans	¥ 419	¥ 422	\$ 3,948	\$ 3,981
Trade payable:				
Notes	1,635	2,215	15,423	20,897
Accounts	1,887	2,305	17,806	21,741
Account payables other	754	688	7,117	6,494
Income taxes payable	13	8	119	74
Accrued expenses and other current liabilities	613	530	5,784	5,002
Total current liabilities	5,321	6,168	50,197	58,189
Long-term debts	-	29	-	269
Deferred taxes	11	-	108	-
Liabilities for severance payment	233	186	2,193	1,756
Shareholders' equity:				
Common stock:				
Authorized shares: 57,346,000 in 2000				
Shares issued: 23,974,816 in 2000	4,909	4,909	46,312	46,312
Capital surplus	4,521	4,521	42,649	42,649
Retained earnings:				
Appropriated for legal reserve	291	283	2,747	2,672
Unappropriated	4,053	3,567	38,239	33,654
Total shareholders' equity	13,774	13,280	129,947	125,287
Total	¥19,339	¥19,663	\$ 182,445	\$ 185,501

Non-Consolidated Statements of Shareholders' Equity

At March 31, 2000 and 1999

	Yen (Millions)			
	Common stock	Capital surplus	Retained earnings	
			Legal reserve	Unappropriated
Balance at March 31, 1998	¥4,909	¥4,678	¥ 275	¥ 4,765
Net income for the year				(1,115)
Cash dividends				(75)
Director's bonuses				
Retirement of treasury stock		(157)		
Transfer to retained earnings:				
Appropriated for legal reserve			8	(8)
Balance at March 31, 1999	4,909	4,521	283	3,567
Net income for the year				203
Cash dividends				(72)
Director's bonuses				
Cumulative effect of adopting deferred tax accounting				363
Transfer to retained earnings:				
Appropriated for legal reserve			8	(8)
Balance at March 31, 2000	¥4,909	¥4,521	¥ 291	¥ 4,053

	U.S. dollars (Thousands)			
	Common stock	Capital surplus	Retained earnings	
			Legal reserve	Unappropriated
Balance at March 31, 1998	\$46,312	\$44,129	\$2,597	\$44,960
Net income for the year				(10,523)
Cash dividends				(708)
Director's bonuses				
Retirement of treasury stock		(1,480)		
Transfer to retained earnings:				
Appropriated for legal reserve			75	(75)
Balance at March 31, 1999	46,312	42,649	2,672	33,654
Net income for the year				1,914
Cash dividends				(679)
Director's bonuses				
Cumulative effect of adopting deferred tax accounting				3,425
Transfer to retained earnings:				
Appropriated for legal reserve			75	(75)
Balance at March 31, 2000	\$46,312	\$42,649	\$2,747	\$38,239

Notes to Non-Consolidated Financial Statements

At March 31, 2000 and 1999

1. Basis of Presenting Financial Statements

The accompanying financial statements of Nakayo Telecommunications Inc. have been prepared in accordance with accounting principles and practice generally accepted in Japan.

In preparing these statements, certain reclassification and rearrangement have been made to the financial statements prepared domestically in Japan in order to present these statements in a form which is more familiar to readers outside Japan. In addition, the accompanying notes include additional information which is not required under accounting principles and practices generally accepted in Japan.

The U.S. dollar amounts included herein are solely for the convenience of the readers outside Japan and have been translated from the Japanese yen amounts at the rate of ¥106=U.S.\$1, the approximate exchange rate on March 31, 2000.

2. Summary of Significant Accounting Policies

(a) Inventory Valuation

Finished goods and work in process are stated at cost determined by the specific cost method. Raw materials are stated at cost determined by the average cost method.

(b) Marketable Securities and Investment Securities

Marketable securities and investment securities are valued at the lower of cost or market.

(c) Depreciation

Depreciation of property, plant and equipment is computed by the declining balance method over the estimated useful lives of the assets.

(d) Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided at the maximum amount under Japanese tax law and for estimated bad debt expenses at the year end.

(e) Income Taxes

Income taxes are provided on the basis of the amount payable as indicated in the tax return.

Tax effect for timing differences between tax and financial statements is not recorded.

(f) Net Income per Share

Net Income per share is based on the weighted average number of shares of common stock outstanding during the respective years.

(g) Liability for Severance payment

The company adopts a qualified retirement pension plan to replace the retirement payments previously provided under the employee retirement benefit plan.

The liability at March 31, 2000 comprises a reserve under Article 287-2 of the Commercial Code of ¥232 millions (\$2,193 thousands)

representing provisions for retirement payments for directors based on pertinent rules of the Company.

3. Assets pledged to secure bank loans

Pledged assets are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2000	1999	2000	1999
Marketable securities and investment in securities	¥147	¥153	\$1,395	\$1,446
Land	104	104	978	978
Property, plant and equipment	177	190	1,672	1,799
	¥428	¥447	\$4,045	\$4,223

4. Depreciation

Depreciation charges are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2000	1999	2000	1999
Manufacturing cost	¥389	¥461	\$3,669	\$4,353
Selling, general and administrative expenses	12	12	114	114
	¥401	¥473	\$3,783	\$4,467

5. Contingent Liabilities

Contingent liabilities are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2000	1999	2000	1999
Guarantees	¥810	¥810	\$7,641	\$7,641

6. Legal Reserve

The Commercial Code of Japan provides that an amount at least equal to 10% of the amount of cash dividends and directors' bonuses paid shall be appropriated as a legal reserve until such reserve equals 25% of capital stock. This reserve may be used to reduce a deficit or may be transferred to capital stock, but is not available for distribution as dividends.

7. Retained Earnings and Dividends

Dividends are approved by the shareholders at the meeting held subsequent to the fiscal year to which the dividend is applicable. In addition, a semi-annual interim dividend payment may be made by a resolution of the Board of Directors, subject to limitations imposed by the Commercial Code.

A Brief History

- 1944** Established by Yoichiro Nakamura in Tokyo as a manufacturer of telephone components.
- 1948** Designated by the Ministry of Posts and Telecommunications as an official supplier of telephone components.
- 1956** Under technical guidance provided by Hitachi, Ltd., began production of wire broadcasting systems for use in rural areas.
- 1958** Deming Prize awarded.
Production of T-4 transmitters and R-4 receivers for No.4 telephone sets began.
- 1963** Maebashi Plant, Gumma Prefecture, began operation with production of manual switchboards for Nippon Telegraph & Telephone Public Corporation.
- 1964** Type JN-4 decorative telephones exported to the U.S.A.
- 1965** R-3A receivers exported to the U.S.A.
- 1968** Under contract with Nippon Telegraph & Telephone Public Corporation, production of AR3 Rural Community Dial Exchange began.
- 1970** Mass production of Type 600 telephone sets began. Under contract with Nippon Telegraph & Telephone Public Corporation, production of CP-21 crossbar PABX began. Export to the U.S.A. of Type MB miniature relays began.
- 1972** NA-CP21 crossbar PABXs exported to the U.S.A.
- 1974** Three branch offices opened in Osaka, Hiroshima and Kumamoto.
- 1975** Two branch offices opened in Sendai and Sapporo.
PABX NYC-3 and NYC-12 developed.
- 1976** Trunk package for Type D10 electronic exchange delivered to Nippon Telegraph & Telephone Public Corporation.
- 1977** NYC-3 and NYC-12 crossbar PABX systems exported to Lebanon.
- 1978** NAM-N301 MODEM delivered to Tokyo University. 80 units of NYC-5 crossbar PABX delivered to Kuwait PTT.
- 1980** Nakayo Singapore Office opened.
- 1981** Electronic key telephone systems marketed.
- 1982** ET-308 system launched in the U.S.A.
- 1984** Gumma Plant began operation with production of electronic key telephone systems.
Capital increased to ¥4,909.07 million.
- 1985** Head Office moved to Shibuya, Tokyo.
- 1991** R & D AKITA LAB. opened.
- 1995** Listed as ISO9001 registered factory.
- 1998** Approved ISO14001 by Japan Audit And Certification Organization For Environment And Quality (JACO).

Corporate Outline

NAKAYO TELECOMMUNICATIONS, INC.

President: Hisayoshi Takeuchi
Capital: 4,909 million YEN
Established: 1944
Employees: 644

Directors:

Rikio Hoshino	Chairman
Hisayoshi Takeuchi	President
Susumu Akiyama	Executive Director
Yoshifumi Uruga	Executive Director
Atsushi Yamamoto	Managing Director
Hazime Nakazawa	Managing Director
Syunsuke Nakagawa	Director
Kaoru Ishimaru	Director
Isao Hamada	Director
Tatsuro Matsumae	Director
Masaaki Hayashi	Director
Makoto Yamasaki	Auditor
Shinichiro Kikuchi	Auditor
Yasushi Kudoh	Auditor
Hidemitsu Mukai	Auditor

Head Office: Tobu Fuji Bldg., 24-4, Sakuragaoka-cho, Shibuya-ku,
Tokyo 150-0031, Japan
Tel: (03) 3496-1151
Facsimile: (03) 3496-2089

Operation Headquarters: Maebashi City, Gumma Prefecture
(Maebashi Factory)

Gumma Operation Center: Maebashi City, Gumma Prefecture
(Gumma Factory)

Information Technology Laboratory: Setagaya-ku, Tokyo

Kitanihon Operation Center: Noshiro City, Akita Prefecture

West Japan Regional Headquarters: Osaka City, Osaka Prefecture

SUBSIDIARIES

Nakayo Electronics Co., Ltd., Tokyo

Sales, installation and maintenance service

Nakayo Engineering, Inc., Maebashi City, Gumma Prefecture

Packaging and Dispatching

Heartech Co., Ltd., Tokyo

Sales, installation and maintenance service

PARTIAL LIST OF CLIENTS

Nippon Telegraph & Telephone

Nippon Telegraph & Telephone East Co., Ltd.

Nippon Telegraph & Telephone West Co., Ltd.

Hitachi, Ltd.

Japan Telecom Co., Ltd.

NTT FANET System Corporation

The Defense Agency

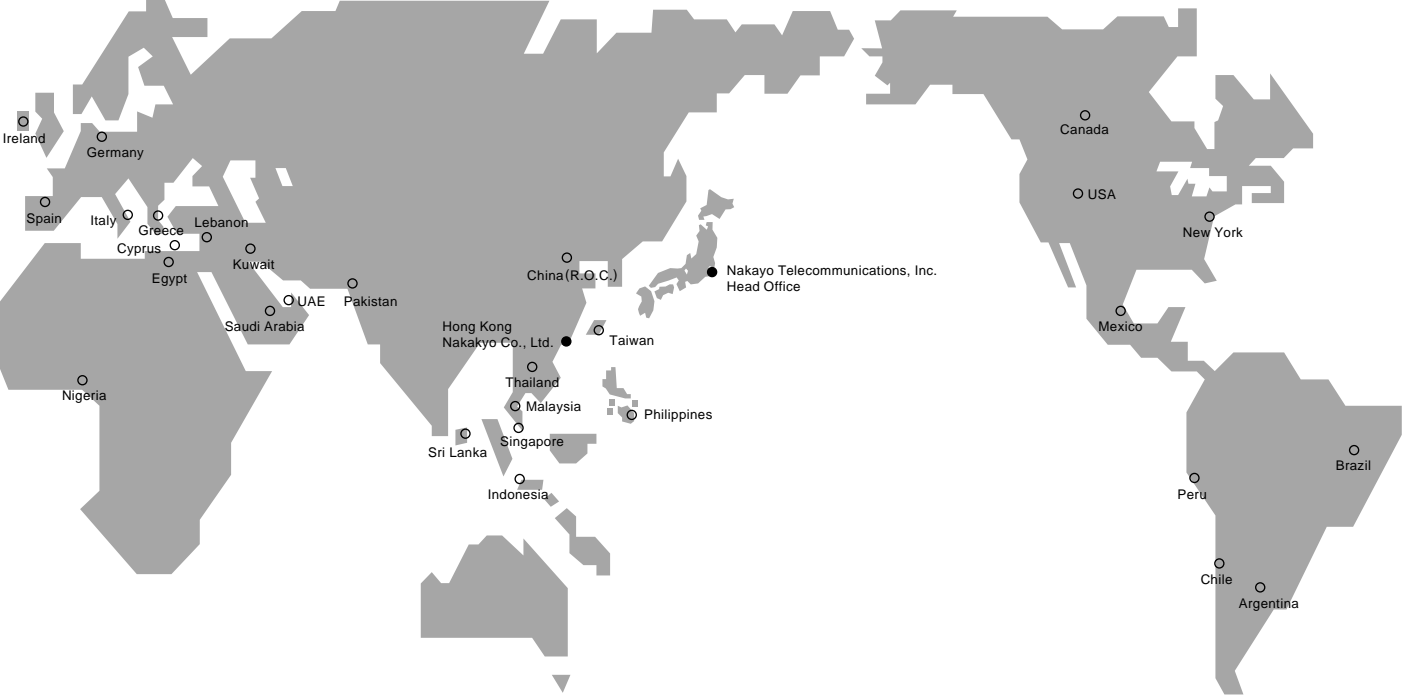
Ministry of Posts and Telecommunications

Keiko Corp.

NEXTEL

Telefonica de España

Overseas Customers



NAKAYO

NAKAYO TELECOMMUNICATIONS, INC.

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