TDK

■ density

■ efficiency

■ size

■ reliability

e-material solution provider

annual report

April 1999–March 2000

2000

ABOUT TDK

SINCE 1935, TDK CORPORATION HAS PROSPERED BY SUPPLYING MATERIALS AND COMPONENTS ESSENTIAL TO THE PROGRESS OF THE ELECTRONICS INDUSTRY. IN TODAY'S ERA OF NETWORKING, TDK IS CONCENTRATING ON "E-MATERIALS." FUTURE GROWTH WILL BE DRIVEN BY PROVIDING SOLUTIONS TO FUNDAMENTAL CHALLENGES: HIGHER RECORDING DENSITIES, HIGHER TRANSMISSION FREQUENCIES, DIGITAL SIGNALS, AS WELL AS THE CHALLENGE OF SQUEEZING MORE PERFORMANCE INTO SMALLER AND LIGHTER DEVICES. TO TRANSLATE THESE ACCOMPLISHMENTS INTO GREATER EARNINGS, TDK HAS ANNOUNCED AN AMBITIOUS MEDIUM-TERM PLAN CALLED "EXCITING 108." CENTRAL TO THIS DRIVE ARE RIGOROUS STANDARDS FOR MORE CLOSELY INTEGRATING THE COST OF CAPITAL IN THE DECISION-MAKING PROCESS.

The **e-materials** of TDK—and

Density

GMR HEAD
magneto-resistive materials

CD-R/DVD
organic dye

Efficiency

TRANSFORMER CORES
ferrite

DC-DC CONVERTERS
ferrite

Size

METAL MAGNETS
rare-earth metals

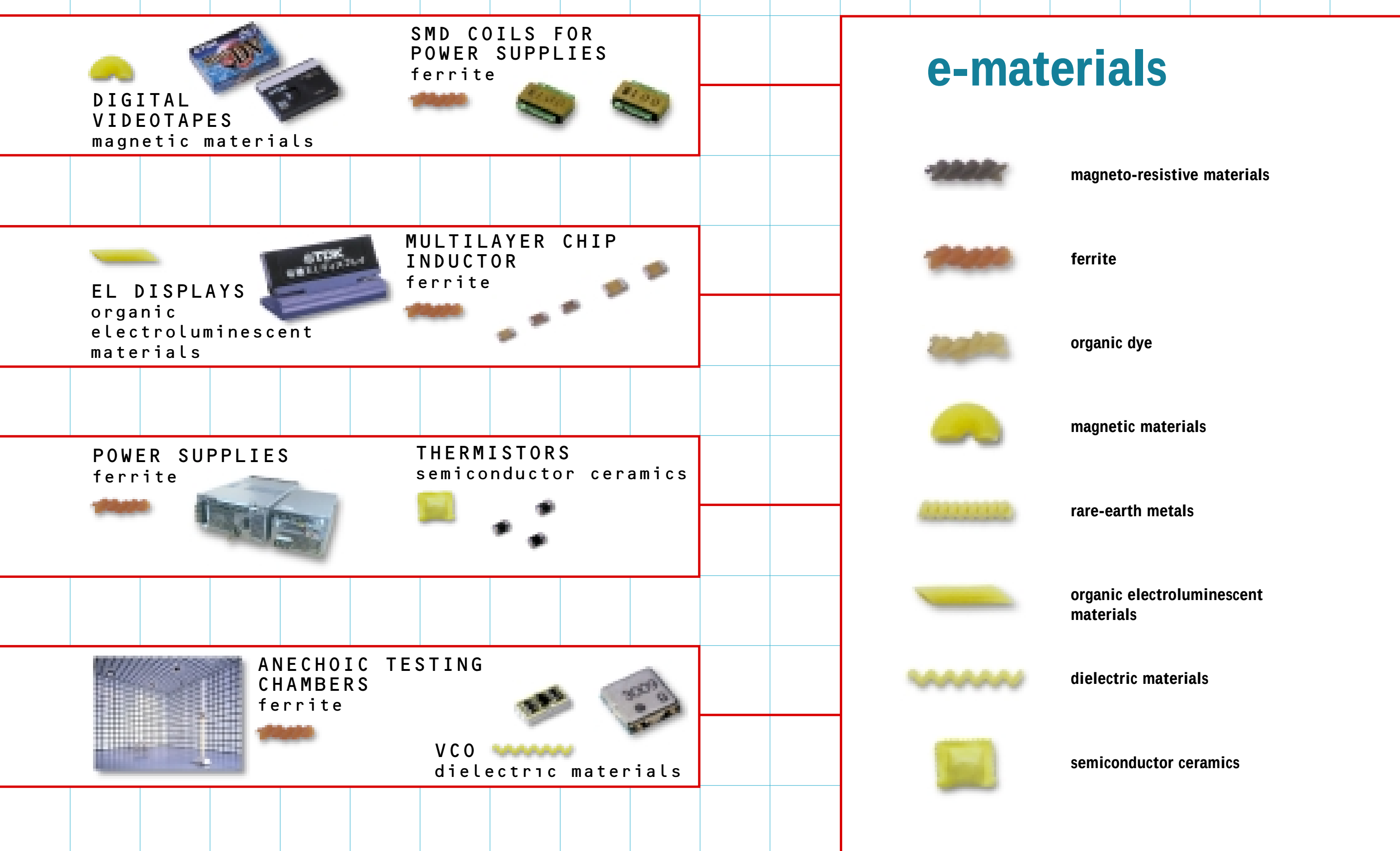
MULTILAYER CHIP CAPACITORS
dielectric materials

Reliability

NOISE FILTERS
ferrite

DATA STORAGE TAPES
magnetic materials

what they do


DIGITAL VIDEOTAPES
magnetic materials
SMD COILS FOR POWER SUPPLIES
ferrite
EL DISPLAYS
organic electroluminescent materials
MULTILAYER CHIP INDUCTOR
ferrite
POWER SUPPLIES
ferrite
THERMISTORS
semiconductor ceramics
ANECHOIC CHAMBERS
ferrite
TESTING
VCO
dielectric materials
e-materials
magneto-resistive materials
ferrite
organic dye
magnetic materials
rare-earth metals
organic electroluminescent materials
dielectric materials
semiconductor ceramics

financial highlights

financial highlights

Yen in millions and U.S. dollars in thousands, except per share amounts

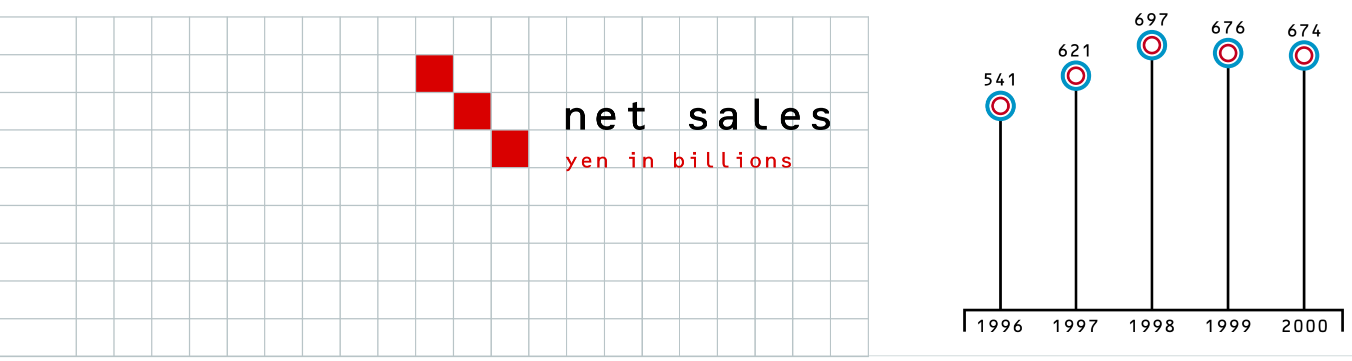
Years ended March 31	2000	1999	2000	Change (%)
Operating Results				
Net sales	**¥674,464**	¥676,250	**$6,362,868**	(0.3)
Electronic materials	**174,897**	155,287	**1,649,972**	12.6
Electronic devices	**129,025**	120,113	**1,217,217**	7.4
Recording devices	**200,748**	209,544	**1,893,849**	(4.2)
Semiconductors and others	**27,305**	28,543	**257,594**	(4.3)
Electronic materials and components	**531,975**	513,487	**5,018,632**	3.6
Recording media	**142,489**	162,763	**1,344,236**	(12.5)
(Overseas sales)	**442,525**	442,908	**4,174,764**	(0.1)
Net income	**50,730**	46,007	**478,585**	10.3
Net income per share (basic and diluted)	**380.89**	345.42	**3.59**	
Cash dividends per share	**65.00**	60.00	**0.61**	
Financial Position				
Total assets	**¥768,482**	¥740,180	**$7,249,830**	3.8
Stockholders' equity	**563,494**	532,111	**5,315,981**	5.9
Long-term debt, excluding current installments	**46**	1,787	**434**	(97.4)
Performance Indicators				
Overseas production/net sales	**56.8**	57.0		
Gross profit margin	**29.5**	29.9		
Return on equity	**9.3**	8.7		
Price-earnings ratio	**36.7**	27.8		

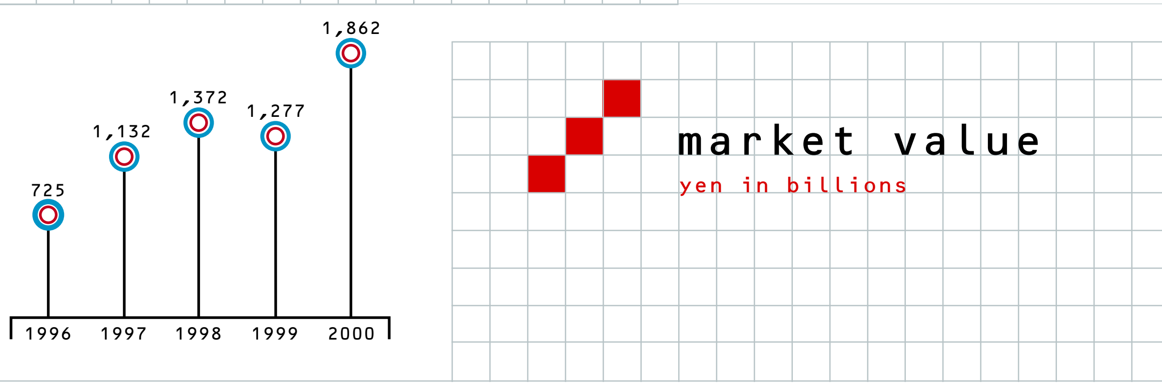
Notes: 1. Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥106=US$1.

2. The Company has not applied accounting principles generally accepted in the United States of America (U.S. GAAP) in accounting for investments in certain debt and equity securities. Total assets and stockholders' equity, in accordance with U.S. GAAP, were ¥775,992 million ($7,320,679,000) and ¥571,013 million ($5,386,915,000) as of March 31, 2000, and ¥743,512 million and ¥535,398 million as of March 31, 1999, respectively.

3. Effective from the fiscal year ended March 31, 2000, TDK has adopted a revised presentation for sector information and renamed two sectors within the electronic materials and components segment. Sales of the previous fiscal year have been restated accordingly. The effect of this change for the previous fiscal year is not material.

4. Effective from the fiscal year ended March 31, 2000, certain products that had been included in the semiconductors and others sector are now included in the recording media segment. Sales in the previous fiscal year have been restated accordingly. The effect of this change for the previous fiscal year is not material.





to our shareholders

to our shareholders

For the year ended March 31, 2000, consolidated net sales declined 0.3 percent to ¥674,464 million, but net income increased 10.3 percent to ¥50,730 million. The yen's strength was a big factor. Holding back sales even more was a leveling off in demand for MR and GMR heads for hard-disk drives. New technology raised areal density faster than we had anticipated; HDDs required fewer heads to achieve the necessary capacity as a result. Slowing HDD head sales were also mainly responsible for declines in operating profit and income before income taxes. Net income was higher, though, mainly due to a reduction in Japan's statutory tax rate.

Determined to overcome today's challenges and translate TDK's many strengths into better performance, we initiated in April 2000 a medium-term plan: Exciting 108. Fulfilling the plan's goals will better enable us to build more value for the owners of TDK.

STAYING AHEAD OF AN ACCELERATING WAVE OF PROGRESS

TDK operates in markets that are undergoing rapid and dramatic transformations. There is no doubt that the rate of progress will continue to quicken. Many of our traditional business practices and values will soon be outdated. This is why there is an immediate need for us to implement business strategies tailored to these challenges. Our response is Exciting 108, which is structured to address all these issues. When the plan ends in March 2004, the close of TDK's 108th Japanese accounting term, we intend to have an operating base that, while resting on similar core capabilities, is fully in step with the needs of a new century.

In this time of rapid and unpredictable change, our number-one priority is identifying TDK's most valuable areas of expertise. We cannot hope to survive without first creating a list of the fields where we are most competitive. We will then work as quickly as possible to accumulate specialized knowledge in those areas. Exciting 108 provides a blueprint for doing precisely this. By concentrating our attention on carefully chosen products and businesses, we will reinforce our position as a specialist in each of our chosen markets.

Hajime Sawabe
President & CEO

to our shareholders

THE e-MATERIAL SOLUTION PROVIDER

Exciting 108 extends back to TDK's beginnings by calling for us to reaffirm our position as a leader in electronic materials. Our objective is to put this expertise in materials to work even more effectively, becoming a source of e-materials solutions for our customers. This knowledge is extremely diverse. Ferrite, ceramics and other inorganic materials are one illustration. Organic chemistry is another; two examples are dyes for optical disks and electroluminescent materials for display panels. Materials give us an edge in other respects, too. For instance, designing compounds from the molecular level up has been instrumental in the conception of numerous production processes. The GMR head, one of our most successful products ever, shows what can be done by combining materials and processes that are distinctly TDK. Developing environmentally friendly lead-free components, an ongoing program, also spotlights the value of materials. Above all, however, success will hinge on our ability to supply the components our customers want in a timely fashion. This is the essence of e-materials solutions.

A FORCE IN RECORDING AND COMMUNICATIONS

Focus is a central theme of Exciting 108. In concrete terms, that means we will be heightening emphasis on recording and communications. Growth potential is immense in both fields. Demand for higher-speed, higher-capacity networks and storage shows no signs of abating. Many companies are competing in these attractive markets. Success will not come easily. This is why we will move quickly to make the investments needed to augment our existing capabilities.

Our March 2000 acquisition of Headway Technologies, Inc., a California-based manufacturer of GMR heads, significantly enhances our lead in this market. While significant, this is just one illustration of how we plan to use acquisitions to grow. Whether through acquisitions or alliances, we will not hesitate to take the actions needed to fill out our portfolio of skills in strategic fields.

As we adapt to changes in market requirements, a fundamental shift in our product line will occur. Currently, discrete passive components and recording media represent a large share of our products. From now on, we will pay increasing attention to developing modules that also incorporate semiconductor technologies and, eventually, we will create entire systems. To speed up this process, two units were added to our R&D organization in April 2000: the Telecom Technology Development Center and the Data Storage Technology Center. Both will work closely with our business groups to bring to market products that meet concrete customer requirements.

Delving more deeply into semiconductors is imperative to our future. In particular, we plan to hone our skill in designing circuits. Furthermore, applying advances in semiconductor technology and production processes to capacitors, filters and other passive components will allow us to create one-of-a-kind modules for mobile phones, computers and other finished products.

TDK must be in step with today's networked society. At the same time, we need to quickly deal with the issues I have discussed above. This is why we have started to build a new framework for managing TDK. Specifically, we have created a task force that reports directly to the president to oversee this process.

ENVIRONMENTAL RESPONSIBILITY

Our plans for the next four years include placing even greater priority on environmental issues. In last year's annual report, I reported on a plan to have all TDK Group factories earn ISO 14001 certification by the end of March 2000. Although a few overseas locations did not meet this deadline, all are expected to be certified by the end of fiscal 2001. In addition to certification, TDK will be stepping up efforts to use resources wisely, fabricate products with a minimal environmental impact, and promote recycling and energy conservation.

ACTIONS THAT TRANSLATE INTO GREATER VALUE

Ultimately, Exciting 108 is about value. The primary means of generating this value is by using capital more productively. Investing funds so as to maximize returns, and thus TDK's corporate value, will be central to our decision-making process. TDK Value Added (TVA), which we began applying in April 1999, will play a major part in this drive. This year, we will make this measure of value creation easier to employ. Many managers now use asset-linked targets such as inventory and trade receivable turns along with TVA. This revision allows operating divisions to more easily formulate plans for using assets and capital wisely. We are firm in our resolve to speed up efficiency gains by making TVA an integral part of our management.

As we embark on a new era for TDK, I am convinced that we can be an even more exciting company for investors and customers alike.

Hajime Sawabe
President and CEO
June 2000

management policies and goals

management policies and goals

Advances in IT and the advent of a networked society have drastically altered TDK's operating environment and accel-erated the pace of change. This is a time when the strong will become stronger. Only companies able to offer genuine value will survive. TDK must take a fresh look at its own strengths, identifying areas where we excel and then honing specialist skills in each. Otherwise, we will no longer be able to increase our stature in the 21st century. TDK can not afford to respond to rapid changes in our markets by conducting business as usual. Therefore, to bring about the necessary changes, we launched a medium-term plan called Exciting 108 that will extend from April 2000 to March 2004.

TVA and Cash Flow Management

In April 1999, TDK added TVA (TDK Value Added) and operating cash flow generation to the list of criteria used to evaluate business units. The aim is to create a system whereby businesses are managed so as to maximize returns on capital and maintain a sound balance sheet.

Monitoring improvements in TVA and cash flows has become a regular part of quarterly business unit reviews. Training programs are made available to allow individuals to gain a better understanding of TVA and the concrete steps required to increase it.

To make TVA even more integral to its operations, TDK inaugurated monthly TVA reports in April 2000. At the same time, TDK increased the emphasis placed on this value indicator when reviewing business units. Linking TVA to pay is another big step. TDK has begun exploring the possibility of establishing such a system.

By using TVA and cash flows as management tools, TDK plans to accelerate the process of channeling resources to the most productive activities. Benefits will appear in the form of higher returns on capital and, ultimately, growth in TDK's market capitalization.

TDK and Liquidity Management

Capital expenditures totaled approximately ¥85 billion in the fiscal year that ended on March 31, 2000. The majority was allocated to GMR heads, optical disks and components for mobile phones. In addition, approximately ¥13 billion was used to purchase Headway Technologies, Inc., a California-based GMR head manufacturer. As these expenditures resulted in a negative free cash flow of about ¥5 billion, TDK's cash and cash equivalents declined. (TDK had a positive free cash flow in each of the previous eight fiscal years.)

In the coming years, TDK will be concentrating investments in a number of fields in line with its medium-term business strategy:

- Recording—High-capacity devices, optical media, others
- Communications—Mobile equipment, Bluetooth networks, others
- Interfaces—Organic and inorganic EL displays, others
- Power and energy—Rechargeable batteries, power supplies, others
- Products using semiconductor technology

Furthermore, TDK plans to make acquisitions of companies that mesh with its core strengths

TDK takes many factors into account in setting the proper level of liquidity. Among them are increasing returns on capital, the medium-term business outlook, and economic and financial trends. In accordance with these factors, TDK plans to determine a suitable amount of cash and explore the possibility of using dividend increases, stock repurchases and other means to achieve the desired liquidity.

exciting 108

A Guide to TDK's Medium-Term Plan

Why is TDK launching a new management plan now?

The accelerating pace of change is posing mounting challenges to all members of the electronics industry. Only companies able to offer genuine value will prosper. Offering this value demands that TDK clearly identifies its core strengths and hones specialist skills in each of those fields. Basically, this means moving on from TDK's previous identity as a supplier of a comprehensive line of electronic components.

What are the main goals of Exciting 108?

Become an e-material solution provider—TDK aims to draw on its traditional expertise in electronic materials to offer innovative components that solve specific customer needs. As part of this drive, TDK will raise the emphasis placed on the strategic business domains of recording and communications.

Build a world-class management system—Management policies will be tailored to utilize financial and human resources in the most effective manner. Three themes will define these policies: creativity, speed and the efficient use of capital. Performance indicators such as TVA that reflect the cost of capital will be applied. Further, TDK will take full advantage of IT and create a personnel system that encourages innovation and advancement.

Bring all activities into line with the "zero-emission" concept—TDK plans to reduce emissions from its factories around the globe to as close as possible to zero. This will be done by reducing waste while expanding recycling programs and the use of recycled materials.

How would you sum up the ultimate goal of Exciting 108?

TDK wants to maximize its value by firmly establishing an identity as an "exciting company." Basically, that means putting in place a business model capable of generating a steady stream of highly distinctive products that target emerging market needs.

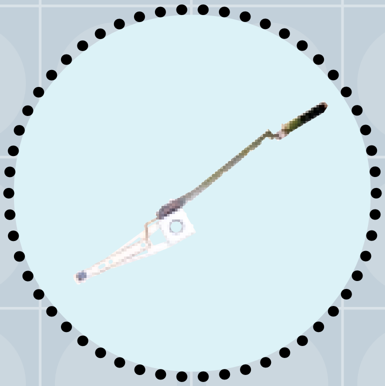
TDK TECHNOFORUM 2000

Welcome!

EVERY FIVE YEARS, TDK HOLDS A "TECHNOFORUM" AT ITS TECHNICAL CENTER IN SUBURBAN TOKYO. THE 2000 EVENT WAS HELD FROM MAY 24 TO 26. VISITORS TO THIS MOST RECENT "TDK EXPO" SAW TECHNOLOGICAL ADVANCES NOW BEING COMMERCIALIZED AS WELL AS IDEAS THAT HOLD THE PROMISE OF NEW PRODUCTS MANY YEARS FROM NOW. MOST OF THE PRODUCTS ON DISPLAY, MORE THAN 160 IN ALL, WERE ORGANIZED AROUND TDK'S FOUR STRATEGIC BUSINESS FIELDS: RECORDING, INTERFACES, COMMUNICATIONS AND ENERGY. THE FOLLOWING PAGES WILL TAKE YOU ON YOUR OWN TOUR OF THE TDK TECHNOFORUM 2000.

RECORDING

Magneto-Resistive Tunnel-Junction Head



Magneto-Resistive Tunnel-Junction Head

TDK is making progress with research on the next generation of GMR heads: magneto-resistive tunnel-junction heads (TMR). The key advantage of this technology is a magneto-resistive ratio, representing the sensitivity of the heads, approximately three times higher than current GMR technology. This means TMR heads can accurately "read" signals recorded on hard disks at higher areal densities than currently possible. TechnoForum visitors saw a demonstration of a prototype TMR head. It was made possible by further refinements to the ultra-thin-film and micro-processing expertise TDK honed in the development and commercial production of the GMR head.

High-Performance Head Gimbal Assembly (HGA)

As recording density climbs, each bit of data occupies a smaller area on a disk. As such, heads must be able to move faster and more accurately. TDK's solution is a high-performance HGA. The assembly incorporates piezoelectric micro-actuators in the base and the tip of the head. The greater tracking control accuracy facilitates highly reliable data recording and retrieval. HDD makers are currently evaluating samples of these assemblies. In the near future, TDK plans to start selling models that also incorporate a pre-amplifier chip.

Patterned Disk Media

TDK is developing a new type of magnetic disk that raises recording density by placing each bit of data on its own magnetic "island." Relying upon cutting-edge semiconductor processes, such disks may take magnetic recording technology to its uppermost limits.

High-Capacity Optical Media

High-Capacity Optical Media

TDK has developed an ROM optical disk that delivers recording density two to four times higher than that of conventional CD and DVD discs without necessitating major alterations to their optical systems. Making this possible are improvements to the pickup's optical system and a super-reflective layer on the disk that yields the requisite signal reflections even when the size of each pit on the disk falls.

INTERFACES

Organic EL Display

The future of small-scale displays, organic electroluminescence (EL) offers many advantages over liquid crystal and other flat-panel displays. Its development demanded expertise in thin-film materials, circuitry, high-density circuit assembly and the synthesis of organic materials. The most distinguishing feature of TDK's display is an extremely vivid white, essential for sharp, colorful images. Furthermore, unlike in liquid crystal displays, no backlighting is needed since EL materials emit their own light. Power consumption is cut dramatically. At the TechnoForum, guests admired a multi-color organic EL display, a technology that will soon be commercialized.

Organic EL Display

Inorganic EL Display

A February 2000 agreement with iFire™ Technology Inc. of Canada forms the basis for TDK's involvement in inorganic EL displays. Inorganic EL is superior to organic EL in terms of brilliance, size and stability. This opens the door to many new applications. Visitors to the TechnoForum were shown a full-color 8.5-inch diagonal prototype.

Inorganic EL Display

COMMUNICATIONS

RF Front-End Module for Mobile Phones

TDK has developed a ceramic multilayer module that places in a single package the high-frequency components essential to the circuitry of GSM/DCS dual-band phones. Handling two bands demands the use of more components. TDK's module has a "footprint" that is about 40 percent less than that of a circuit made of discrete components. TDK plans to go a step further by including a pre-amplifier-a semiconductor device-within the same module as well.

Bluetooth™ Components

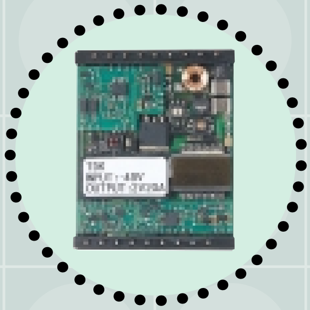
With an eye on the potentially huge Bluetooth market, TDK has unveiled a USB adapter in a PC card format for this new international standard in low-power wireless networks. In another big step, TDK has developed a multilayer ceramic antenna for Bluetooth. Many more innovative products for this format are in the pipeline.

Bluetooth USB Adapter

ENERGY

DC-DC Converters for Datacom and Telecom Equipment

For the base stations of mobile communications carriers, TDK has created a 2V/20A DC-DC converter with a slim profile and efficiency of 90 percent, among the highest available today. Optimal transformer performance is one key, made possible in large part by TDK's experience in low-loss ferrite formulations for transformer cores. Expertise in circuit design also played a part in the unit's sophisticated synchronous rectifier circuitry.

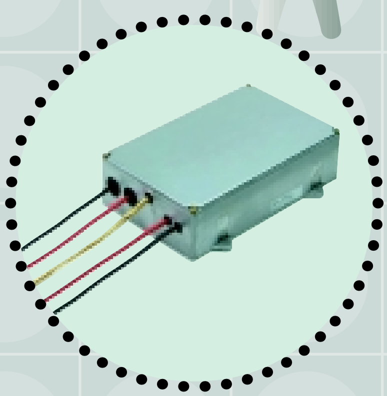


DC-DC Converters for Datacom and Telecom Equipment

DC-DC Converters for Electric Vehicles

TDK is a leader in the growing market for the DC-DC converters used in hybrid vehicles. Power consumption is low thanks to a high conversion efficiency. Making this possible are magnetic components incorporating new types of ferrite and advanced circuit engineering skills.

Next, TDK intends to come up with an even higher performance converter for the next generation of electrically powered cars.



DC-DC Converters for Electric Vehicles

In-Car Charger for Electric Vehicles

As auto makers improve the performance of electric vehicles, opportunities are certain to appear for companies skilled in power electronics. One TDK project in this area is a high efficiency charger with compact dimensions and light weight. The unit maintains stable characteristics over a broad range of input voltages and ambient temperatures, imperative to withstand the rigors that accompany automobile applications. TDK has recently completed a second-generation design that boosts efficiency to 91 percent from the current 84 percent. Further, the unit's weight is lower than that of the current design, lowering fuel consumption.

Thank You!

Fiscal 2000 Performance Matrix

	Electronic Materials	Electronic Devices
Products	Multilayer chip capacitors, ferrite cores for inductors and transformers, deflection yoke cores for TVs and computer monitors, ferrite and rare-earth metal magnets	High-frequency components, EMC (noise-reduction) components, inductors, transformers, thermistors, piezoelectric components, actuators, coils, DC-DC converters, DC-AC converters, switching power supplies
Results	Sales increased 12.6 percent to ¥174,897 million as orders from the PC and mobile phone industries sparked a substantial rise in demand for capacitors. Ferrite core sales were lower due to the strong yen and pressure on prices. The same factors also restrained ferrite magnetic results, although sales volume increased. Metal magnet sales were flat due to competitive pressure on prices.	Sales increased 7.4 percent to ¥129,025 million. Inductive devices were flat, with EMC components and coils performing well and assembled deflection yoke cores declining. Backed by higher orders in Europe, sales of high-frequency components surged. DC-DC converter sales also recorded a big increase as new markets were developed. Sensor and actuator sales climbed as well due to favorable market trends.
Highlights	• Made large-scale investments to raise monthly output of multilayer chip capacitors approximately 40 percent • Developed a ferrite to meet the need for compact, high-output power supplies in notebook PC adapters and similar products • A new super-permeable ferrite (H5C5) will dramatically reduce the size of transformers in many applications • Developed chip beads capable of removing noise in the gigahertz range	• Developed a 2.4 gigahertz multilayer antenna for the Bluetooth wireless networking standard • Developed a leadless, low-resistance chip inductor for a variety of battery-powered electronic devices • Developed the industry's smallest multilayer chip balun (HHM-13 series) for mobile phones

Recording Devices

MR and GMR heads for hard-disk drives, heads for floppy-disk drives, thermal printer heads

Sales decreased 4.2 percent to ¥200,748 million. Higher HDD head areal density caused demand to contract as fewer heads were needed in each HDD. Furthermore, poor operating results at several HDD manufacturers prompted intense demands for discounts on heads. TDK almost completed the transition to GMR technology in March 2000.

- Announced plans to produce samples of next-generation magneto-resistive tunnel-junction (TMR) heads late in 2000
- Acquired MR and GMR head manufacturer Headway Technologies, Inc. in March 2000.

Semiconductors and Others

PC cards, modems, LAN cards and combination modem/LAN cards, ICs for modems and LAN/WAN applications, factory automation equipment, anechoic testing chambers

Sales decreased 4.3 percent to ¥27,305 million. TDK's semiconductor operations generated higher sales, primarily through the communications IC engineering operations of TDK Semiconductor Corp. Sales of PC cards continued to decline.

- Completed preparations for the full-scale production of organic EL displays
- Developed flash memory control IC that can drive up to eight NAND flash memory chips at once.
- Developed a number of innovative single-chip ICs for set-top boxes, including a switcher for the European SCART connection standard.

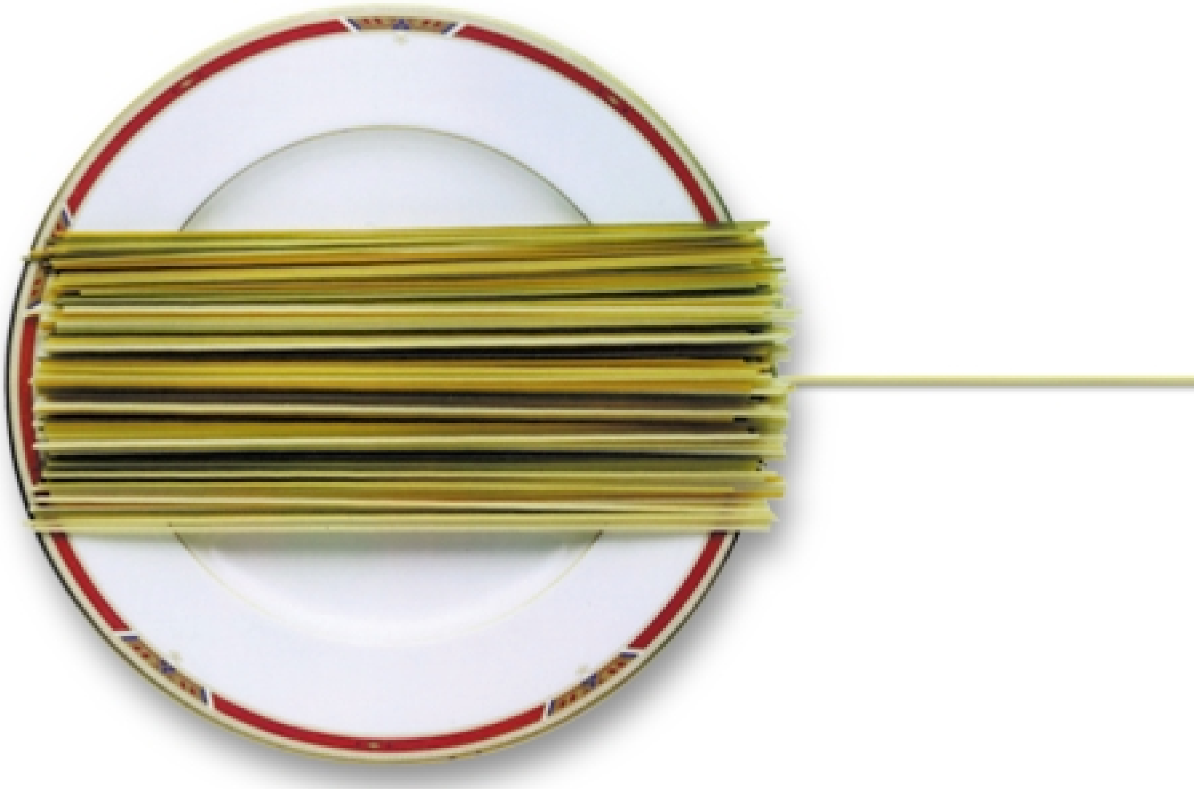
Recording Media

Write-once CD-R discs, MiniDiscs (MD), DVD discs, audiotapes, videotapes, digital-format videotapes, floppy disks and tape-based data storage media for computers

Sales declined 12.5 percent to ¥142,489 million. Optical disk sales climbed as demand for CD-R discs rose dramatically, although sales prices were lower. In the MD sector, a steep fall in sales prices offset volume gains. Audiotape sales fell along with global demand, but TDK again extended its number-one position in this market.

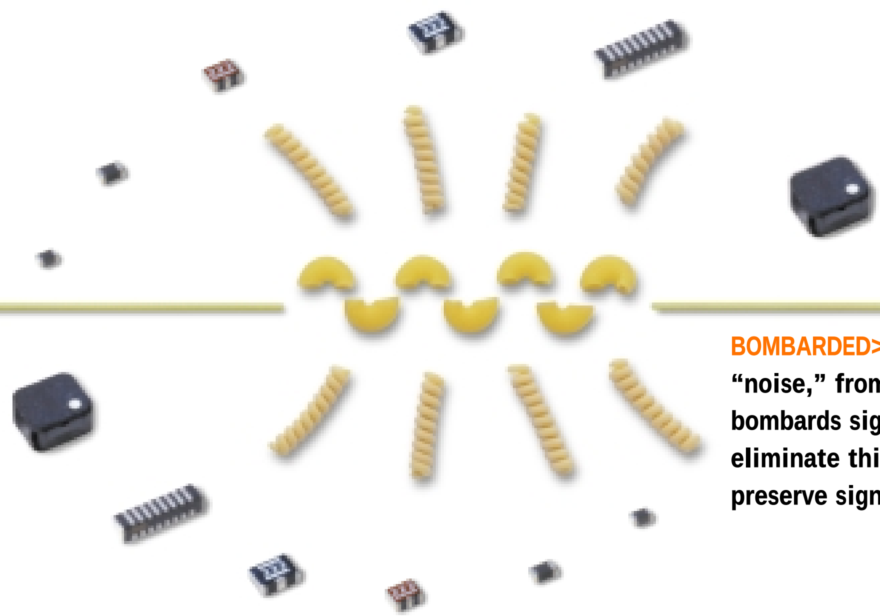
- Raised monthly output of CD-R discs to 21 million as of April 2000.
- Started sales of D-VHS cassettes for the VHS digital format
- Started sales in Japan of DVD-RW discs for DVD video recorders

Signals Crossed?



ALL SIGNALS ARE BORN AS STRAIGHT AND SIMPLE AS RAW SPAGHETTI. BUT THEY ENCOUNTER MANY OBSTACLES ON THE WAY TO THEIR FINAL DESTINATION. TDK'S ELECTRONIC COMPONENTS PROTECT AND ASSIST SIGNALS ON THIS JOURNEY, ENSURING THAT THE ULTIMATE DESTINATION IS REACHED.

BEGINNING WITH THE FISCAL YEAR ENDED MARCH 31, 2000, TDK REVISED ITS CATEGORIES FOR REPORTING SALES AND RENAMED TWO PRODUCT SECTORS. AS A RESULT, THE FORMER MAGNETIC PRODUCTS SECTOR IS NOW CALLED ELECTRONIC MATERIALS AND THE FORMER CERAMIC AND ASSEMBLED COMPONENTS SECTOR IS NOW CALLED ELECTRONIC DEVICES. THE MOST SIGNIFICANT RECLASSIFICATION WAS THE SHIFT OF MULTILAYER CHIP CAPACITORS TO ELECTRONIC MATERIALS. RESULTS IN THE PRIOR YEAR HAVE BEEN REVISED TO REFLECT THESE CHANGES.



BOMBARDED>>> Interference, or "noise," from nearby circuitry bombards signals. TDK filters help eliminate this unwanted input to preserve signal waveforms.

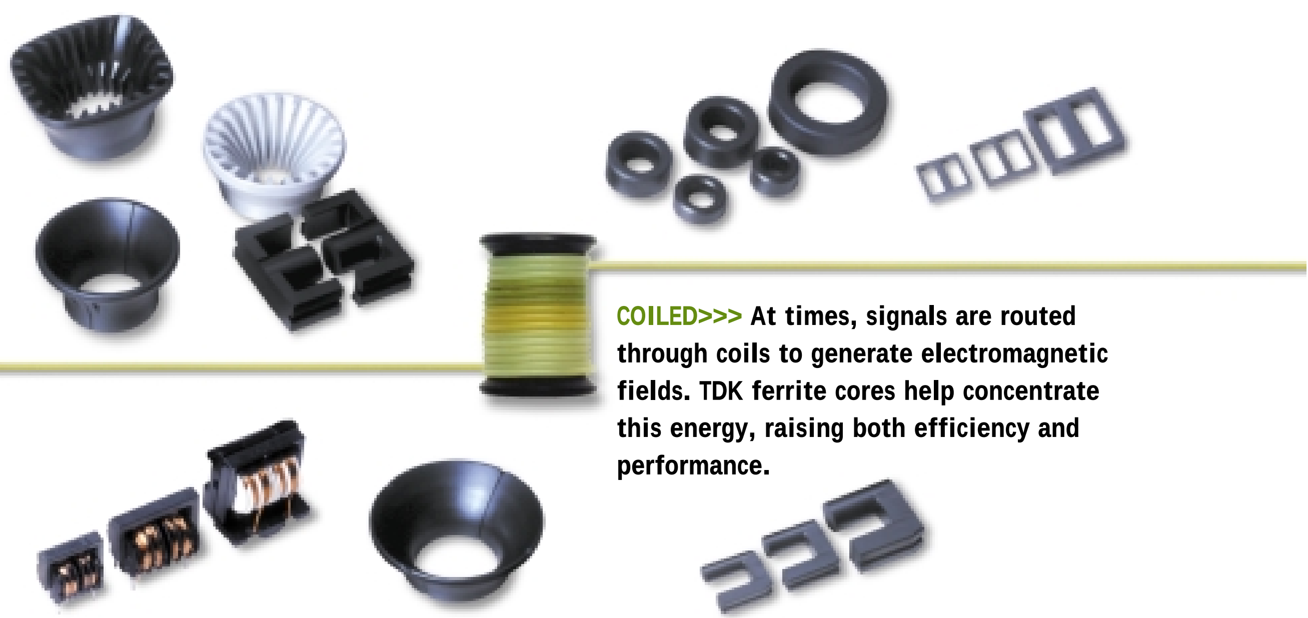
ELECTRONIC MATERIALS

Sales in the electronic materials sector increased 12.6 percent to ¥174,897 million. Multilayer chip capacitors, which account for more than half of this sector, posted a substantial increase in sales. Growth was propelled by much higher demand from manufacturers of PCs and mobile phones. During the year, TDK made substantial investments to expand output capacity. As a result, monthly production capacity rose from approximately 5 billion units in the spring of 1999 to 7 billion in the fall. By the spring of 2000, this figure had climbed to 8.5 billion.

review of operations

review of operations

Sales of ferrite cores were lower. These cores are mainly used to strengthen magnetic energy in transformers and inductors. Protecting signals from electromagnetic interference and “noise” is another important application. During the past year, orders for small noise-reduction cores surged, but currency movements and price cutting held back sales. Competition also pushed down sales of deflection yoke cores and flyback transformer cores, both key components in television sets.



COILED>>> At times, signals are routed through coils to generate electromagnetic fields. TDK ferrite cores help concentrate this energy, raising both efficiency and performance.

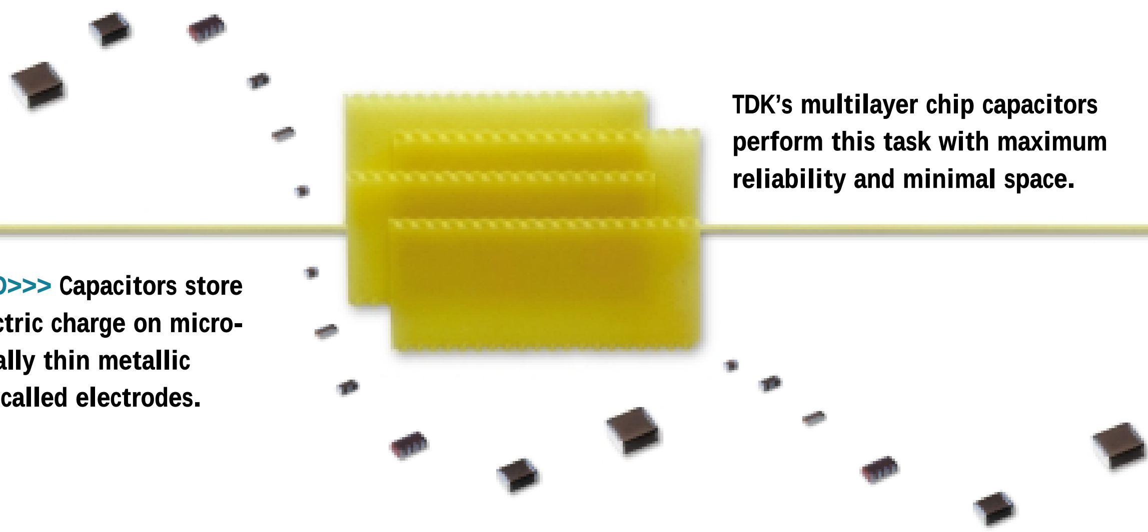
Sales of ferrite magnets also declined. Unit volume was higher, chiefly due to orders from manufacturers of small motors used in automobiles and office equipment. However, these gains were offset by the yen’s strength and a decline in sales prices.

In metal magnets, sales were only slightly higher as falling prices negated most of the year’s growth in volume. TDK is benefiting from the expansion in the applications for these high-performance magnets. Manufacturers are increasingly turning to metal as they seek ways to cut product size and weight without sacrificing performance.

ELECTRONIC DEVICES

Growth in most product categories lifted sales in this sector 7.4 percent to ¥129,025 million. The largest product category is inductive devices, which mainly represents EMC (noise reduction) products, inductors (coils) and transformers. Sales of inductive devices were largely unchanged. Increases in EMC products for PCs and inductors for PCs and mobile phones were offset by a decline in sales of assembled deflection yoke cores and transformers.

High-frequency components, on the other hand, posted a sharp increase. Orders from mobile



TDK's multilayer chip capacitors perform this task with maximum reliability and minimal space.

STORED>>> Capacitors store an electric charge on micro-scopically thin metallic plates called electrodes.

phone companies surged, especially from European manufacturers, lifting demand for such TDK components as isolators and filters. The introduction in Europe of dual-band mobile phones, which require more circuit components, was one reason. During the year, TDK unveiled a front-end module that contains many of the key signal reception components used in a mobile phone. This breakthrough is expected to start contributing to sales during fiscal year 2001.

In sensors and actuators, sales were much higher. Pacing results was rising demand for chip NTCs, a semiconductor temperature sensor whose electrical resistance varies with ambient temperature.

The fourth category, power systems, achieved a healthy gain in sales. Performance was

review of operations

supported by a big jump in orders of DC-DC converters, devices capable of converting one DC voltage into another. Hand-held game units were a major source of growth. One important development was the start of sales of DC-DC converters for hybrid automobiles.

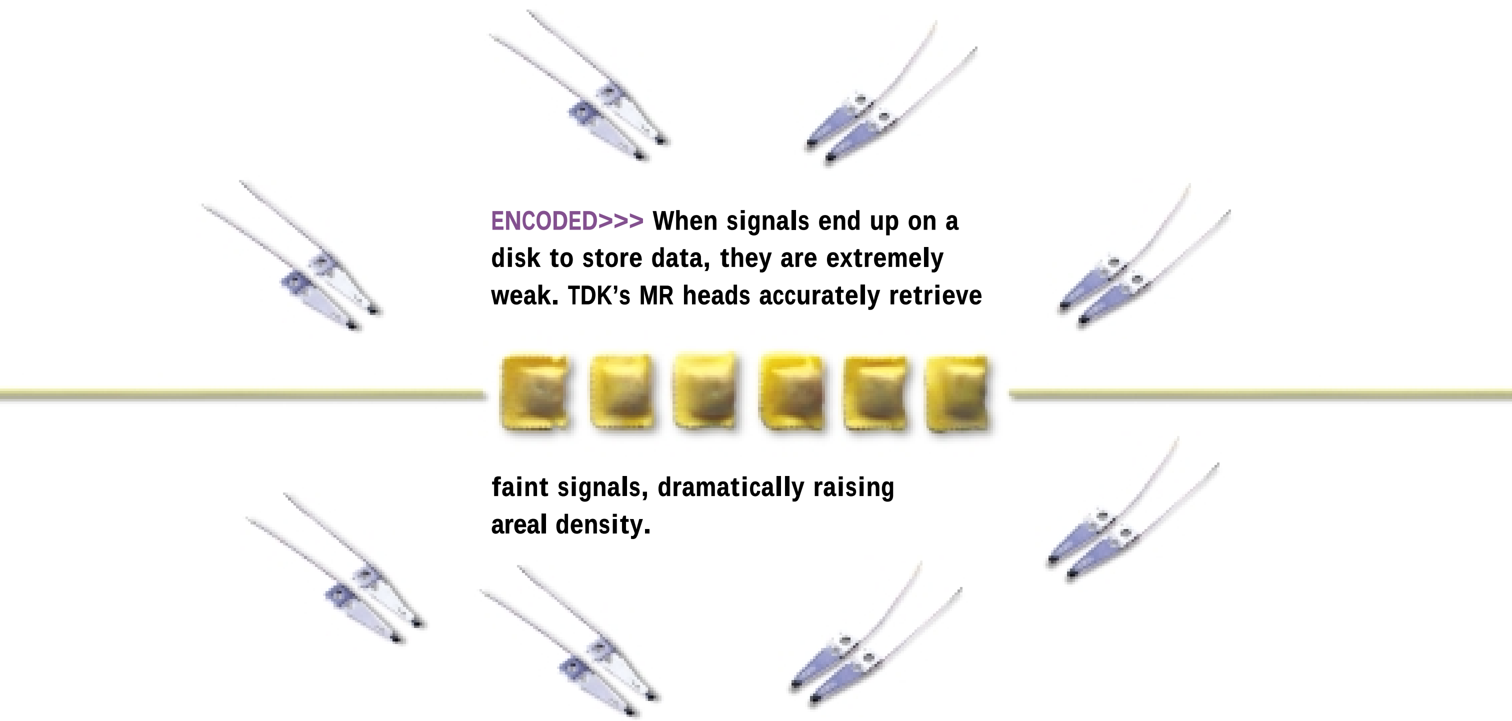
RECORDING DEVICES

Several forces combined to bring down sales of recording devices by 4.2 percent to ¥200,748 million. Amid rapid advances in technology, TDK maintained its leadership in the HDD head

GIGA-HERTZED>>> Mobile phones and digital circuitry employ signals at frequencies often measured in gigahertz. TDK's high-frequency components ensure that these signals reach their destinations intact.

market by introducing and quickly raising output of GMR heads. However, the annual rate of increase in HDD head areal density has accelerated to about 100 percent. Demand for heads thus were well below expectations as HDD makers needed fewer heads per drive to achieve the necessary recording capacity. Exerting more pressure on head sales were weak operating results at many HDD makers, resulting in strong demands for reductions in head prices.

TDK is continuing to take the steps needed to remain at the forefront of the HDD head market. By March 2000, most HDD head output had been switched to GMR technology, which is capable of delivering the highest areal density available today. Sales of a next-generation GMR head have already begun. Furthermore, TDK plans to begin shipping samples of magneto-resistive tunnel-junction heads (TMR), which achieve an even higher areal density, late in 2000. In March 2000, TDK acquired Headway Technologies, Inc., a GMR head company based in California. Gaining access to this company's GMR expertise and research team will further strengthen TDK's position as the world's preeminent supplier of HDD heads.



ENCODED>>> When signals end up on a disk to store data, they are extremely weak. TDK's MR heads accurately retrieve faint signals, dramatically raising areal density.

SEMICONDUCTORS AND OTHERS

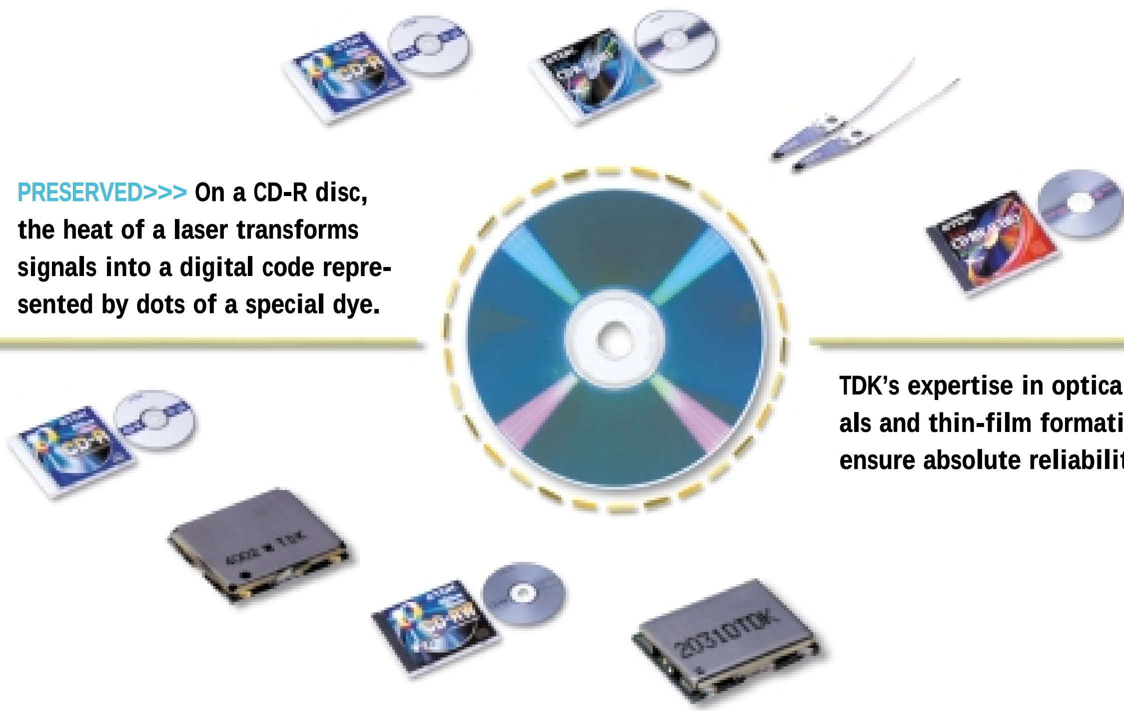
Sales in this sector were down 4.3 percent to ¥27,305 million. PC modem card demand continues to soften as more PCs are assembled with internal modems. Semiconductor-related sales were higher. TDK Semiconductor Corp., which is located in California, had considerable success in designing communication ICs for LAN and set-top box applications. In September 1999, TDK Semiconductor became a major shareholder of Vertex Networks Inc. Tapping the knowledge of this partner will allow TDK to expand its business in ICs for high-speed, multi-functional LAN and WAN requirements.

review of operations

review of operations

RECORDING MEDIA

Declining demand for audiotapes and falling sales prices of optical disks brought down recording media segment sales by 12.5 percent to ¥142,489 million. In audiotapes, the long-term decline in global demand continued due to the rising popularity of optical media. At TDK, the past fiscal year marked an historic milestone as its optical media sales exceeded audiotape results for the first time. Videotape sales decreased. Volume was generally unchanged but foreign exchange



PRESERVED>>> On a CD-R disc, the heat of a laser transforms signals into a digital code represented by dots of a special dye.

TDK's expertise in optical materials and thin-film formation ensure absolute reliability.

movements and price-cutting reduced sales. Mini DV (digital video) cassettes performed well and TDK raised production capacity in response.

Optical disk sales increased as TDK recorded dramatic growth in sales volume. Driven by the rising number of CD-R disc applications, demand for these discs continues to skyrocket. TDK moved quickly to add production capacity. The resulting increase in volume enabled TDK to offset the impact of a strong yen and falling sales prices to generate higher sales. MD sales decreased slightly from the prior fiscal year; higher sales volumes in Japan and Europe were offset by lower prices. The DVD is currently gaining widespread acceptance as a next-generation optical medium. TDK is fully prepared to manufacture DVD-RAM, DVD-R/RW and other types of DVDs in quantity as demand grows.

Perfection!

COMPLEX AS THEY
ARE, TDK'S COMPONENTS
FULFILL A SIMPLE ROLE:
MAKING SURE THAT A SIGNAL
CREATES THE DESIRED
END PRODUCT.

directors and corporate auditors

directors and corporate auditors

HAJIME SAWABE
President and CEO

MOTOYUKI KURIHARA
Executive Vice President

SHUNJIRO SAITO
Executive Vice President

JOICHIRO EZAKI
Executive Managing Director

HIROKAZU NAKANISHI
Executive Managing Director

JIRO IWASAKI
Executive Managing Director

SUGURU TAKAYAMA
Executive Director

TAKESHI OHWADA
Executive Director

SHINJI YOKO
Executive Director

TAKESHI NOMURA
Executive Director

YOSHINORI HASHIMOTO
Executive Director

KIYOSHI ITO
Executive Director

KATSUHIRO FUJINO
Executive Director

TAKUMA OTSUKA
Corporate Auditor

YUTAKA MORI
Corporate Auditor

HIROMI KITAGAWA
Corporate Auditor

OSAMU NAKAMOTO
Corporate Auditor

(As of June 29, 2000)

financial review

financial review

SEGMENT SALES

Consolidated net sales declined 0.3 percent to ¥674.5 billion ($6,363 million) in fiscal 2000, the year ended March 31, 2000. The yen's appreciation during the year, particularly in the second half, had a substantial negative impact on sales. Strong local-currency gains in sales in several regions outside Japan were reversed after translation into yen. Among positive factors, the most significant was solid growth in sales of components used in mobile phones.

In the electronic materials and components segment, net sales increased 3.6 percent to ¥532.0 billion ($5,019 million). Most of this increase was attributable to much higher sales of mobile phone components. Orders for multilayer chip capacitors, for use in mobile phones and other types of communications equipment, surged as TDK stepped up output capacity to meet demand. High-frequency components such as coils and modules also performed well. Ferrite cores and magnets posted lower sales because of sagging performance for TVs, computer displays and domestic automobiles. Sales of heads for hard-disk drives (HDDs) decreased as higher areal densities caused volume to drop and HDD manufacturers demanded lower unit prices.

Recording media segment sales fell 12.5 percent to ¥142.5 billion ($1,344 million). Audiotape sales were down due to shrinking demand worldwide. Videotape and MD sales declined because of falling sales prices. Optical disk sales, primarily CD-Rs, continued to achieve rapid growth. However, lower unit prices limited this growth in terms of monetary sales.

SALES BY REGION

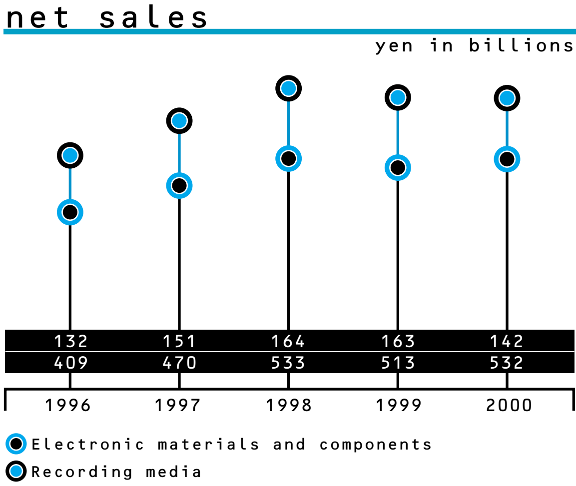
Yen in millions (%)

Years ended March 31	2000		1999		1998	
Japan	**¥231,939**	**(34.4)**	233,342	(34.5)	264,315	(37.9)
Americas	**108,245**	**(16.1)**	120,084	(17.8)	131,891	(18.9)
Europe	**90,564**	**(13.4)**	93,006	(13.7)	91,137	(13.1)
Asia (excluding Japan) and Oceania	**242,438**	**(35.9)**	227,279	(33.6)	206,604	(29.7)
Middle East and Africa	**1,278**	**(0.2)**	2,539	(0.4)	2,730	(0.4)
Net sales	**¥674,464**	**(100.0)**	676,250	(100.0)	696,677	(100.0)

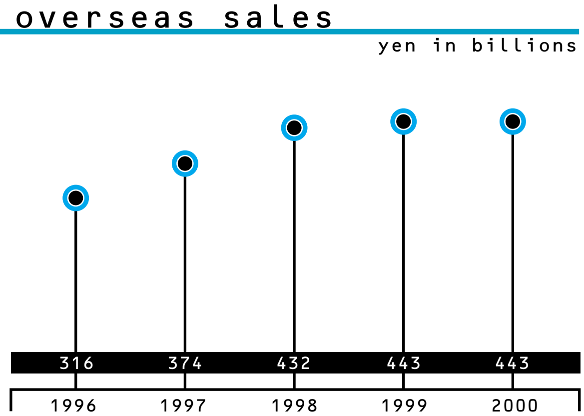
By region, sales in Japan declined 0.6 percent to ¥231.9 billion ($2,188 million) and overseas sales decreased 0.1 percent to ¥442.5 billion ($4,175 million).

In Japan, the prolonged downturn in the economy continued to restrict demand for a broad range of TDK products. However, Japan's expanding markets for mobile phones and PCs led to growth in orders for multilayer chip capacitors. Orders from the audio and visual products and automobile industries were weak. Recording media sales were lower as audiotape demand shrank and average selling prices for videotapes fell. Optical media sales rose, but were insufficient to offset lower sales of audiotapes and videotapes.

net sales



overseas sales



financial review

In Asia (excluding Japan) and Oceania, electronic components represent a very high share of total sales. Growth in fiscal 2000 sales was mainly the result of increases in shipments of multilayer chip capacitors and high-frequency components. The sales increase was reduced by the strength of the yen in relation to the U.S. dollar.

In the Americas, a decline in recording media sales and shift in production to Asia by HDD manufacturers brought down sales. Nevertheless, TDK achieved solid increases in sales of several categories of electronic components, including components for mobile phones and PCs. CD-R sales were also much higher than in the previous fiscal year. As a result, U.S. dollar-denominated sales in the Americas increased slightly, falling only after translation into the stronger yen.

Sales in Europe decreased as strength in the electronic materials and electronic devices sectors was insufficient to offset lower sales of recording media. In local currencies, sales in this region posted double-digit growth. Much of this increase was attributable to higher orders for TDK's high-frequency components used in GSM-format mobile phones. Europe is a region where TDK has particularly high audiotape and videotape market shares, so adverse conditions in these markets had a significant effect on regional sales.

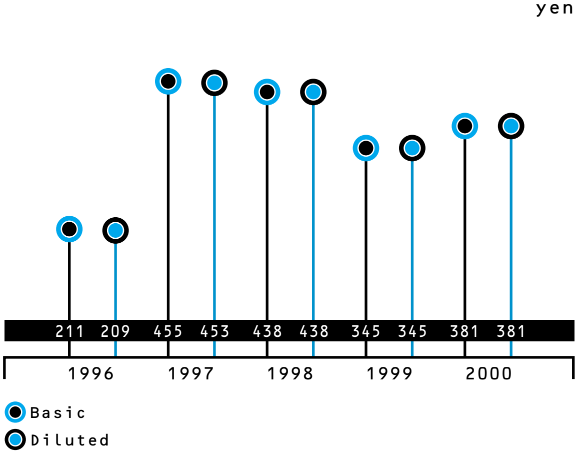
EFFECT OF FOREIGN EXCHANGE MOVEMENTS

In fiscal 2000, overseas sales represented 65.6 percent of total consolidated net sales. As a result, fluctuations in foreign exchange rates have a significant effect on TDK's consolidated sales and income. During fiscal 2000, the yen gained strength against most other major currencies. The yen appreciated 12 percent in relation to the U.S. dollar and 19 percent in relation to the euro, based on TDK's average internal exchange rate. Volatility in Asian currencies did not have a material effect on results. Furthermore, most transactions in Asia, excluding Japan, are denominated in U.S. dollars. Overall, TDK estimates that exchange rate movements during fiscal 2000 had the net effect of reducing net sales by ¥57.0 billion and operating profit by ¥24.0 billion in relation to the prior fiscal year.

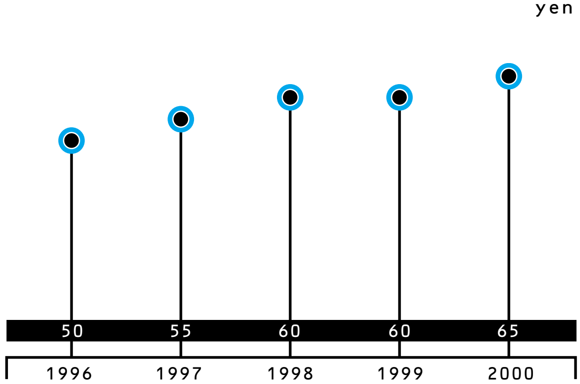
TDK conducts a large share of business activities outside Japan as one way to offset the impact of exchange-rate fluctuations. Such activities include manufacturing and sales, as well as research, design and procurement. In-region production in fiscal 2000 represented 117.9 percent of sales in Asia (excluding Japan) and Oceania, 59.7 percent in the Americas, and 42.3 percent in Europe. Overseas production accounted for 56.8 percent of total sales in fiscal 2000, compared with 57.0 percent one year earlier, and for 86.6 percent of overseas sales, compared with 87.0 percent one year earlier. During fiscal 2000, there were significant increases in output at TDK's overseas production bases in the Philippines and Hungary. Investments increased capacity and added new product lines at several other overseas production facilities during the year.

TDK and its overseas subsidiaries hedge exposure to foreign exchange movements by entering into forward foreign exchange and other contracts, including swaps for some foreign currency-denominated obligations. Refer to Note 13 of the notes to the consolidated financial statements for more information. Due to the global nature of operations, management realizes that currency movements continue to have the potential to exert a material influence on consolidated performance.

net income per share



dividends per share



EXPENSES AND NET INCOME

Yen in millions (%)

Years ended March 31	2000		1999		1998	
Net sales	**¥674,464**	**(100.0)**	676,250	(100.0)	696,677	(100.0)
Cost of sales	**475,340**	**(70.5)**	473,760	(70.1)	469,872	(67.4)
Selling, general, and administrative expenses	**124,517**	**(18.4)**	126,174	(18.6)	128,501	(18.5)
Other income (deductions)	**(1,193)**	**(0.2)**	(891)	(0.1)	1,316	(0.2)
Income taxes and minority interests	**22,684**	**(3.4)**	29,418	(4.4)	41,249	(5.9)
Net income	**¥ 50,730**	**(7.5)**	46,007	(6.8)	58,371	(8.4)

The cost of sales climbed 0.3 percent and rose from 70.1 percent to 70.5 percent of net sales. The yen's appreciation during fiscal 2000 had the net effect of lowering the gross profit margin. In addition, depreciation expenses increased due to the high volume of capital expenditures in recent years. Offsetting this somewhat was growth in sales of multilayer chip capacitors and the benefits of cost reduction programs.

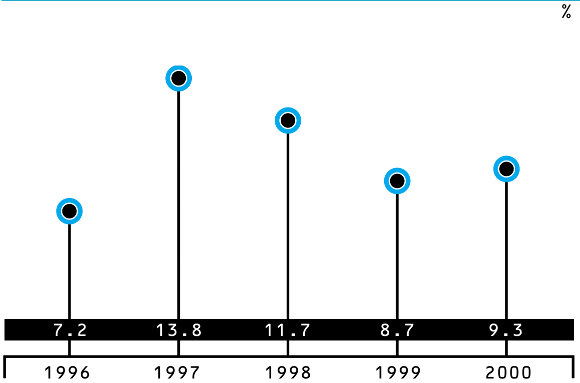
Selling, general, and administrative expenses declined 1.3 percent and decreased from 18.6 percent to 18.4 percent of net sales. Lower expenses due to the yen's appreciation were mainly responsible. However, research and development expenses, most of which are included in this category, increased 2.3 percent to ¥26.9 billion ($254 million).

Other income (deductions) was a net deduction of ¥1.2 billion ($11 million) compared with a net deduction of ¥0.9 billion one year earlier. The foreign exchange loss is mainly due to reductions in yen translations of overseas trade receivables caused by differences in the yen's value between the posting and collection of these receivables in Japan. This loss was offset by the increase of net interest income and net gain on sale of investment securities.

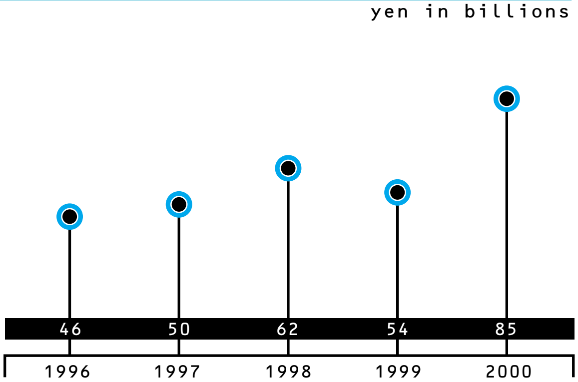
The provision for income tax was ¥22.2 billion ($210 million), 30.3 percent of income before income taxes, down from 38.6 percent in fiscal 1999. This decline was mostly attributable to a reduction in Japan's statutory corporate tax rate. In addition, TDK continues to receive tax incentives at certain facilities outside Japan.

Net income increased 10.3 percent to ¥50.7 billion ($479 million) and net income per share was ¥380.89 ($3.59). The return on average equity improved from 8.7 percent to 9.3 percent. Cash dividends paid during the fiscal year totaled ¥65 ($0.61). This dividend is the sum of the June 1999 year-end dividend of ¥35 and the November 1999 interim dividend of ¥30. Shareholders of record on March 31, 2000 received a cash dividend of ¥30 per share at the end of June 2000.

return on equity



capital expenditures



financial review

FISCAL 1999 VS. FISCAL 1998

In the year ended March 31, 1999, consolidated net sales decreased 2.9 percent to ¥676.3 billion. Foreign exchange movements had the net effect of increasing net sales by ¥15.7 billion and net income by ¥2.6 billion. Sales in Japan declined 11.7 percent to ¥233.3 billion as poor economic conditions brought down sales in most major electronic component categories and recording media. Overseas sales rose 2.4 percent to ¥442.9 billion. HDD heads were behind a significant increase in sales in Asia (excluding Japan) and Oceania. In the Americas, components sold to the computer, communications and automobile industries contributed to growth in sales. In Europe, sales of electronic components rose despite a challenging market and recording media results grew as TDK more than doubled optical media sales.

By segment, sales of electronic materials and components decreased 3.6 percent to ¥513.5 billion. Results were hurt by weakness among manufacturers of audio and visual equipment and lower prices due to competition. HDD heads achieved another year of solid growth, however. Recording media sales were down 0.8 percent to ¥162.8 billion. Audiotape volume fell and videotape sales prices were lower. Most of these declines were offset by rapid growth in sales of optical disks.

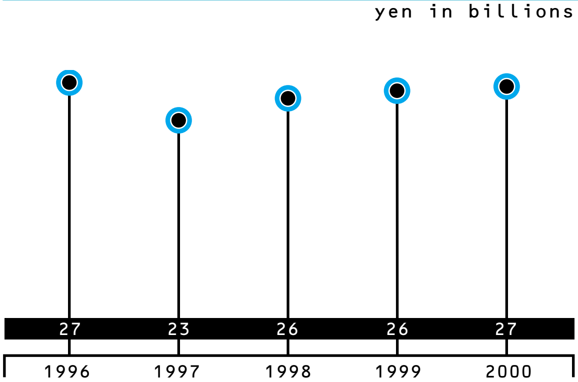
Operating profit fell 22.4 percent to ¥76.3 billion because of the decline in electronic materials and components segment sales and only a small increase in sales of HDD heads, a category where profit margins are relatively high. Recording media operating profit increased. The effective tax rate decreased because of higher income in low-tax-rate regions and a tax reduction in Japan. Net income declined 21.2 percent to ¥46.0 billion.

CAPITAL EXPENDITURES

In fiscal 2000, capital expenditures on a cash basis were ¥84.8 billion ($800 million) compared with ¥54.3 billion in fiscal 1999. The large increase represents TDK's aggressive actions to move rapidly to take advantage of opportunities in strategic market sectors. Growth in the capital budget is also a reflection of a heightening commitment to research and development programs to sustain long-term growth. Among major overseas projects were HDD head facility expansions and upgrades in China and the Philippines, and CD-R production facilities in Luxembourg and the U.S. In Japan, HDD head facilities, multilayer chip capacitor production facilities, metal magnet production facilities and a new research building at TDK's Technical Center were significant elements of capital outlays.

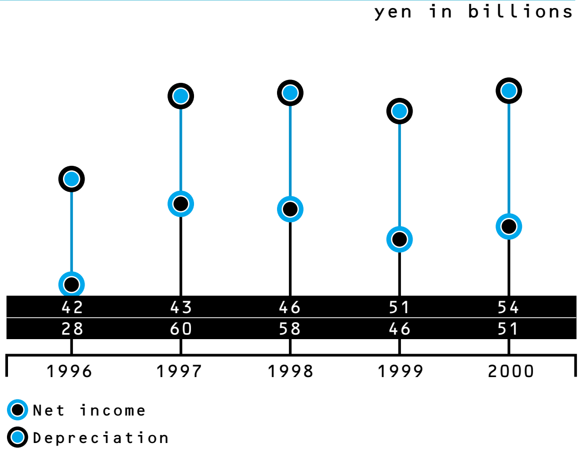
research and development

yen in billions



net cash flows

yen in billions



FINANCIAL POSITION

Yen in millions (%)

March 31	2000		1999		1998	
Short-term debt	¥ 1,417	(0.3)	2,327	(0.5)	4,175	(0.8)
Current installments of long-term debt	516	(0.1)	1,490	(0.3)	1,743	(0.3)
Trade notes payable	722	(0.1)	691	(0.1)	863	(0.2)
Long-term debt, excluding current installments	46	(0.0)	1,787	(0.3)	3,145	(0.6)
Stockholders' equity	563,494	(99.5)	532,111	(98.8)	520,989	(98.1)
Total capital	¥566,195	(100.0)	538,406	(100.0)	530,915	(100.0)

Note: The Company has not applied accounting principles generally accepted in the United States of America (U.S. GAAP) in accounting for investments in certain debt and equity securities. Stockholders' equity as of March 31, 2000, 1999, and 1998, in accordance with U.S. GAAP was ¥571,013 million ($5,386,915,000), ¥535,398 million and ¥530,791 million, respectively.

Total assets amounted to ¥768.5 billion ($7,250 million) as of March 31, 2000, an increase of ¥28.3 billion. Current assets decreased by ¥5.1 billion. Cash and cash equivalents declined by ¥25.6 billion to ¥174.5 billion ($1,646 million), but net trade receivables increased by ¥13.0 billion and inventories increased by ¥3.4 billion. Both increases are mainly attributable to a rapid growth in orders for components used in mobile phones during the fourth quarter of fiscal 2000. Investments and advances increased by ¥14.7 billion to ¥53.7 billion ($506 million), the result of an investment in Vertex Networks, Inc., and the March 2000 acquisition of Headway Technologies, Inc. Net property, plant and equipment increased by ¥23.6 billion to ¥234.3 billion ($2,210 million), primarily the result of the high level of capital expenditures in fiscal 2000.

Current liabilities increased mainly because of a ¥13.5 billion increase in trade payables to ¥70.8 billion ($668 million) as orders for mobile phone components rose sharply in the fourth quarter of fiscal 2000. Short- and long-term debt represents loans that TDK is obligated to hold until contractual repayment dates. Retirement and severance benefits and others fell by ¥17.4 billion to ¥57.3 billion ($540 million). This is the result of an increase in the actual return on plan assets, chiefly due to the improvement in Japanese share prices during fiscal 2000. Refer to Note 8 of the notes to the consolidated financial statements for more information. Growth in retained earnings was responsible for the 5.9 percent increase in stockholders' equity to ¥563.5 billion ($5,316 million). However, foreign currency translation adjustments increased as the yen's strength reduced yen translations of overseas assets. Although TDK currently has no capital market debt outstanding, TDK maintains long-term corporate credit ratings of AA- and A1 from Standard & Poor's and Moody's, respectively. Standard & Poor's gives TDK their highest short-term credit rating, A-1+.

financial review

CASH FLOWS

Years ended March 31	2000	1999	1998
			Yen in millions
Net income	¥ 50,730	46,007	58,371
Depreciation and other adjustments	58,837	67,870	64,774
Change in assets and liabilities	(15,659)	12,447	(24,788)
Net cash provided by operating activities	93,908	126,324	98,357
Net cash used in investing activities	(98,777)	(62,809)	(70,908)
Net cash used in financing activities	(12,785)	(11,120)	(12,613)
Effect of exchange rate changes on cash and cash equivalents	(7,946)	(6,742)	1,843
Net change in cash and cash equivalents	¥(25,600)	45,653	16,679

Cash and cash equivalents decreased by ¥25.6 billion to ¥174.5 billion ($1,646 million). Net cash provided by operating activities was ¥32.4 billion less than in fiscal 1999. Although net income and depreciation and amortization both increased, trade receivables, payables and inventories used net cash of ¥13.8 billion compared with a net contribution of ¥23.4 billion one year earlier by these three items. This chiefly reflects growth in orders for mobile phone components in the fourth quarter of fiscal 2000.

Investing activities used net cash of ¥98.8 billion ($932 million) in fiscal 2000. This is almost entirely due to a ¥30.5 billion increase in capital expenditures. Further contributing to this increase were payments for investments in Vertex Network, Inc. and Headway Technologies, Inc.

Net cash used in financing activities was ¥12.8 billion ($121 million) as the repayment of long-term debt increased. Dividends paid were again the largest component of financing cash requirements. TDK estimates that operating cash flows and other internal resources will provide adequate liquidity in fiscal 2001 and does not foresee the need to procure funds externally.

MARKET RISK MANAGEMENT

Market Risk Exposure

The Company is subject to market risk associated with changes in stock prices, interest rates and foreign currency exchange rates. Stock price risk is considered as the primary market risk exposure. The Company has a policy for the procedures and controls to manage market risk sensitive instruments. In order to hedge interest rate risk and foreign currency exchange rate risk, the Company uses derivative financial instruments. The Company does not hold or issue derivative financial instruments for trading purposes.

Stock Price Risk

The Company's exposure to market risk involving changes in stock prices relates to its equity securities categorized as available for-sale securities. The Company holds these securities in order to maintain business relationships with investee companies for the Company's activities and has a policy and control procedures for these stock holdings. The aggregate carrying amounts and fair value of these equity securities were ¥24.1 billion ($227 million) and ¥36.8 billion ($347 million) as of March 31, 2000, and ¥25.9 billion and ¥31.5 billion as of March 31, 1999, respectively. The industries in which the issuers operate consist mainly of electrical machinery and financial services, and the carrying amounts and fair value of the equity securities in these industries were ¥21.0 billion ($198 million) and ¥33.7 billion ($318 million) as of March 31, 2000, and ¥21.7 billion and ¥27.5 billion as of March 31, 1999, respectively.

Foreign Exchange Risk

The Company's international operations, foreign exchange indebtedness and intercompany loans expose the Company to the risk of changes in foreign currency exchange rates. In order to limit this exposure, the Company enters into currency swaps and foreign exchange contracts. Management expects that gains and losses on derivative financial instruments should offset most of the corresponding gains and losses on long-term debt and intercompany loans being hedged, and does not expect net gains or losses on these instruments to have a material effect on the Company's financial results.

Interest Rate Risk

The Company's exposure to market risk for changes in interest rates relates primarily to its debt securities and debt obligations. The Company has debt securities with fixed rates and long-term debt with both fixed rates and floating rates. Interest rate swap contracts are used by the Company to offset changes in the rates paid on long-term debt. The Company believes that the fair values of interest rate sensitive instruments as of March 31, 2000 and 1999, and potential, near-term losses affecting future earnings, fair values, and/or cash flows from reasonable near term changes in interest rates are immaterial.

Year 2000

Positioning Y2K compliance as a high priority issue, TDK and its group companies took actions to ensure readiness. As a result, there were no Y2K-related problems with TDK products and no distruptions of operations at any of TDK's facilities.

Forward-Looking Statements

This report contains forward-looking statements based on the Company's own projections and estimates. The markets where TDK is active are extremely volatile, subject to rapid shifts in technology, customer demands, prices, changes in economic conditions, and many other variables. Due to the risks and uncertainties involved, actual results could differ substantially from the content of these statements. Therefore, these statements should not be interpreted as representations that such objectives will be fulfilled. Furthermore, TDK makes no commitment to update any forward-looking statements or to disclose any information that may affect the accuracy of these statements.

SEGMENT INFORMATION

The following industry and geographic segment information is required by the Japanese Securities Exchange Law. Segment information is unaudited.

Industry Segment Information

Years ended March 31	Yen (Millions) 2000		1999		U.S. Dollars (Thousands) 2000		Change (%)
ELECTRONIC MATERIALS AND COMPONENTS							
Net sales							
Unaffiliated customers	¥531,975		513,487		$5,018,632		3.6
Intersegment	–		–		–		
Total revenue	531,975	(100.0%)	513,487	(100.0%)	5,018,632	(100.0%)	3.6
Operating expenses	461,269	(86.7%)	443,802	(86.4%)	4,351,594	(86.7%)	3.9
Operating profit	¥70,706	(13.3%)	69,685	(13.6%)	$667,038	(13.3%)	1.5
Identifiable assets	487,591		443,965		4,599,915		
Depreciation and amortization	45,169		41,579		426,123		
Capital expenditures	75,680		45,037		713,962		
RECORDING MEDIA							
Net sales							
Unaffiliated customers	¥142,489		162,763		$1,344,236		–12.5
Intersegment	–		–		–		
Total revenue	142,489	(100.0%)	162,763	(100.0%)	1,344,236	(100.0%)	–12.5
Operating expenses	138,588	(97.3%)	156,132	(95.9%)	1,307,434	(97.3%)	–11.2
Operating profit	¥ 3,901	(2.7%)	6,631	(4.1%)	$36,802	(2.7%)	–41.2
Identifiable assets	105,262		113,819		993,038		
Depreciation and amortization	8,677		9,381		81,858		
Capital expenditures	9,100		9,293		85,849		
ELIMINATIONS AND CORPORATE							
Corporate assets	¥175,629		182,396		$1,656,877		
TOTAL							
Net sales							
Unaffiliated customers	¥674,464		676,250		$6,362,868		–0.3
Intersegment	–		–		–		
Total revenue	674,464	(100.0%)	676,250	(100.0%)	6,362,868	(100.0%)	–0.3
Operating expenses	599,857	(88.9%)	599,934	(88.7%)	5,659,028	(88.9%)	0.0
Operating profit	¥ 74,607	(11.1%)	76,316	(11.3%)	$ 703,840	(11.1%)	–2.2
Identifiable and corporate assets	768,482		740,180		7,249,830		
Depreciation and amortization	53,846		50,960		507,981		
Capital expenditures	84,780		54,330		799,811		

Note: Effective from the fiscal year ended March 31, 2000, certain products that had been included in Electronic materials and components are now included in Recording media.
Results in the previous fiscal year have been restated accordingly.
The effect of this change for the previous fiscal year is not material.

Geographic Segment Information

Years ended March 31	Yen (Millions) 2000	Yen (Millions) 1999	U.S. Dollars (Thousands) 2000	Change (%)
JAPAN				
Net sales	**¥440,258**	397,671	**$4,153,377**	10.7
Operating profit	**28,075**	23,225	**264,858**	20.9
Identifiable assets	**360,260**	315,777	**3,398,679**	14.1
AMERICAS				
Net sales	**116,888**	129,916	**1,102,717**	–10.0
Operating profit	**2,302**	87	**21,717**	2,546.0
Identifiable assets	**52,162**	53,862	**492,094**	–3.2
EUROPE				
Net sales	**87,300**	90,045	**823,585**	–3.0
Operating profit	**3,248**	2,694	**30,642**	20.6
Identifiable assets	**48,388**	48,434	**456,491**	–0.1
ASIA AND OTHERS				
Net sales	**307,482**	298,424	**2,900,774**	3.0
Operating profit	**40,704**	48,088	**384,000**	–15.4
Identifiable assets	**189,907**	184,352	**1,791,575**	3.0
ELIMINATIONS AND CORPORATE				
Net sales	**277,464**	239,806	**2,617,585**	
Operating profit	**(278)**	(2,222)	**(2,623)**	
Identifiable assets	**117,765**	137,755	**1,110,991**	
TOTAL				
Net sales	**¥674,464**	676,250	**$6,362,868**	–0.3
Operating profit	**74,607**	76,316	**703,840**	–2.2
Identifiable assets	**768,482**	740,180	**7,249,830**	3.8

Overseas Sales	Yen 2000	%	Yen 1999	%	U.S. Dollars 2000	%	Change (%)
Americas	**¥108,245**	**(16.1%)**	120,084	(17.8%)	**$1,021,179**	**(16.1%)**	–9.9
Europe	**90,564**	**(13.4%)**	93,006	(13.7%)	**854,377**	**(13.4%)**	–2.6
Asia and others	**243,716**	**(36.1%)**	229,818	(34.0%)	**2,299,208**	**(36.1%)**	6.0
Overseas sales total	**¥442,525**	**(65.6%)**	442,908	(65.5%)	**$4,174,764**	**(65.6%)**	–0.1

ten-year financial summary

ten-year financial summary

years ended March 31

	Yen (Millions)				
	2000	1999	1998	1997	1996
Net sales	**¥674,464**	676,250	696,677	620,695	541,416
Electronic materials and components	**531,975**	513,487	532,543	469,559	409,614
Recording media	**142,489**	162,763	164,134	151,136	131,802
(Overseas sales)	**442,525**	442,908	432,362	374,076	315,934
Cost of sales	**475,340**	473,760	469,872	426,341	377,369
Selling, general, and administrative expenses	**124,517**	126,174	128,501	117,106	109,989
Income before income taxes	**73,414**	75,425	99,620	103,304	51,933
Income taxes	**22,245**	29,083	40,887	42,553	24,018
Net income	**50,730**	46,007	58,371	60,299	27,693
Per common share (yen):					
Net income/Basic	**380.89**	345.42	438.25	454.51	210.59
Net income/Diluted	**380.89**	345.42	438.25	452.99	208.64
Cash dividends	**65.00**	60.00	60.00	55.00	50.00
Working capital	**310,835**	331,750	315,858	278,625	210,332
Stockholders' equity	**563,494**	532,111	520,989	474,189	401,995
Total assets	**768,482**	740,180	722,860	655,874	624,347
Capital expenditures	**84,780**	54,330	61,768	49,948	46,150
Depreciation and amortization	**53,846**	50,960	45,663	42,362	42,558
Research and development	**26,948**	26,333	25,547	23,305	27,147
Number of employees	**34,321**	31,305	29,747	28,055	29,070

	Yen (Millions)				
	1995	1994	1993	1992	1991
Net sales	485,121	457,373	526,397	534,866	539,986
Electronic materials and components	352,388	319,627	358,673	369,330	367,499
Recording media	132,733	137,746	167,724	165,536	172,487
(Overseas sales)	275,520	240,575	278,914	270,675	276,943
Cost of sales	342,133	329,970	360,990	360,950	353,653
Selling, general, and administrative expenses	104,668	107,211	120,807	119,896	118,222
Income before income taxes	30,767	17,798	33,448	48,432	62,871
Income taxes	17,634	12,355	14,856	26,661	34,216
Net income	13,017	5,484	18,398	21,588	28,469
Per common share (yen):					
Net income/Basic	98.99	41.70	139.91	165.37	222.84
Net income/Diluted	98.46	41.70	138.85	163.57	220.43
Cash dividends	50.00	50.00	50.00	50.00	46.00
Working capital	200,806	191,701	202,163	198,189	191,963
Stockholders' equity	371,296	374,785	386,408	386,651	366,260
Total assets	563,360	562,905	594,964	627,341	647,262
Capital expenditures	37,457	36,894	47,109	78,239	72,644
Depreciation and amortization	41,696	42,250	41,843	40,197	36,074
Research and development	25,353	26,142	27,670	26,309	26,158
Number of employees	27,276	26,830	26,379	25,073	24,436

Note: *The Company has not applied accounting principles generally accepted in the United States of America (U.S. GAAP) in accounting for investments in certain debt and equity securities. Stockholders' equity and total assets, in accordance with U.S. GAAP were ¥571,013 million ($5,386,915,000) and ¥775,992 million ($7,320,679,000) as of March 31, 2000, ¥535,398 million and ¥743,512 million as of March 31, 1999, ¥530,791 million and ¥733,104 million as of March 31, 1998, ¥484,994 million and ¥667,227 million as of March 31, 1997, ¥415,984 million and ¥644,854 million as of March 31,1996, and ¥381,093 million and ¥583,466 million as of March 31, 1995, respectively.*

consolidated statements of income

consolidated statements of income

TDK Corporation and Subsidiaries
years ended March 31, 2000, 1999 and 1998

	Yen (Millions)			U.S. Dollars (Thousands) (Note 2)
	2000	1999	1998	**2000**
Net sales	**¥674,464**	676,250	696,677	**$6,362,868**
Cost of sales	**475,340**	473,760	469,872	**4,484,339**
Gross profit	**199,124**	202,490	226,805	**1,878,529**
Selling, general, and administrative expenses	**124,517**	126,174	128,501	**1,174,689**
Operating profit	**74,607**	76,316	98,304	**703,840**
Other income (deductions):				
Interest and dividend income	**5,227**	5,000	2,839	**49,311**
Interest expense	**(568)**	(1,177)	(1,035)	**(5,358)**
Gain on sale of investment securities	**1,452**	14,342	–	**13,698**
Loss on settlement of debt securities	**–**	(15,001)	–	**–**
Loss on disposal of property, plant, and equipment	**(2,156)**	(2,328)	(2,046)	**(20,340)**
Foreign exchange gain (loss)	**(4,646)**	(1,777)	2,701	**(43,830)**
Other, net	**(502)**	50	(1,143)	**(4,736)**
	(1,193)	(891)	1,316	**(11,255)**
Income before income taxes	**73,414**	75,425	99,620	**692,585**
Income taxes (Note 7)	**22,245**	29,083	40,887	**209,858**
Income before minority interests	**51,169**	46,342	58,733	**482,727**
Minority interests	**439**	335	362	**4,142**
Net income	**¥ 50,730**	46,007	58,371	**$ 478,585**

	Yen (except number of common shares outstanding)			U.S. Dollars
Amounts per share:				
Basic and diluted net income per share	**¥380.89**	345.42	438.25	**$3.59**
Weighted average and diluted common shares outstanding in thousands	**133,190**	133,190	133,190	
Cash dividends paid during the year (Note 9)	**¥ 65.00**	60.00	60.00	**$0.61**

See accompanying notes to consolidated financial statements.

consolidated balance sheets

consolidated balance sheets

TDK Corporation and Subsidiaries
March 31, 2000 and 1999

ASSETS	Yen (Millions) 2000	1999	U.S. Dollars (Thousands) (Note 2) 2000
Current assets:			
Cash and cash equivalents	¥174,519	200,119	$1,646,405
Marketable securities (Note 4)	6,519	4,720	61,500
Trade receivables:			
Notes	12,443	12,289	117,387
Accounts	153,050	140,442	1,443,868
Allowance for doubtful receivables	(2,945)	(3,149)	(27,783)
Net trade receivables	162,548	149,582	1,533,472
Inventories (Note 5)	84,839	81,456	800,368
Prepaid expenses and other current assets (Notes 7 and 8)	27,341	24,982	257,934
Total current assets	455,766	460,859	4,299,679
Investments and advances (Notes 4 and 11)	53,651	38,942	506,142
Property, plant, and equipment, at cost:			
Land	21,161	21,188	199,632
Buildings	161,280	151,435	1,521,509
Machinery and equipment	450,457	426,487	4,249,594
Construction in progress	20,042	17,338	189,076
	652,940	616,448	6,159,811
Less accumulated depreciation	418,666	405,765	3,949,679
Net property, plant, and equipment	234,274	210,683	2,210,132
Other assets (Notes 7 and 8)	24,791	29,696	233,877
	¥768,482	740,180	$7,249,830

See accompanying notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	Yen (Millions) 2000	Yen (Millions) 1999	U.S. Dollars (Thousands) (Note 2) 2000
Current liabilities:			
Short-term debt (Note 6)	¥ 1,417	2,327	$ 13,368
Current installments of long-term debt (Note 6)	516	1,490	4,868
Trade payables:			
Notes	722	691	6,811
Accounts	70,054	56,543	660,887
Accrued salaries and wages	12,559	11,873	118,481
Other accrued expenses	15,145	14,914	142,878
Income taxes (Note 7)	14,727	12,448	138,934
Other current liabilities (Note 7)	29,791	28,823	281,047
Total current liabilities	144,931	129,109	1,367,274
Long-term debt, excluding current installments (Note 6)	46	1,787	434
Retirement and severance benefits (Notes 7 and 8)	56,845	73,848	536,274
Deferred income taxes (Note 7)	416	779	3,924
Total liabilities	202,238	205,523	1,907,906
Minority interests	2,750	2,546	25,943
Stockholders' equity (Note 4)**:**			
Common stock of ¥50 ($0.47) par value—			
Authorized 480,000,000 shares;			
Issued 133,189,659 shares in 2000 and 1999	32,641	32,641	307,934
Additional paid-in capital	63,051	63,051	594,821
Legal reserve (Note 9)	13,302	12,674	125,491
Retained earnings (Note 9)	519,256	477,812	4,898,641
Accumulated other comprehensive income (loss) (Notes 7, 8 and 10)	(64,756)	(54,067)	(610,906)
Total stockholders' equity	563,494	532,111	5,315,981
Commitments and contingent liabilities (Note 12)			
	¥768,482	740,180	$7,249,830

consolidated statements of stockholders' equity

consolidated statements of stockholders' equity

TDK Corporation and Subsidiaries
Years ended March 31, 2000, 1999, and 1998

	Yen (Millions) 2000	1999	1998	U.S. Dollars (Thousands) (Note 2) 2000
Common stock:				
Balance at beginning of period	¥ 32,641	32,641	32,641	$ 307,934
Balance at end of period	32,641	32,641	32,641	307,934
Additional paid-in capital:				
Balance at beginning of period	63,051	63,051	63,051	594,821
Balance at end of period	63,051	63,051	63,051	594,821
Legal reserve (Note 9)**:**				
Balance at beginning of period	12,674	11,791	10,354	119,566
Transferred from retained earnings	628	883	1,437	5,925
Balance at end of period	13,302	12,674	11,791	125,491
Retained earnings (Note 9)**:**				
Balance at beginning of period	477,812	440,680	391,737	4,507,660
Net income	50,730	46,007	58,371	478,585
Cash dividends	(8,658)	(7,992)	(7,991)	(81,679)
Transferred to legal reserve	(628)	(883)	(1,437)	(5,925)
Balance at end of period	519,256	477,812	440,680	4,898,641
Accumulated other comprehensive income (loss) (Notes 7, 8 and 10)**:**				
Balance at beginning of period	(54,067)	(27,174)	(23,594)	(510,066)
Other comprehensive income (loss) for the period, net of tax	(10,689)	(26,893)	(3,580)	(100,840)
Balance at end of period	(64,756)	(54,067)	(27,174)	(610,906)
Total stockholders' equity (Note 4)	¥563,494	532,111	520,989	$5,315,981
Disclosure of comprehensive income:				
Net income for the period	¥ 50,730	46,007	58,371	$ 478,585
Other comprehensive income (loss) for the period, net of tax (Note 10)	(10,689)	(26,893)	(3,580)	(100,840)
Total comprehensive income for the period (Note 4)	¥ 40,041	19,114	54,791	$ 377,745

See accompanying notes to consolidated financial statements.

consolidated statements of cash flows

consolidated statements of cash flows

TDK Corporation and Subsidiaries
years ended March 31, 2000, 1999 and 1998

	Yen (Millions)			U.S. Dollars (Thousands) (Note 2)
	2000	1999	1998	2000
Cash flows from operating activities:				
Net income	¥ 50,730	46,007	58,371	$ 478,585
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	53,846	50,960	45,663	507,981
Loss on disposal of property and equipment	2,156	2,328	1,821	20,340
Deferred income taxes	(3,375)	5,273	12,880	(31,840)
Gain on sale of investment securities	(1,452)	(14,342)	–	(13,698)
Loss on settlement of debt securities	–	15,001	–	–
Other noncash charges – net	7,662	8,650	4,410	72,283
Changes in assets and liabilities:				
Decrease (increase) in trade receivables	(24,427)	11,741	(16,414)	(230,443)
Decrease (increase) in inventories	(9,408)	7,795	(2,429)	(88,755)
Increase in trade payables	20,002	3,832	3,254	188,698
Increase (decrease) in income taxes	2,566	39	(5,246)	24,207
Other – net	(4,392)	(10,960)	(3,953)	(41,434)
Net cash provided by operating activities	93,908	126,324	98,357	885,924
Cash flows from investing activities:				
Capital expenditures	(84,780)	(54,330)	(61,768)	(799,811)
Proceeds from sale of investments	4,256	26,418	4	40,151
Payment for purchase of investments	(17,189)	(27,539)	(603)	(162,161)
Proceeds from sale and settlement of marketable securities	–	4,171	–	–
Proceeds from maturities of marketable securities	–	6,263	600	–
Payment for purchase of marketable securities	(1,993)	(18,250)	(8,700)	(18,802)
Other – net	929	458	(441)	8,764
Net cash used in investing activities	(98,777)	(62,809)	(70,908)	(931,859)
Cash flows from financing activities:				
Proceeds from long-term debt	72	83	1,106	679
Repayment of long-term debt	(2,505)	(1,512)	(3,004)	(23,632)
Decrease in short-term debt	(1,694)	(1,699)	(2,724)	(15,981)
Dividends paid	(8,658)	(7,992)	(7,991)	(81,679)
Net cash used in financing activities	(12,785)	(11,120)	(12,613)	(120,613)
Effect of exchange rate changes on cash and cash equivalents	(7,946)	(6,742)	1,843	(74,962)
Net increase (decrease) in cash and cash equivalents	(25,600)	45,653	16,679	(241,510)
Cash and cash equivalents at beginning of period	200,119	154,466	137,787	1,887,915
Cash and cash equivalents at end of period	¥174,519	200,119	154,466	$1,646,405

See accompanying notes to consolidated financial statements.

notes to consolidated financial statements

notes to consolidated financial statements

1. Summary of Significant Accounting Policies

(a) Nature of Operations

TDK is a multinational manufacturer of ferrite products and a producer of coil, ceramic and other components and recording media. TDK, a Tokyo-based company founded in 1935 to commercialize ferrite, now manufactures and sells a broad range of products. TDK's two business segments are electronic materials and components, and recording media, which accounted for 79% and 21% of net sales, respectively, for the year ended March 31, 2000. Main products which are manufactured and sold by the two business segments are as follows:

a) Electronic material and component products:

Ferrite cores, Ceramic capacitors, Coils, GMR heads, MR heads, Semiconductors and others

b) Recording media products:

Audio tapes, Video tapes, Floppy disks, CD-R, MD, DVD and others

TDK sells electronic material and component products to electric and communication equipment manufacturers and audio equipment manufacturers, mainly in Asia and Japan, and recording media products to distribution agents and audio equipment manufacturers, mainly in Japan, Europe, and North America.

(b) Basis of Presentation

The Company and its domestic subsidiaries maintain their books of account in conformity with financial accounting standards of Japan, and its foreign subsidiaries in conformity with those of the countries of their domicile.

The consolidated financial statements presented herein reflect certain adjustments, not recorded on the books of the Company and subsidiaries, to present the financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. Such adjustments relate principally to accounting for issue costs for debt with stock purchase warrants and retirement and severance benefits. See also note 4.

(c) Consolidation Policy

The consolidated financial statements include the accounts of the Company and its subsidiaries. The investments in affiliates in which the Company's ownership is 20% to 50% are accounted for by the equity method.

All significant intercompany accounts and transactions have been eliminated in consolidation.

The excess of cost over underlying net assets at the dates of investment in subsidiaries is included in other assets and is being amortized over a 10-year period.

(d) Cash Equivalents

Cash equivalents include all highly liquid debt instruments purchased with an original maturity of three months or less.

(e) Marketable Securities

Debt securities included in marketable securities are stated at the lower of cost or market. Marketable equity securities held for long-term investment purposes are included in investments and advances and are carried at the lower of cost or market. The cost of such securities sold is based on average cost.

(f) Inventories

Inventories are stated at the lower of cost or market. Cost is determined principally by the average method.

(g) Depreciation

Depreciation of property, plant, and equipment is principally computed by the declining-balance method for assets located in Japan and of certain foreign subsidiaries and by the straight-line method for assets of other foreign subsidiaries based on the following estimated useful lives:

Buildings	3 to 60 years
Machinery and equipment	2 to 22 years

(h) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated 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.

(i) Retirement and Severance Benefits

The Company accounts for and provides disclosures about its defined benefit pension and retirement plans in accordance with Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" and with Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits".

(j) Advertising Costs

Advertising costs are expensed as incurred.

(k) Foreign Currency Translation

Foreign currency financial statements have been translated in accordance with Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation" (SFAS 52). Under SFAS 52, the assets and liabilities of the Company's subsidiaries located outside Japan are translated into Japanese yen at the rates of exchange in effect at the balance sheet date. Revenue and expense items are translated at the average exchange rates prevailing during the year. Gains and losses resulting from foreign currency transactions are included in other income (deductions), and those resulting from translation of financial statements are generally excluded from the statements of income and are accumulated in stockholders' equity as foreign currency translation adjustments. The discount or premium on forward exchange contracts used for hedging purposes is amortized over the life of the contracts.

(l) Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

(m) Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

The Company's long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows (undiscounted and without interest charges) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(n) Net Income per Share

Basic net income per share has been computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding during each year. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the income of the Company.

(o) New Accounting Standards Not Yet Adopted

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. SFAS 133 requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income (loss), depending on whether a derivative is designated as part of a hedge transaction and the type of hedge transaction. The ineffective portion of all hedges will be recognized in earnings. The Company will adopt SFAS 133, as amended, for the year beginninig April 1, 2001, and is currently assessing the impact of adopting SFAS 133. However, based on its limited use of derivative financial instruments, management does not anticipate that the adoption of SFAS 133 will have a material effect on the Company's consolidated financial statements.

2. Financial Statement Translation

The consolidated financial statements are expressed in yen in accordance with accounting principles generally accepted in the United States of America. Supplementally, however, the Japanese yen amounts as of and for the year ended March 31, 2000, have also been translated into U.S. dollar amounts, solely for the convenience of the reader, at the rate of ¥106=U.S.$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 31, 2000. This translation should not be construed as a representation that the amounts shown could be converted into U.S. dollars at such rate.

notes to consolidated financial statements

3. Foreign Operations

Amounts included in the consolidated financial statements relating to subsidiaries operating in foreign countries are summarized as follows:

	Yen (Millions)			U.S. Dollars (Thousands)
	2000	1999	1998	**2000**
Net assets	**¥276,955**	274,171	233,508	**$2,612,783**
Net sales	**422,327**	423,031	410,242	**3,984,217**
Net income	**41,332**	48,733	47,942	**389,925**

4. Marketable Securities and Investments and Advances

In May 1993, the FASB issued Statement of Financial Accounting Standards No. 115 (SFAS 115), "Accounting for Certain Investments in Debt and Equity Securities" requiring that certain investments in debt and equity securities be classified as held-to-maturity, trading, or available-for-sale securities. Those classified as available-for-sale would be reported at fair value with unrealized gains and losses, net of related taxes, excluded from income and reported as a separate component of other comprehensive income (loss) until realized. The new Statement would have been applied by the Company for the year ended March 31, 1995.

The Company and approximately thirty other Japanese registrants that file their consolidated financial statements with both the United States Securities and Exchange Commission (SEC) and Japan's Ministry of Finance (MOF) are permitted to file with the MOF consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The Company and certain other such Japanese registrants were concerned as to comparability to financial statements prepared in accordance with accounting principles generally accepted in Japan where such debt and equity securities are reported at cost or the lower of cost or market.

In August 1993, the SEC ruled that it would accept U.S. GAAP filings by the Company and other Japanese registrants that do not follow the accounting provisions of SFAS 115 but that provide information required by SFAS 115 in a note to the financial statements.

There were no effects on net income of the Company's departure from the provisions of SFAS 115 for the years ended March 31, 2000, 1999 and 1998 except for the effect of the income tax rate reduction on year-end deferred income tax balance (see note 7). The effects on balance sheet items of the departure as of March 31, 2000 and 1999, are summarized as follows:

	Yen (Millions)		U.S. Dollars (Thousands)
	2000	1999	**2000**
Stockholders' equity as shown in the financial statements	**¥563,494**	532,111	**$5,315,981**
Unrealized holding gains (losses):			
Marketable securities	**11**	55	**104**
Investments and advances	**12,696**	5,575	**119,774**
Interest rate swaps used to hedge available-for-sale securities	**–**	(55)	**–**
Related tax on unrealized holding gains and losses:			
Current deferred tax assets	**(4)**	–	**(38)**
Noncurrent deferred tax assets	**(5,193)**	(2,298)	**(48,991)**
Noncurrent deferred tax liabilities	**9**	10	**85**
	7,519	3,287	**70,934**
Stockholders' equity in accordance with U.S. GAAP	**¥571,013**	535,398	**$5,386,915**

If the provisions of SFAS 115 had been applied, other comprehensive income would have increased by ¥4,232 million ($39,925,000), net of related taxes of ¥2,900 million ($27,358,000) for the year ended March 31, 2000, decreased by ¥6,853 million, net of related taxes of ¥5,797 million for the year ended March 31, 1999, and decreased by ¥1,685 million, net of related taxes of ¥1,725 million for the year ended March 31, 1998. The effect on deferred taxes for the income tax rate changes would increase net income by ¥338 million and ¥682 million for the years ended March 31, 1999 and 1998, respectively (see note 7).

Marketable securities and investments and advances consist of available-for-sale securities. Information with respect to such securities at March 31, 2000 and 1999, is as follows:

	2000				1999			
	Carrying Amount [1]	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value	Carrying Amount [1]	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Yen (Millions):								
Marketable securities:								
Debt securities	¥ 6,519	11	–	6,530	4,720	55	–	4,775
Interest rate swaps used to hedge available-for-sale securities	–	–	–	–	(22)	–	(55)	(77)
Investments and advances:								
Equity securities	24,061	14,944	(2,231)	36,774	25,860	6,766	(1,098)	31,528
Debt securities	102	–	(17)	85	386	2	(95)	293
	¥ 30,682	14,955	(2,248)	43,389	30,944	6,823	(1,248)	36,519
U.S. Dollars (Thousands):								
Marketable securities:								
Debt securities	$ 61,500	104	–	61,604				
Interest rate swaps used to hedge available-for-sale securities	–	–	–	–				
Investments and advances:								
Equity securities	226,991	140,981	(21,047)	346,925				
Debt securities	962	–	(160)	802				
	$289,453	141,085	(21,207)	409,331				

[1] *Carrying amount equals amortized cost.*

Debt securities classified as available-for-sale at March 31, 2000 mature in fiscal 2001 through 2008 (weighted average remaining term of 1.7 years).

The proceeds from sale and settlement of available-for-sale securities are ¥4,044 million ($38,151,000), ¥30,589 million and ¥4 million for the years ended March 31, 2000, 1999 and 1998, respectively. The gross realized gains on the sale of available-for-sale securities are ¥1,623 million ($15,311,000), ¥14,669 million and ¥1 million for the years ended March 31, 2000, 1999 and 1998, respectively. The gross realized losses on the sale and settlement of available-for-sale securities are ¥47 million ($443,000), ¥15,001 million and ¥67 million for the years ended March 31, 2000, 1999 and 1998, respectively.

notes to consolidated financial statements

5. Inventories

Inventories at March 31, 2000 and 1999, are summarized as follows:

	Yen (Millions)		U.S. Dollars (Thousands)
	2000	1999	2000
Finished goods	¥34,188	31,449	$322,528
Work in process	24,886	24,744	234,774
Raw materials	25,765	25,263	243,066
	¥84,839	81,456	$800,368

6. Short-Term and Long-Term Debt

Short-term debt and weighted average interest rates at March 31, 2000 and 1999, are as follows:

	Yen (Millions)		U.S. Dollars (Thousands)	Weighted average interest rate	
	2000	1999	2000	2000	1999
Short-term bank loans	¥1,417	2,327	$13,368	5.80%	2.58%

At March 31, 2000, unused short-term credit facilities for issuance of commercial paper amounted to ¥31,845 million ($300,425,000).

Long-term debt at March 31, 2000 and 1999, is set forth below:

	Yen (Millions)		U.S. Dollars (Thousands)
	2000	1999	2000
Loans from banks, unsecured, due fiscal 2001–2003, interest 4.80%–8.63% (weighted average 2000–8.44%; 1999–7.17%)	¥443	2,117	$4,179
Unsecured floating notes payable, due fiscal 2003	–	1,000	–
Other	119	160	1,123
	562	3,277	5,302
Less current installments	516	1,490	4,868
	¥ 46	1,787	$ 434

Certain long-term debts were repaid before their maturity date.

The aggregate annual maturities of long-term debt outstanding at March 31, 2000, are as follows:

	Yen (Millions)	U.S. Dollars (Thousands)
Year ending March 31,		
2001	¥516	$4,868
2002	39	368
2003	7	66
Later years	–	–
	¥562	$5,302

As is customary in Japan, short-term and long-term bank loans are made under general agreements that provide that under certain circumstances security and guarantees for present and future indebtedness will be given upon request of the bank, and that the bank shall have the right, as the obligations become due, or in the event of their default, to offset cash deposits against such obligations due the bank.

7. Income Taxes

The Company and its domestic subsidiaries are subject to a number of taxes based on income, which in the aggregate resulted in a statutory rate of approximately 41% in the year ended March 31, 2000, 47% in the year ended March 31, 1999 and 51% in the year ended March 31, 1998.

Amendments to Japanese tax regulations were enacted into law on March 24, 1999 and on March 31, 1998. As a result of these amendments, the normal income tax rate was reduced from approximately 47% to 41% effective from April 1, 1999 and from approximately 51% to 47% effective from April 1, 1998, respectively. Current income taxes were calculated at the rate of 41%, 47% and 51% in effect for the years ended March 31, 2000, 1999 and 1998, respectively. Deferred income taxes were calculated at the rate of 41% and 47% for the years ended March 31, 1999 and 1998, respectively. The effects of the income tax rate reduction on deferred income tax balances as of March 31, 1999 and 1998 are immaterial.

The effective rate of the companies for the years ended March 31, 2000, 1999 and 1998, are reconciled with the Japanese statutory rate in the following table:

	2000	1999	1998
Japanese statutory tax rate	**41.0%**	47.0%	51.0%
Expenses not deductible for tax purposes	**0.3**	0.9	0.9
Amortization of goodwill	**0.6**	0.1	0.1
Difference in statutory tax rates of foreign subsidiaries	**(8.4)**	(7.6)	(9.9)
Change in the valuation allowance at the beginning of the year	**(0.5)**	(0.5)	0.5
Other	**(2.7)**	(1.3)	(1.6)
Effective tax rate	**30.3%**	38.6%	41.0%

Total income taxes for the years ended March 31, 2000, 1999 and 1998 are allocated as follows (see note 4):

	Yen (Millions)			U.S. Dollars (Thousands)
	2000	1999	1998	2000
Income before income taxes	**¥22,245**	29,083	40,887	**$209,858**
Stockholders' equity:				
Foreign currency translation adjustments	**(1,339)**	(1,837)	(158)	**(12,632)**
Minimum pension liability adjustments	**8,487**	(8,143)	(7,824)	**80,066**
Total income taxes	**¥29,393**	19,103	32,905	**$277,292**

notes to consolidated financial statements

Income before income taxes and income taxes for the years ended March 31, 2000, 1999 and 1998, are summarized as follows:

		Income Before Income Taxes	Income Taxes		
			Current	Deferred	Total
Yen (Millions):	2000:				
	Japanese	**¥ 25,810**	**19,582**	**(3,231)**	**16,351**
	Foreign	**47,604**	**6,038**	**(144)**	**5,894**
		¥ 73,414	**25,620**	**(3,375)**	**22,245**
	1999:				
	Japanese	¥ 22,322	19,354	5,630	24,984
	Foreign	53,103	4,456	(357)	4,099
		¥ 75,425	23,810	5,273	29,083
	1998:				
	Japanese	¥ 43,538	21,361	11,663	33,024
	Foreign	56,082	6,646	1,217	7,863
		¥ 99,620	28,007	12,880	40,887
U.S. Dollars (Thousands):	2000:				
	Japanese	**$243,491**	**184,736**	**(30,481)**	**154,254**
	Foreign	**449,094**	**56,962**	**(1,359)**	**55,604**
		$692,585	**241,698**	**(31,840)**	**209,858**

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2000 and 1999, are as follows:

	Yen (Millions)		U.S. Dollars (Thousands)
	2000	1999	**2000**
Deferred tax assets:			
Inventories, principally due to elimination of intercompany profit	**¥ 2,128**	2,814	**$ 20,075**
Accrued business tax	**934**	974	**8,811**
Accrued expenses	**1,363**	1,416	**12,859**
Retirement and severance benefits	**5,155**	1,148	**48,632**
Net operating loss carryforwards	**876**	911	**8,264**
Tax credit carryforwards	**89**	1,530	**840**
Minimum pension liability adjustments	**11,365**	21,788	**107,217**
Other	**2,413**	2,078	**22,764**
Total gross deferred tax assets	**24,323**	32,659	**229,462**
Less valuation allowance	**(959)**	(2,386)	**(9,047)**
Net deferred tax assets	**23,364**	30,273	**220,415**
Deferred tax liabilities:			
Trade accounts receivable, principally due to allowance for doubtful debt	**(126)**	(332)	**(1,189)**
Investments, principally due to undistributed earnings of foreign subsidiaries and differences in valuation	**(17,884)**	(19,670)	**(168,717)**
Property, plant, and equipment, principally due to differences in depreciation	**(623)**	(1,663)	**(5,877)**
Other	**(252)**	(201)	**(2,377)**
Total gross deferred tax liabilities	**(18,885)**	(21,866)	**(178,160)**
Net deferred tax assets	**¥ 4,479**	8,407	**$ 42,255**

The net changes in the total valuation allowance for the years ended March 31, 2000, 1999 and 1998, are a decrease of ¥1,427 million ($13,462,000), decrease of ¥753 million and decrease of ¥31 million, respectively. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considered the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences, net of the existing valuation allowance at March 31, 2000.

At March 31, 2000, certain subsidiaries have net operating loss carryforwards for income tax purposes of ¥4,994 million ($47,113,000) which are available to offset future taxable income, if any. Approximately ¥1,237 million ($11,670,000) and ¥2,734 million ($25,792,000) of the operating losses expire in fiscal 2001 and through 2020, while the remainder have an indefinite carryforward period. Certain subsidiary also has tax credit carryforwards for income tax purposes of ¥89 million ($840,000) which is available to reduce future income taxes, if any, and which expires through 2010.

Net deferred income tax assets and liabilities at March 31, 2000 and 1999, are reflected in the accompanying consolidated balance sheets under the following captions:

	Yen (Millions)		U.S. Dollars (Thousands)
	2000	1999	**2000**
Prepaid expenses and other current assets	**¥ 2,707**	2,671	**$ 25,538**
Other assets	**15,433**	22,390	**145,594**
Other current liabilities	**(13,245)**	(15,875)	**(124,953)**
Deferred income taxes	**(416)**	(779)	**(3,924)**
	¥ 4,479	8,407	**$ 42,255**

Income taxes have not been accrued for undistributed earnings of domestic subsidiaries and affiliates as distributions of such earnings are not taxable under present circumstances.

Japanese income taxes have not been provided for certain earnings of foreign subsidiaries and affiliates because the Company currently does not expect those unremitted earnings to reverse and become taxable to the Company in the foreseeable future. A deferred tax liability will be recognized when the Company expects that it will recover those undistributed earnings in a taxable manner, such as through receipt of dividends or sale of the investments. As of March 31, 2000, the undistributed earnings of these subsidiaries and affiliates were approximately ¥137,643 million ($1,298,519,000).

8. Retirement and Severance Benefits

The Company and certain subsidiaries have noncontributory retirement and severance plans that provide for pension or lump-sum payment benefits, based on length of service and certain other factors, to employees who retire or terminate their employment for reasons other than dismissal for cause. In addition, the majority of the employees of the Company are covered by a contributory pension plan, whose benefits are based on length of service and certain other factors and include a portion representing the government social security welfare pension. The Company's funding is in accordance with income tax and welfare pension regulations. The Company's contribution to the plan is equal to the normal cost plus amortization of prior service costs over approximately 3 years. The Company also has an unfunded retirement plan for directors and statutory auditors.

notes to consolidated financial statements

Reconciliations of beginning and ending balances of the benefit obligations and the fair value of the plan assets are as follows:

	Yen (Millions)		U.S. Dollars (Thousands)
	2000	1999	**2000**
Change in benefit obligations:			
Benefit obligations at beginning of period	**¥208,302**	179,064	**$1,965,113**
Service cost	**9,404**	8,537	**88,717**
Interest cost	**6,070**	6,073	**57,264**
Plan participants' contributions	**656**	652	**6,189**
Actuarial loss (gain)	**(2,166)**	19,125	**(20,434)**
Benefits paid	**(3,377)**	(4,769)	**(31,858)**
Translation adjustment	**(419)**	(380)	**(3,953)**
Benefit obligations at end of period	**218,470**	208,302	**2,061,038**
Change in plan assets:			
Fair value of plan assets at beginning of period	**113,784**	108,011	**1,073,434**
Actual return on plan assets	**20,930**	546	**197,453**
Employer contributions	**9,622**	7,575	**90,773**
Plan participants' contributions	**656**	652	**6,189**
Benefits paid	**(2,926)**	(2,784)	**(27,604)**
Translation adjustment	**(311)**	(216)	**(2,934)**
Fair value of plan assets at end of period	**141,755**	113,784	**1,337,311**
Funded status	**(76,715)**	(94,518)	**(723,727)**
Unrecognized net transition obligation being recognized over 18 years	**(10,370)**	(11,701)	**(97,830)**
Unrecognized net actuarial loss	**64,195**	87,132	**605,613**
Net amount recognized	**¥ (22,890)**	(19,087)	**$ (215,944)**
Amounts recognized in the statement of financial position consist of:			
Prepaid benefit cost	**¥ 100**	–	**$ 943**
Accrued benefit liability	**(56,845)**	(73,848)	**(536,274)**
Intangible assets	**1,414**	1,618	**13,340**
Accumulated other comprehensive income (loss)	**32,441**	53,143	**306,047**
Net amount recognized	**¥ (22,890)**	(19,087)	**$ (215,944)**
Actuarial present value of accumulated benefit obligations at end of period	**¥198,066**	187,861	**$1,868,547**

Net cost of retirement and severance benefits for the years ended March 31, 2000, 1999 and 1998, consisted of the following:

	Yen (Millions)			U.S. Dollars (Thousands)
	2000	1999	1998	**2000**
Components of net periodic benefit cost:				
Service cost	**¥ 9,404**	8,537	7,491	**$ 88,717**
Interest cost	**6,070**	6,073	5,644	**57,264**
Expected return on plan assets	**(3,566)**	(3,929)	(3,731)	**(33,641)**
Amortization of transition assets	**(1,331)**	(1,331)	(1,331)	**(12,557)**
Recognized actuarial loss	**3,963**	3,044	2,224	**37,387**
Net periodic benefit cost	**¥14,540**	12,394	10,297	**$137,170**

The weighted-average discount rates used in determining the present value of benefit obligations and expected long-term rate of return on assets were 3.0% for 2000 and 1999. The rates of increase in future compensation levels were 3% for 2000 and 1999.

Plan assets comprise primarily listed stock, bonds and other interest-bearing securities.

9. Legal Reserve and Dividends

The Japanese Commercial Code provides that dividends be paid based on retained earnings determined in conformity with financial accounting standards of Japan, with certain restrictions, and that an amount equal to at least 10% of cash dividends and of certain other items be appropriated as a legal reserve until such reserve equals 25% of stated capital. The legal reserve is not available for dividends but may be used to reduce a deficit or transferred to stated capital. Certain foreign subsidiaries are also required to appropriate earnings to legal reserves under the laws of the respective countries.

Cash dividends and appropriations to the legal reserve charged to retained earnings during the periods represent dividends paid out during the periods and related appropriations to the legal reserve. The accompanying consolidated financial statements do not include any provision for the dividend proposed by the Board of Directors of ¥30 ($0.28) per share aggregating ¥3,995 million ($37,689,000) in respect of the year ended March 31, 2000, or for the related appropriation to the legal reserve.

Cash dividends per common share are computed based on dividends paid for the year.

10. Other Comprehensive Income (Loss)

Change in accumulated other comprehensive income (loss) for the years ended March 31, 2000, 1999 and 1998 are as follows:

	Yen (Millions)			U.S. Dollars (Thousands)
	2000	1999	1998	**2000**
Foreign currency translation adjustments:				
Balance at beginning of period	**¥(27,333)**	(9,623)	(13,562)	**$(257,858)**
Adjustments for period	**(22,904)**	(17,710)	3,939	**(216,076)**
Balance at end of period	**(50,237)**	(27,333)	(9,623)	**(473,934)**
Minimum pension liability adjustments:				
Balance at beginning of period	**(26,734)**	(17,551)	(10,032)	**(252,208)**
Adjustments for period	**12,215**	(9,183)	(7,519)	**115,236**
Balance at end of period	**(14,519)**	(26,734)	(17,551)	**(136,972)**
Total accumulated other comprehensive income (loss):				
Balance at beginning of period	**(54,067)**	(27,174)	(23,594)	**(510,066)**
Adjustments for period	**(10,689)**	(26,893)	(3,580)	**(100,840)**
Balance at end of period	**¥(64,756)**	(54,067)	(27,174)	**$(610,906)**

notes to consolidated financial statements

Tax effects allocated to each component of other comprehensive income (loss) and reclassification adjustments for the years ended March 31, 2000, 1999 and 1998 are as follows:

	Yen (Millions)		
	Before tax amount	Tax (expense) or benefit	Net-of-tax amount
2000:			
Foreign currency translation adjustments	**¥(24,243)**	**1,339**	**(22,904)**
Minimum pension liability adjustments	**20,702**	**(8,487)**	**12,215**
Other comprehensive income (loss)	**¥ (3,541)**	**(7,148)**	**(10,689)**
1999:			
Foreign currency translation adjustments	¥ (19,547)	1,837	(17,710)
Minimum pension liability adjustments	(17,326)	8,143	(9,183)
Other comprehensive income (loss)	¥ (36,873)	9,980	(26,893)
1998:			
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities held at end of period	¥ 3,952	158	4,110
Reclassification adjustments for the portion of gains and losses realized upon liquidation of investments in foreign entities	(171)	–	(171)
Net change in foreign currency translation adjustments during the period	3,781	158	3,939
Minimum pension liability adjustments	(15,343)	7,824	(7,519)
Other comprehensive income (loss)	¥ (11,562)	7,982	(3,580)

	U.S. Dollars (Thousands)		
	Before tax amount	Tax (expense) or benefit	Net-of-tax amount
2000:			
Foreign currency translation adjustments	**$(228,708)**	**12,632**	**(216,076)**
Minimum pension liability adjustments	**195,302**	**(80,066)**	**115,236**
Other comprehensive income (loss)	**$ (33,406)**	**(67,434)**	**(100,840)**

11. Leases

The companies occupy offices and other facilities under various cancellable lease agreements expiring in fiscal 2001 through 2002. Lease deposits made under such agreements, aggregating ¥1,962 million ($18,509,000) and ¥1,830 million, at March 31, 2000 and 1999, respectively, are included in investments and advances on the accompanying consolidated balance sheets.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of March 31, 2000:

	Yen (Millions)	U.S. Dollars (Thousands)
Year ending March 31,		
2001	¥2,723	$25,689
2002	2,163	20,406
2003	1,646	15,528
2004	1,122	10,585
2005	819	7,726
Later years	1,249	11,783
	¥9,722	$91,717

12. Commitments and Contingent Liabilities

At March 31, 2000, commitments outstanding for the purchase of property, plant, and equipment approximated ¥13,299 million ($125,462,000). Contingent liabilities for guarantees of loans of the Company's employees and affiliates amounted to approximately ¥8,650 million ($81,604,000).

Several claims and legal actions against the Company and certain subsidiaries are pending. Provision has been made for the estimated liabilities for certain items. In the opinion of management, based upon discussion with counsel, any additional liability will not materially affect the consolidated financial position or results of operations of the Company.

13. Financial Instruments

The Company and certain of its subsidiaries use financial instruments with off-balance-sheet risk, such as currency and interest rate swaps and forward foreign exchange contracts, to limit their exposure to fluctuations in foreign exchange rates and interest rates. The Company and its subsidiaries do not hold or issue financial instruments for trading purposes. The Company is exposed to credit-related losses in the event of nonperformance by the counterparties to those financial instruments, but does not expect any counterparties to fail to meet their obligations given their high credit ratings. The credit exposure of currency and interest rate swaps and forward foreign exchange contracts is represented by the fair value of contracts with a positive fair value at the reporting date.

Currency swaps and forward foreign exchange contracts are agreements to exchange different currencies at a specified rate on a specific future date. Interest rate swaps generally involve the exchange of fixed and floating rate interest payment obligations without the exchange of the underlying principal amount.

Certain debt securities included in marketable securities are covered, for hedging purposes, by interest rate swap agreements of which notional amounts totaled ¥1,698 million ($16,019,000) and ¥1,913 million as of March 31, 2000 and 1999, respectively. The remaining term of the interest rate swap is three months as of March 31, 2000. Gains on these swaps are recognized, when the total fair value of hedged securities is lower than cost, in the amount not exceeding the losses on hedged securities, and are included in prepaid expenses and other current assets in the consolidated balance sheets. Losses on these swaps are recognized, when aggregate unrealized losses on swaps exceed aggregate unrealized gains on hedged securities, in the amount of such excess, and are included in other current liabilities in the consolidated balance sheets. Gains or losses on swaps, when recognized, are included in other, net in the consolidated statements of income.

notes to consolidated financial statements

Certain subsidiaries entered into currency and interest rate swap agreements with certain financial institutions to limit their exposure to fluctuations in foreign exchange rates and interest rates involved in loans from financial institutions. These agreements have a total notional and contract amount of ¥2,921 million ($27,557,000) and ¥1,524 million at March 31, 2000 and 1999, respectively. The remaining term of the interest rate and currency swap is six months as of March 31, 2000. Under this swap, the Company's subsidiary pays 3.6% p.a. and receives 6.2% p.a. of the total notional and contract amount. Gains or losses on the currency swaps used for loans from financial institutions are included in foreign exchange gain (loss) in the consolidated statements of income in the period in which the exchange rates change, and such gains or losses are included in prepaid expenses and other current assets or other current liabilities, as the case may be, in the consolidated balance sheet.

The Company has currency swaps with certain financial institutions to limit its exposure to fluctuations in foreign exchange rates involved in mainly loans made by the Company to its subsidiaries in a total amount of ¥3,798 million ($35,830,000) and ¥8,531 million at March 31, 2000 and 1999, respectively. These swaps require the Company to pay principally Euro and U.S. dollars and to receive Japanese yen at a specified rate on specific dates. The remaining term of the currency swaps range from one month to 1.4 years as of March 31, 2000. Gains or losses on these currency swaps are included in foreign exchange gain (loss) in the consolidated statements of income in the period in which the exchange rates change and included in prepaid expenses and other current assets, other assets, or other current liabilities, as the case may be, in the consolidated balance sheets depending on the remaining term of the swaps.

At March 31, 2000 and 1999, as a hedge against currency fluctuation, the Company and certain of its subsidiaries had forward exchange contracts to sell and buy foreign currencies (principally U.S. dollars, Malaysia Ringgit and German marks) up to a maximum amount of ¥30,169 million ($284,613,000) and ¥12,608 million, respectively.

14. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of financial instruments in cases for which it is practical to estimate the value:

(a) Cash and cash equivalents, Trade receivables, Short-term debt, Trade payables, Accrued salaries and wages, Other accrued expenses, and Other current liabilities.

The carrying amount approximates fair value because of the short maturity of these instruments.

(b) Marketable securities and Investments and advances

The fair values of most of the marketable securities and investments and advances are estimated based on quoted market prices for these instruments. For other securities for which there are no quoted market prices, a reasonable estimate of fair values could not be made without incurring excessive costs. Additional information pertinent to the value of unquoted investments is provided below.

(c) Long-term debt

The fair values of each of the Company's long-term debts are estimated based on the amount of future cash flows associated with each instrument discounted using the Company's current borrowing rate for similar debt of comparable maturity, or based on the quoted market prices for the same or similar issues.

(d) Currency and Interest Rate Swaps and Forward Foreign Exchange Contracts

The fair values of currency and interest rate swaps and forward foreign exchange contracts are estimated by obtaining quotes from financial institutions.

The carrying amounts and estimated fair values of the Company's financial instruments at March 31, 2000 and 1999, are summarized as follows:

	Yen (Millions)				U.S. Dollars (Thousands)	
	2000		1999		2000	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Nonderivatives:						
Assets:						
Marketable securities	¥ 6,519	6,530	4,720	4,775	$ 61,500	61,604
Investments and advances for which it is:						
Practicable to estimate fair value	28,341	41,037	28,165	33,740	267,368	387,142
Not practicable to estimate fair value	1,801	–	508	–	16,991	–
Liability:						
Long-term debt	(443)	(443)	(3,117)	(3,223)	(4,179)	(4,179)
Derivatives:						
Currency and interest rate swaps in a:						
Gain position	710	724	374	442	6,698	6,830
Loss position	–	–	(133)	(268)	–	–
Forward foreign exchange contracts in a:						
Gain position	125	34	191	232	1,179	321
Loss position	(274)	(205)	(73)	(64)	(2,585)	(1,934)

The carrying amounts of the nonderivative assets and liability are included in the consolidated balance sheets under the indicated captions. The carrying amounts of the currency and interest rate swaps in a gain position are included in prepaid expenses and other current assets, while those in a loss position are included in other current liabilities. The carrying amounts of the forward foreign exchange contracts in a gain position are included in prepaid expenses and other current assets, while those in a loss position are included in other current liabilities.

It is not practicable to estimate the fair value of investments in untraded companies. Management believes that the carrying amounts approximate fair value. Additionally, it is not practicable to estimate the fair value of the loan guarantees disclosed in note 12. However, management believes that such guarantees, and the performance thereunder, will not have a material adverse effect on the Company's consolidated financial statements.

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

notes to consolidated financial statements

15. Supplementary Information

	Yen (Millions)			U.S. Dollars (Thousands)
	2000	1999	1998	**2000**
(a) Statement of Income				
Research and development	**¥26,948**	26,333	25,547	**$254,226**
Rent	**8,174**	8,802	8,541	**77,113**
Maintenance and repairs	**13,058**	11,752	11,404	**123,189**
Advertising costs	**13,175**	14,927	15,277	**124,292**
(b) Statement of Cash Flows				
Cash paid during year for:				
Interest	**¥ 553**	1,185	1,071	**$ 5,217**
Income taxes	**¥22,804**	22,368	34,833	**$215,132**

Noncash investing and financing activities

In 2000, 1999 and 1998, there were no material noncash investing and financing activities.

independent auditors' report

independent auditors' report

The Board of Directors
TDK Corporation:

We have audited the accompanying consolidated balance sheets of TDK Corporation and subsidiaries as of March 31, 2000 and 1999, and the related consolidated statements of income, stockholders' equity, and cash flows for the years ended March 31, 2000, 1999, and 1998, all expressed in yen. 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.

As more fully described in note 4 to the consolidated financial statements, TDK Corporation and subsidiaries have stated investments in certain debt and equity securities at the lower of cost or market as of March 31, 2000 and 1999. Such securities, in our opinion, should be stated at fair value and resulting net unrealized gains or losses reported as a separate component of other comprehensive income (loss) in order to conform with accounting principles generally accepted in the United States of America.

The segment information required to be disclosed in financial statements under accounting principles generally accepted in the United States of America is not presented in the accompanying consolidated financial statements. Foreign issuers are presently exempted from such disclosure requirement in Securities Exchange Act filings with the United States Securities and Exchange Commission.

In our opinion, except for the effects of not stating investments in certain debt and equity securities at fair value and reporting the resulting net unrealized gains or losses as a separate component of other comprehensive income (loss) as of March 31, 2000 and 1999, as discussed in the third paragraph of this report, and except that the omission of the segment information results in an incomplete presentation, as discussed in the preceding paragraph, the consolidated financial statements referred to in the first paragraph above present fairly, in all material respects, the financial position of TDK Corporation and subsidiaries at March 31, 2000 and 1999, and the results of their operations and their cash flows for the years ended March 31, 2000, 1999, and 1998, in conformity with accounting principles generally accepted in the United States of America.

The consolidated financial statements as of and for the year ended March 31, 2000, have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into United States dollars on the basis set forth in note 2 to the consolidated financial statements.

KPMG

Tokyo, Japan
May 11, 2000

investor information

investor information

TDK CORPORATION

CORPORATE HEADQUARTERS
1-13-1, Nihonbashi, Chuo-ku,
Tokyo 103-8272, Japan

DATE OF ESTABLISHMENT
December 7, 1935

AUTHORIZED NUMBER OF SHARES
480,000,000 shares

SECURITIES TRADED
Common stock: Tokyo, Osaka, Amsterdam, London, Paris, and Swiss Stock Exchanges
ADRs: New York Stock Exchange
DRs: Brussels and Antwerp Stock Exchanges
GBCs: Frankfurt Stock Exchange

NUMBER OF SHAREHOLDERS
6,366

INDEPENDENT AUDITORS
KPMG

TRANSFER AGENT
The Chuo Trust & Banking Co., Ltd.
1-7-1, Kyobashi, Chuo-ku, Tokyo 104-8345, Japan

TDK Listed NYSE

(As of March 31, 2000)

QUARTERLY RESULTS AND STOCK PRICE DATA

Yen in millions, except per share amounts

Fiscal 1999	I	II	III	IV
Net sales	¥173,448	¥179,402	¥167,901	¥155,499
Net income	13,766	14,811	10,728	6,702
Net income per share (basic and diluted)	103.35	111.20	80.55	50.32
Stock price (Tokyo Stock Exchange):				
High	11,310	11,350	10,750	10,410
Low	10,050	8,260	6,700	8,160
Fiscal 2000	**I**	**II**	**III**	**IV**
Net sales	¥164,277	¥165,210	¥172,804	¥172,173
Net income	11,730	11,626	12,149	15,225
Net income per share (basic and diluted)	88.07	87.29	91.22	114.31
Stock price (Tokyo Stock Exchange):				
High	12,320	13,980	15,010	15,270
Low	8,580	10,910	9,080	9,400

Note: All quarterly data are unaudited and have not been reviewed by the independent auditors.

PUBLICATIONS
The following publications both in English and Japanese are also available on written request:
>> Semiannual Report
>> Value and Performance Indicators
>> Corporate Brochure

INTERNET ADDRESS
http://www.tdk.co.jp/

FURTHER INFORMATION
For further information and additional copies of this report and other publications, please contact:

MICHINORI KATAYAMA
TDK Corporation
Corporate Communications Dept.
Tel: 81 (3) 5201-7102
Fax: 81 (3) 5201-7114

FRANCIS J. SWEENEY
TDK U.S.A. Corporation
12 Harbor Park Drive
Port Washington, N.Y. 11050, U.S.A.
Tel: 1 (516) 625-0100

RON MATIER
TDK UK Limited
TDK House, 5-7 Queensway
Redhill, Surrey RH1 1YB, U.K.
Tel: 44 (1737) 773773