

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 Many of our traditional business practices and values will soon be outdated.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