

# 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 multi-layer 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

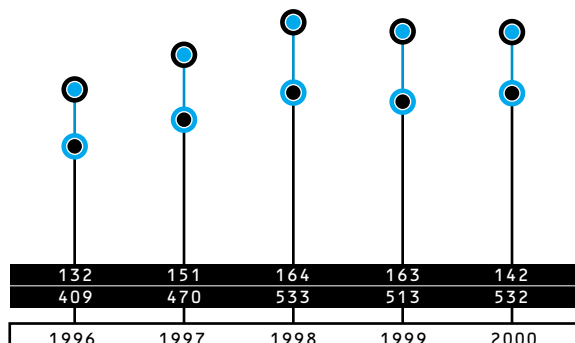
Years ended March 31	2000		1999		1998	
	Yen	(%)	Yen	(%)	Yen	(%)
Japan	¥231,939	(34.4)	233,342	(34.5)	264,315	(37.9)
Americas	108,245	(16.1)	120,084	(17.8)	131,891	(18.9)
Europe	90,564	(13.4)	93,006	(13.7)	91,137	(13.1)
Asia (excluding Japan) and Oceania	242,438	(35.9)	227,279	(33.6)	206,604	(29.7)
Middle 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.

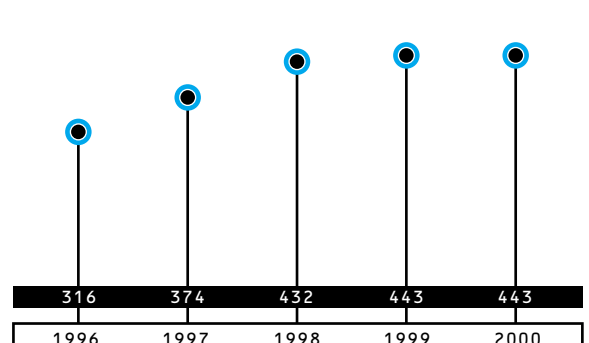
## net sales

yen in billions



## overseas sales

yen in billions



- Electronic materials and components
- Recording media

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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

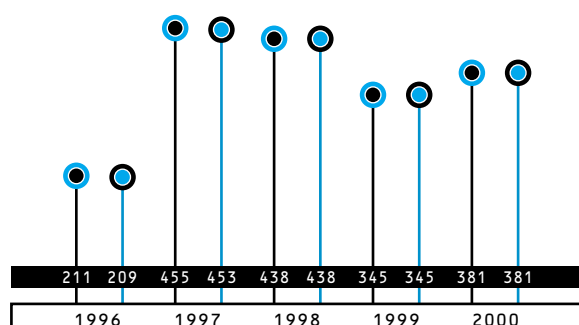
In fiscal 2000, overseas sales represented 65.6 percent of total consolidated net sales. As a result, fluctuations in foreign exchange rates have a significant effect on TDK's consolidated sales and income. During fiscal 2000, the yen gained strength against most other major currencies. The yen appreciated 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

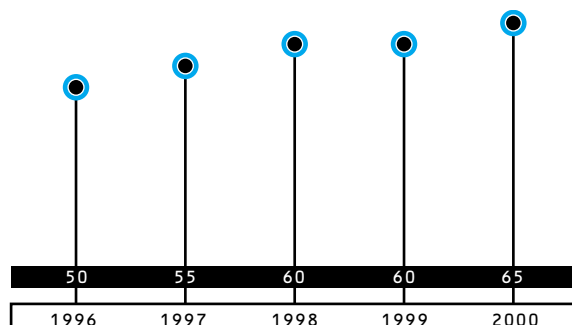
yen



● Basic  
● Diluted

## dividends per share

yen



## EXPENSES AND NET INCOME

Years ended March 31	2000		1999		Yen in millions (%)	
					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).

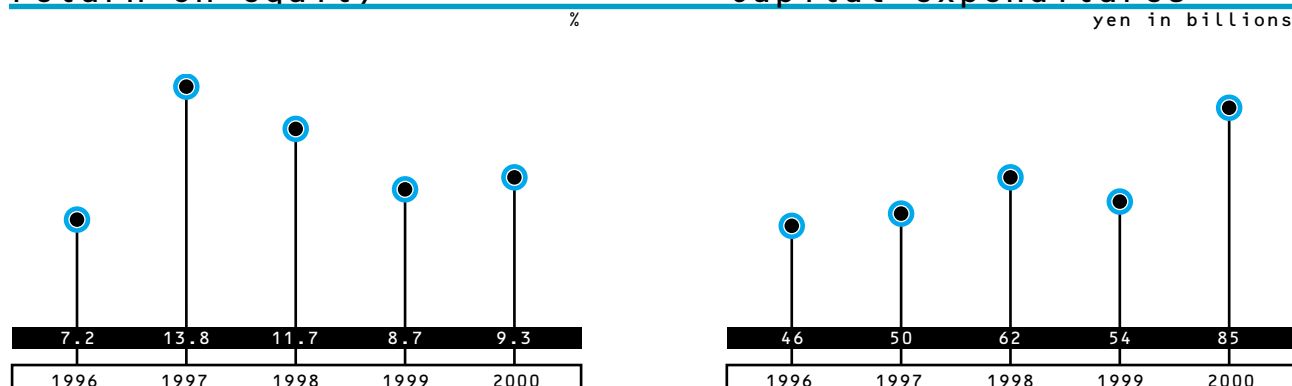
Other income (deductions) was a net deduction of ¥1.2 billion (\$11 million) compared with a net deduction of ¥0.9 billion one year earlier. The foreign exchange loss is mainly due to reductions in yen translations of overseas trade receivables caused by differences in the yen's value between the posting 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



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## 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.

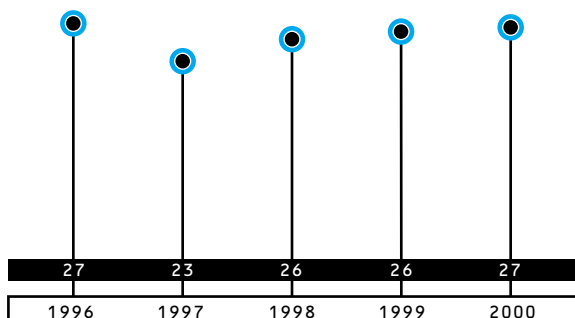
Operating profit fell 22.4 percent to ¥76.3 billion because of the decline in electronic materials and components segment sales and only a small increase in sales of HDD heads, a category where profit margins are relatively high. Recording media operating profit increased. The effective tax rate decreased 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.

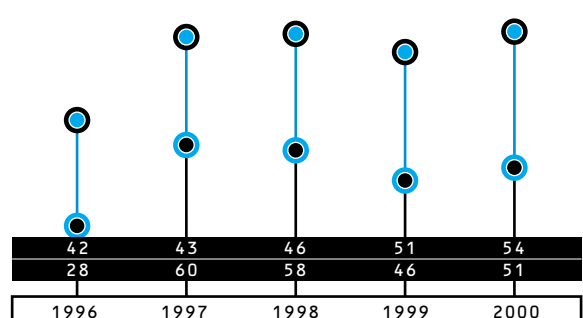
## research and development

yen in billions



## net cash flows

yen in billions



● Net income  
● Depreciation

## FINANCIAL POSITION

March 31	2000		1999		Yen in millions (%)	
					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)
<b>Total capital . . . . .</b>		<b>¥566,195 (100.0)</b>	<b>538,406</b>	<b>(100.0)</b>	<b>530,915</b>	<b>(100.0)</b>

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+.

## CASH FLOWS

Years ended March 31	Yen in millions		
	2000	1999	1998
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 disruptions 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.

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## 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)		U.S. Dollars (Thousands)		Change (%)
	2000	1999	2000		
<b>ELECTRONIC MATERIALS AND COMPONENTS</b>					
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		
<b>RECORDING MEDIA</b>					
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		
<b>ELIMINATIONS AND CORPORATE</b>					
Corporate assets . . . . .	¥175,629	182,396	\$1,656,877		
<b>TOTAL</b>					
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)		U.S. Dollars (Thousands)		Change (%)		
	2000	1999	2000				
<b>JAPAN</b>							
Net sales . . . . .	<b>¥440,258</b>	397,671	<b>\$4,153,377</b>		10.7		
Operating profit . . . . .	<b>28,075</b>	23,225	<b>264,858</b>		20.9		
Identifiable assets . . . . .	<b>360,260</b>	315,777	<b>3,398,679</b>		14.1		
<b>AMERICAS</b>							
Net sales . . . . .	<b>116,888</b>	129,916	<b>1,102,717</b>		-10.0		
Operating profit . . . . .	<b>2,302</b>	87	<b>21,717</b>		2,546.0		
Identifiable assets . . . . .	<b>52,162</b>	53,862	<b>492,094</b>		-3.2		
<b>EUROPE</b>							
Net sales . . . . .	<b>87,300</b>	90,045	<b>823,585</b>		-3.0		
Operating profit . . . . .	<b>3,248</b>	2,694	<b>30,642</b>		20.6		
Identifiable assets . . . . .	<b>48,388</b>	48,434	<b>456,491</b>		-0.1		
<b>ASIA AND OTHERS</b>							
Net sales . . . . .	<b>307,482</b>	298,424	<b>2,900,774</b>		3.0		
Operating profit . . . . .	<b>40,704</b>	48,088	<b>384,000</b>		-15.4		
Identifiable assets . . . . .	<b>189,907</b>	184,352	<b>1,791,575</b>		3.0		
<b>ELIMINATIONS AND CORPORATE</b>							
Net sales . . . . .	<b>277,464</b>	239,806	<b>2,617,585</b>				
Operating profit . . . . .	<b>(278)</b>	(2,222)	<b>(2,623)</b>				
Identifiable assets . . . . .	<b>117,765</b>	137,755	<b>1,110,991</b>				
<b>TOTAL</b>							
Net sales . . . . .	<b>¥674,464</b>	676,250	<b>\$6,362,868</b>		-0.3		
Operating profit . . . . .	<b>74,607</b>	76,316	<b>703,840</b>		-2.2		
Identifiable assets . . . . .	<b>768,482</b>	740,180	<b>7,249,830</b>		3.8		
<b>Overseas Sales</b>							
Americas . . . . .	<b>¥108,245</b>	(16.1%)	120,084	(17.8%)	<b>\$1,021,179</b>	(16.1%)	-9.9
Europe . . . . .	<b>90,564</b>	(13.4%)	93,006	(13.7%)	<b>854,377</b>	(13.4%)	-2.6
Asia and others . . . . .	<b>243,716</b>	(36.1%)	229,818	(34.0%)	<b>2,299,208</b>	(36.1%)	6.0
Overseas sales total . . . . .	<b>¥442,525</b>	(65.6%)	442,908	(65.5%)	<b>\$4,174,764</b>	(65.6%)	-0.1