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