TDK

e-material solution provider

featuring

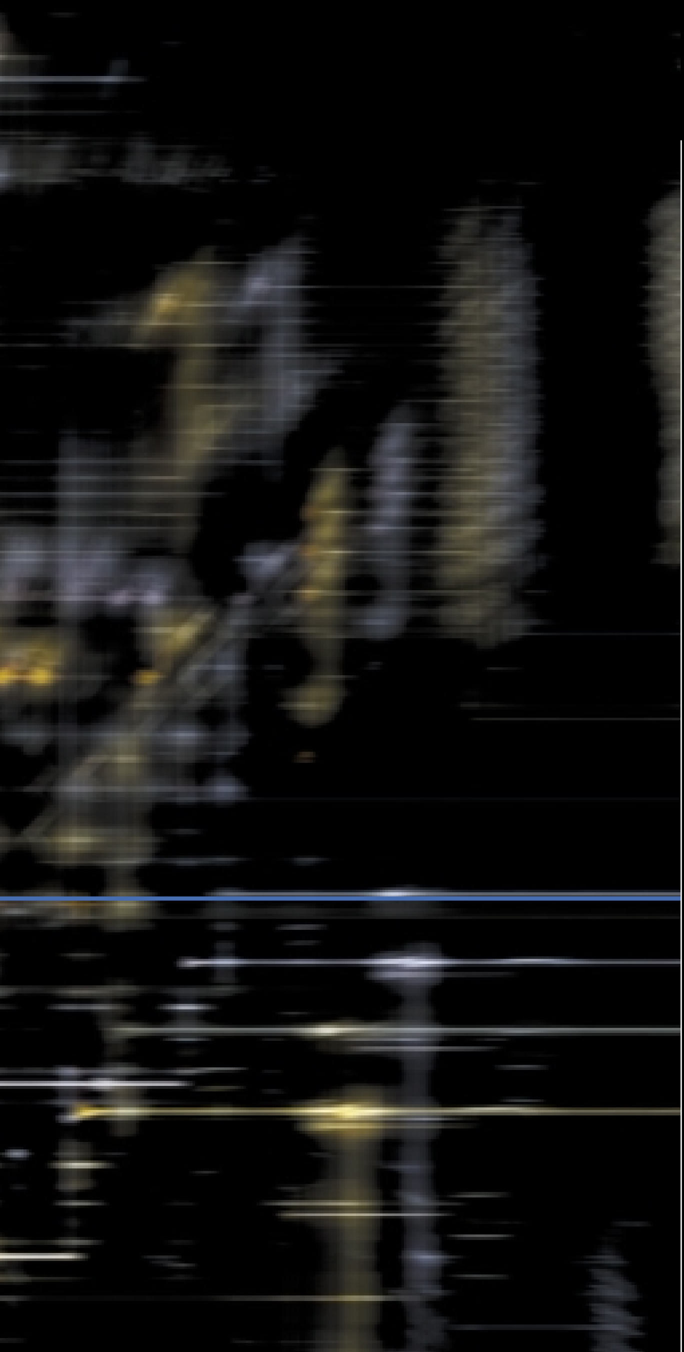
COMMUNICATIONS

RECORDING

Annual Report 2001

APRIL 2000-MARCH 2001

TDK CORPORATION



About TDK

TDK was established in 1935 as the world's first company to commercialize a magnetic material called ferrite. In the ensuing years, TDK has conducted research and development programs in ferrite and a variety of other electronic materials and components. This drive was based on the company's founding spirit of "contribute to culture and industry through creativity."

Today, we continue to deliver innovative products that are tuned precisely to our customers' needs. In doing so, we leverage a combination of know-how and process technology refined over years of specialization in electronic materials.

"e-material solution provider" is the key phrase that symbolizes the TDK of today.

Cautionary Statements with Respect to Forward-Looking Statements

Estimates for TDK's future operating results contained in this annual report are based on information currently available to TDK and its group members and are subject to risks and uncertainties. Consequently, these projections should not be relied upon as the sole basis for evaluating TDK. Actual results may differ substantially from the projections depending on a number of factors.

The electronics markets in which TDK operates are highly susceptible to rapid changes. Furthermore, TDK operates not only in Japan, but in many other countries. As such, factors that can have significant effects on its results include, but are not limited to, shifts in technology, demand, prices, competition, economic environments and foreign exchange rates.

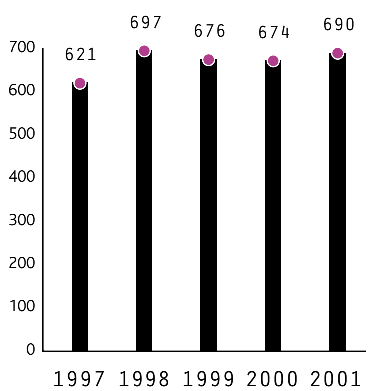
contents

FINANCIAL HIGHLIGHTS

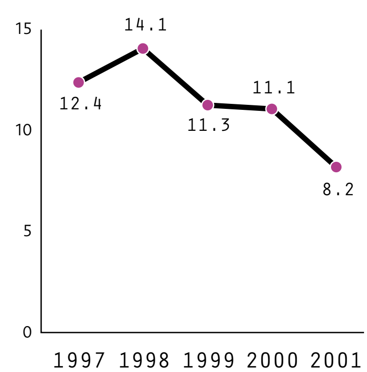
Years ended March 31	Yen in millions except per share amounts 2001	2000	U.S. Dollars in thousands except per share amounts 2001	Change (%)
OPERATING RESULTS				
Net sales	¥689,911	¥674,464	$5,563,798	2.3
Electronic materials	212,133	174,897	1,710,750	21.3
Electronic devices	145,216	129,025	1,171,097	12.5
Recording devices	169,140	200,748	1,364,032	(15.7)
Semiconductors and others	25,706	21,137	207,306	21.6
Electronic materials and components	552,195	525,807	4,453,185	5.0
Recording media & systems	137,716	148,657	1,110,613	(7.4)
(Overseas sales)	467,821	442,525	3,772,750	5.7
Net income	43,983	50,730	354,702	(13.3)
Net income per share (basic and diluted)	330.54	380.89	2.67	
Cash dividends per share	60.00	65.00	0.48	
FINANCIAL POSITION				
Total assets	¥820,177	¥775,992	$6,614,331	5.7
Stockholders' equity	637,749	571,013	5,143,137	11.7
Long-term debt, excluding current installments	1,004	46	8,097	2,082.6
PERFORMANCE INDICATORS				
Overseas production/net sales	56.5	56.8		
Gross profit margin	28.1	29.5		
Operating profit ratio	8.2	11.1		
Return on equity	7.3	9.2		
Price-earnings ratio	25.0	36.7		

Notes: 1. Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥124=US$1.
2. Effective from the fiscal year ended March 31, 2001, the Company has adopted Statement of Financial Accounting Standards No. 115 (SFAS 115), "Accounting for Certain Investments in Debt and Equity Securities." Total assets and stockholders' equity of the previous fiscal year have been restated accordingly.
3. Effective from the fiscal year ended March 31, 2001, certain products that had been included in the semiconductors and others sector are now included in the recording media and systems segment. Sales in the previous fiscal year have been restated accordingly. The effect of this change for the previous fiscal year is not material.
4. Operating profit ratio is based on net sales and operating profit defined as net sales less cost of sales and selling, general and administrative expenses (excluding the amortization of identifiable intangibles).

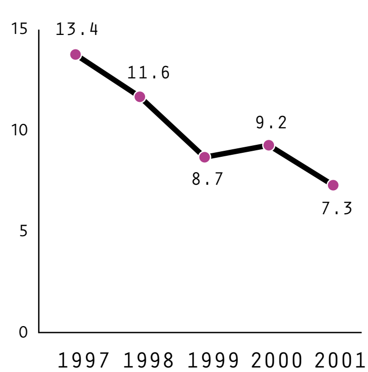
NET SALES
(YEN IN BILLIONS)



OPERATING PROFIT RATIO
(PERCENT)



RETURN ON EQUITY
(PERCENT)



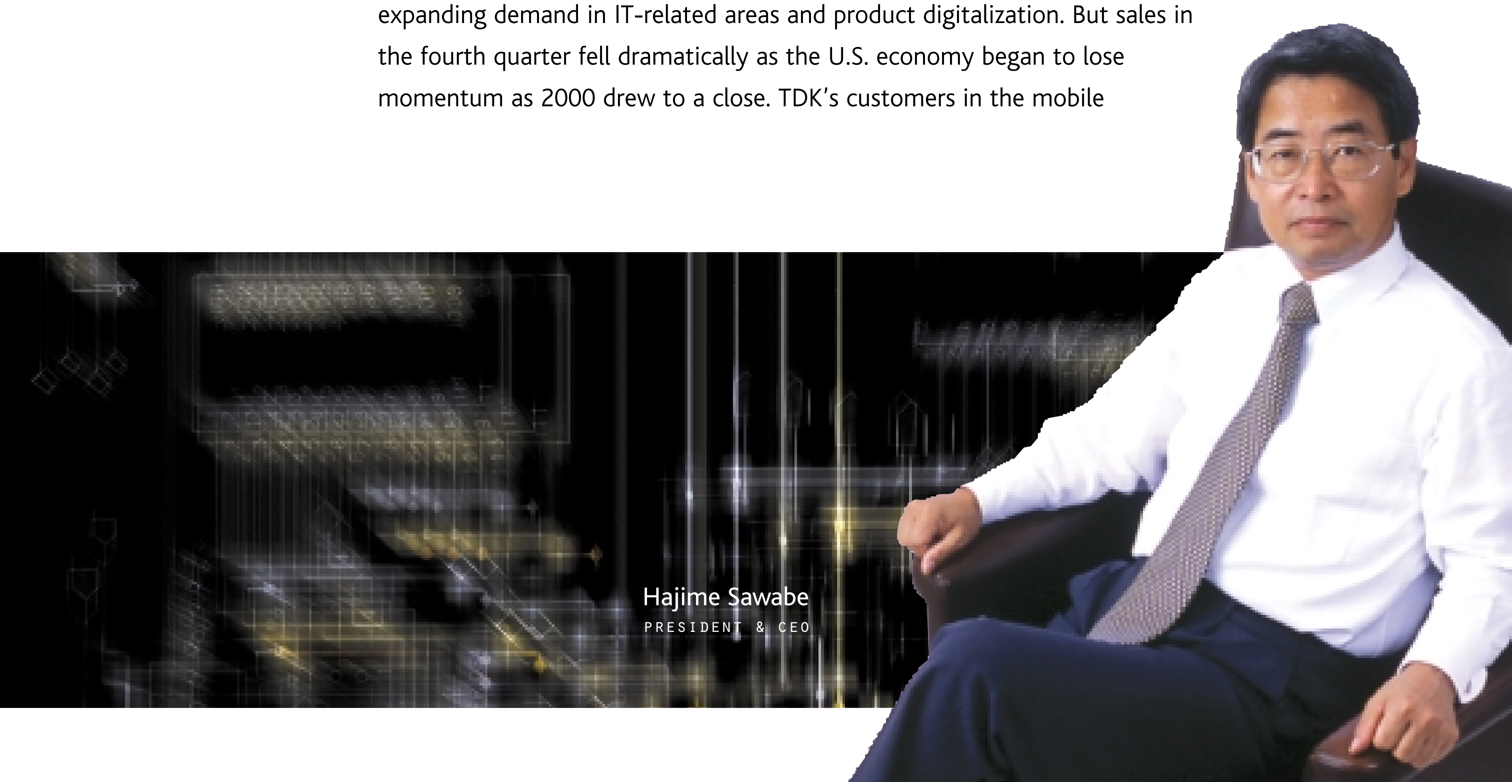
The Year in Review

In fiscal 2001, ended March 31, 2001, consolidated net sales increased 2.3 percent to ¥689,911 million. Net income, however, decreased 13.3 percent to ¥43,983 million.

The recording devices sector hampered both the top and bottom lines. Sales declined 15.7 percent and profitability worsened dramatically on account of several factors. First was our failure to develop in a timely fashion the new HDD heads demanded by customers. We misjudged the direction the market was heading technologically. Another reason was a deterioration in production yields of new high-areal-recording-density GMR heads as we moved into volume production in the latter half of the second quarter. Also affecting this sector's results was a six-day suspension in production of these heads due to torrential rains in mid-September 2000. As a result, TDK's share of the HDD head market fell. Exacerbating the situation were rapid inventory cuts by customers as the U.S. economy slowed. This unfortunately occurred just as our production yields were improving around December 2000.

The recording media & systems segment was the second major area to drag down results. Sales declined 7.4 percent and the segment recorded an operating loss. A sharp drop in CD-R prices, despite higher sales volumes, was primarily responsible. TDK believes that CD-Rs will be a key growth driver in the optical disc arena as optical media rise in popularity. However, in fiscal 2001 higher production by all manufacturers created a supply glut, triggering a pricing offensive by some industry players.

Excluding the recording devices sector, sales in the electronic materials and components segment were driven markedly higher by the explosive popularity of mobile phones, expanding demand in IT-related areas and product digitalization. But sales in the fourth quarter fell dramatically as the U.S. economy began to lose momentum as 2000 drew to a close. TDK's customers in the mobile



Hajime Sawabe
PRESIDENT & CEO

phone, PC and PC peripheral, AV and other fields responded by trimming inventories.

The operating profit ratio suffered from these difficulties, declining from 11.1% in the previous fiscal year to 8.2%. TDK derived benefits from higher production volumes of electronic components and efforts to trim costs. These improvements, however, were outweighed by the effects of deteriorating production yields of HDD heads and an operating loss in the recording media & systems segment, resulting from a virtual freefall in CD-R prices. ROE declined from 9.2% to 7.3%.

In the current fiscal year, we will focus on improving earnings by revamping our system for the development of HDD head technologies, and by amalgamating production bases for recording media products.

Progress Report on Medium-Term Plan – Exciting 108

In the first year of Exciting 108, which was launched in April 2000, we failed to achieve our goals as results fell short of year-ago levels. Despite this less-than-stellar performance, we remain focused on our overall objective – to improve TDK and create more corporate value for all stakeholders by fulfilling the goals of Exciting 108.

❏ **Greater Specialization in Fields Where We Excel**

Fiscal 2001 saw other companies erase the lead we had in HDD heads in spite of efforts to expand market share by building on our technological edge. We were thus unable to set TDK's heads apart from the competition. We were also unable to reap the benefits we expected from our acquisition of Headway Technologies, Inc. at the end of March 2000. In response, we will quickly overhaul our system for developing technologies that can meet the demands of customers and win their trust.

❏ **e-material solution provider – Responding to Customer Demands in a Timely Manner**

In April 2001, TDK established the Production Engineering and Development Center. This move was aimed squarely at developing process technologies to take full advantage of TDK's materials expertise. Concurrent aims were to create facilities that optimize production and boost efficiency, to support the reorganization of production bases, and to transform new ideas into viable products faster. The ultimate goal is to craft a framework capable of responding to customers' demands in a timelier manner.

❏ **Strategic Field – Recording –**

In HDD heads, TDK will use lessons learned from last year's disappointments to take stock of its technologies, including weaknesses, and push ahead with the development of cutting-edge technologies. In optical discs, we will focus our energies on multi level recording technologies, blue laser discs and other advanced optical disc formats.

❏ **Strategic Field – Communications –**

TDK R&D Corp. was established in January 2001 as the U.S. base of our Telecom Technology Development Center (TTDC). This move gives TTDC a global foothold with a tri-polar structure located in Japan, Europe and the U.S. At the same time, it will facilitate better dialogue with customers in all markets and more effective R&D programs.

❏ An Organization That Promotes Speedy Management

April 1, 2001 saw TDK usher in a new organizational structure. We reformed our organization to give us the flexibility to adapt quickly to a dynamically changing business environment and to accelerate decision-making. We eliminated the Electronic Components Business Group. All operational divisions involved with electronic components have now been placed under my direct supervision. A flatter organization means that more authority and responsibility have been delegated to the front lines of our business activities. We hope that this will spur our electronic component businesses to greater achievements and promote faster decision-making. In an additional reform, we established the Management Review & Support Department to monitor and support management plans. This move is also intended to foster and mobilize individuals with leadership qualities. The new Production Engineering Development Center adds another element to our organizational reforms.

❏ Environmental Protection Activities

The environment is a major constituent of Exciting 108. With the view to becoming an environmentally conscious company that actively contributes to the creation of a society that recycles resources, TDK is putting in place environmental management systems (EMS). As of March 31, 2001, all of TDK's domestic manufacturing bases and laboratories had obtained ISO 14001 certification. Overseas, some of our bases have fallen behind schedule in earning this certification due to the transfer of processes and other actions carried out as part of production reforms. Plans call for these bases to be certified by the end of December 2001. Another ongoing drive targets the challenge of achieving zero emissions.

Themes for Fiscal 2002

The slowdown in the U.S. economy that began late in 2000 has cloaked the world economy in uncertainty. The dynamics in the electronics industry are radically different from just a year ago. We face significant challenges in the near term. The medium-term outlook, however, is brighter. A host of new markets are expected to emerge and blossom. Optical communications, ITS and other automotive electronics applications, and digital household appliances are just a few of these exciting markets. These markets will spawn new technologies, which will in turn lead to more new markets and technologies. Despite today's challenges, I can therefore state with confidence that the electronics industry has a bright future.

If we can respond accurately to market demands and shifts, I believe there are many opportunities for TDK. Equally, if we don't, our very existence will quickly be called into question. Nature provides a fitting metaphor. The Laws of Nature dictate that living things that fail to adapt to change will become extinct. Today, that change is taking place faster than ever before. We are seeing more opportunities as well as risks.

Adaptation is the key word for the current fiscal year. We must act with resolve and speed to position ourselves for growth in the medium term.

In specific terms, we will:

- Strengthen Our Ability to Develop New Technologies

Proprietary technologies are the lifeblood of any company. Recruiting and fostering skilled employees holds the key to developing innovative technologies. Based on this awareness, we are taking a number of actions.

One is to introduce an annual-salary contract system for engineers effective from the current fiscal year. Developing new technologies and creating new products is no easy task. The aim of the new system is to provide greater motivation for the existing team of engineers and to facilitate the recruitment of skilled individuals who can make an immediate impact on TDK.

The start of the Development Strategy Council is designed to speed up the pace of development. Timing is just as important as groundbreaking technological development. Using resources effectively by selecting and concentrating them on strategic areas is also of paramount importance. With these thoughts in mind, the Development Strategy Council will hold meetings to share knowledge and information. Importantly, these meetings will cut across divisional lines.

As I previously mentioned, the TTDC is now a tri-polar structure, with the recent establishment of a communications R&D base in the U.S. Each base will push ahead with R&D focused on cutting-edge technologies in its home region. At the same time, information will be shared within the TTDC group to accelerate development.

- Reform Our Organization for Speed

I expect the above organizational reforms that we carried out in April this year to make us capable of responding to change faster.

- Promote IT Utilization

IT is critical to raising customer satisfaction. We will tap IT expertise in supply chain management (SCM) to solve delivery problems, and in customer relationship management (CRM) and knowledge management (KM) to shorten development timeframes.

Conclusion

Dynamic change characterizes our business environment. That's unavoidable. What we can control is our own destiny, however. The actions we will take in the current term will give further impetus to our transformation into an "Exciting Company." I sincerely ask for the continued support and guidance of our stakeholders.

Hajime Sawabe
President and CEO
June 2001

Exciting 108 Progress Report

Exciting 108 Medium-Term Management Plan

The speed at which business must be conducted is increasing rapidly, driven by dramatic advances in the Internet and other information technologies (IT). This situation is creating a widening gulf between companies that imbue value and those that don't. Only the former will make the grade in this new era of winner takes all. To ensure that TDK remains a winner and continues to create corporate value, the Company is clearly identifying its core strengths and honing specialist skills in each.

Exciting 108 addresses the need to stay on top of change. The ultimate goal of Exciting 108, a four-year plan that runs through March 2004, is to maximize TDK's value by firmly establishing an identity as an "Exciting Company."

Progress Report on Exciting 108

Exciting 108 challenges TDK to reach several numerical targets. The following analysis shows how fiscal 2001 results stacked up.

Share of Sales and Growth Rates for Strategic Fields

In the Communications field, sales soared due to brisk demand, particularly from mobile phone manufacturers. The Recording field, however, saw sales slump as TDK lost market share following technology-related problems with HDD heads, a mainstay product in this field. Looking ahead, TDK will work to revamp its system for the development of technologies to respond to customers' needs and win their confidence.

	Fiscal 2001 (Actual)		Fiscal 2004 (Target)	
	Share of TDK sales	YoY growth rate	Share of TDK sales	Average annual growth rate
Communications	14%	30%	20%	25%
Recording	41%	–7%	45%	10%

Capital Expenditures

	Fiscal 2001 (Actual)	Exciting 108 Total (Planned)
Capital expenditures	¥99,452 million	¥350,000 million

Profitability and Asset Utilization

Overall earnings fell mainly because of lower earnings in the recording devices sector and an operating loss in the recording media & systems segment. Deteriorating production yields of heads for HDDs and freefalling CD-R prices hit results hard. Excluding the recording devices sector, electronic materials and components earnings improved due to the benefits derived from higher production volumes and efforts to trim costs. TDK aims to improve earnings by upgrading its system for the development of HDD head technologies, and by amalgamating production bases for recording media products.

	Fiscal 2001 (Actual)	Fiscal 2004 (Target)
Operating profit ratio	8.2%	13.0%
Return on equity	7.3%	12.0%
TDK Value Added (TVA)	–1.4%	3.0%
Asset turnover	0.9	1.0 or higher

Note: 1. *TVA is obtained by establishing a cost of capital based on the implicit return that shareholders expect. This figure is then used to evaluate returns on invested capital, which are calculated using earnings after taxes but without deducting interest expenses. The TVA target assumes a cost of capital of 8%.*

2. *Operating profit ratio is based on net sales and operating profit defined as net sales less cost of sales and selling, general and administrative expenses (excluding the amortization of identifiable intangibles).*

Environmental protection is positioned as a major theme in TDK's Exciting 108 medium-term plan. TDK is proactively tackling environmental issues in a number of ways, including the establishment of ISO 14001-compliant environmental management systems. Below are just some illustrations of TDK's environmental activities.

ZERO EMISSION PROGRAM

Preserving resources for future generations through the effective use of natural resources and creation of a society oriented to recycling are major themes today. TDK is championing a zero emission program through improved manufacturing processes, including "closed processes." Reuse and recycling of waste that inevitably results from manufacturing processes is also an integral part of this initiative.

ENERGY CONSERVATION

TDK has set the voluntary goal of reducing CO_2 emissions by 25 percent by 2010, compared to 1990 levels. To achieve this target, the Company is putting in place an energy management system.

REDUCING THE USE OF HARMFUL SUBSTANCES AND DEVELOPING ENVIRONMENTALLY FRIENDLY PRODUCTS

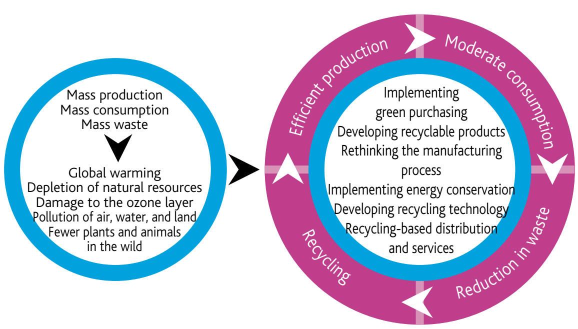
TDK is creating a database geared toward life-cycle assessment (LCA), a technique that quantitatively measures and evaluates the environmental impact of products from the procurement of raw materials through final disposal. The Company is also developing lead-free products and making progress in developing products compatible with lead-free soldering.

GREEN PURCHASING

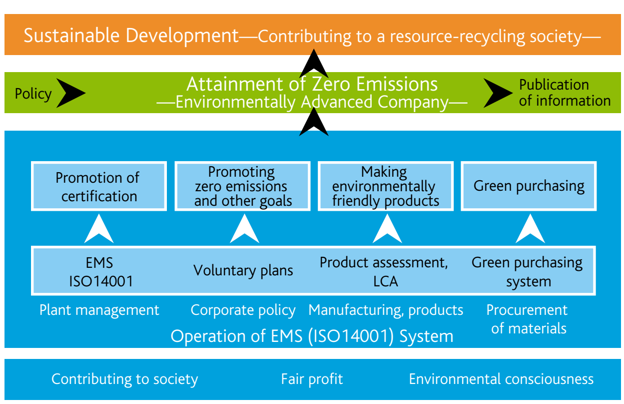
In April 2001, a new law came into force in Japan relating to so-called "green products." TDK has issued a Green Purchasing Guide for office supplies, a set of standards applied on a company-wide basis to promote the selection of recycled materials and environmentally friendly items.

ENVIRONMENTAL ACCOUNTING AND DISCLOSURE

In April 2001, TDK's Mikumagawa Plant became the pilot site for the introduction of environmental accounting based on the TDK Environmental Accounting Manual. TDK plans to introduce environmental accounting at other business locations and plants by March 2002. Furthermore, TDK publishes an environmental report every year to disclose information on its activities to the general public and to raise the awareness of environmental issues among its employees.



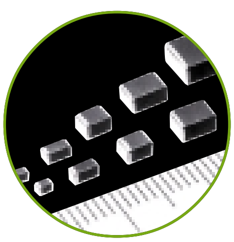
Resource-consuming society   Creating a society that recycles resources



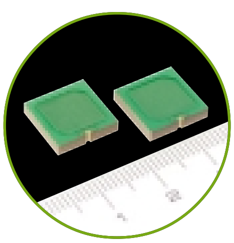
at the forefront of progress

FOCUSED ON TWO STRATEGIC FIELDS

Exciting 108 puts Communications and Recording center stage. TDK's core competence in materials, process and design technologies gives it the credentials to play a leading role. Underpinned by these strengths, TDK is aggressively researching new technologies and seeking to establish powerful market positions.



MULTILAYER CERAMIC CHIP CAPACITOR COMPATIBLE WITH CONDUCTIVE ADHESIVE
This multilayer ceramic chip capacitor, used in automotive-related applications, is compatible with conductive adhesive, which is extremely resilient to heat and vibrations. As no solder is used when mounting components, this capacitor is also environmentally friendly.



COMPACT, HIGH-PERFORMANCE PATCH ANTENNA FOR ETC SYSTEMS
TDK developed this patch antenna for use in ETC (Electronic Toll Collection) terminals fitted to automobiles. In doing so, TDK tapped its hybrid multilayer techniques to create an antenna that is more compact and boasts higher performance than existing products.

COMMUNICATIONS

THE RAPID ADVANCE OF DIGITAL NETWORKS

The transformation in communications will gather momentum as digital networking progresses. High-speed networks using ADSL lines, cable television networks and optical fiber are steadily being woven into the infrastructure of societies. The combination of these high-speed communications lines and the Internet is heralding the age of high-capacity broadband services. Wireless communications, notably mobile phones, are just as much a part of the story. Enhanced functionality and higher speeds are set to usher in a mobile broadband era in wireless communications, too.

A TRI-POLAR STRUCTURE FOR DEVELOPING COMMUNICATIONS TECHNOLOGIES

TDK is acting to stay abreast of the changes shaping communications. One action was to establish the Telecom Technology Development Center (TTDC) in Japan and later TDK R&D Corp. as the U.S. base of TTDC. These R&D bases join TDK Electronics Ireland (TEI) in Europe to form a formidable tri-polar structure for developing communications technologies worldwide.

The International Telecommunication Union (ITU) is championing IMT-2000 (International Mobile Telecommunications-2000) as a universal, international protocol for mobile communications. For the time being, though, Europe, the U.S. and Japan will

use different formats. TTDC aims to keep its finger on the pulse of each of these regions, responding to their different needs. Concurrently, it is pushing ahead with development of technologies targeted at two markets. One is high-frequency components and modules for mobile phones. The other market is Bluetooth™ and electronic components for high-speed LANs. TTDC will also develop products for optical communications, which is ultimately expected to become the dominant pathway for wired networks.

STEADY PROGRESS IN DEVELOPING COMMUNICATIONS PRODUCTS

Wireless Communications Field

Wireless communication is widely used in fields ranging from mobile phones and automotive applications to corporate and home networks. TDK's innovative products and technologies are giving it a growing presence in this area.

❑ **Mobile Phones**

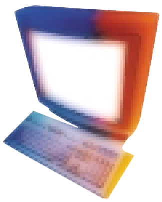
The trend in electronic components for mobile devices is toward further miniaturization, lighter weight, enhanced functionality and lower prices. TDK's expertise in materials

COMMUNICATIONS RECORDING COMMUNICATIONS RECORDING

technology as well as in thin-layer formation and multilayering processes enable it to cater to this trend. TDK is working toward volume production of multilayer chip capacitors just 0.6mm x 0.3mm in size. Another focus is modularization of radio frequency (RF) circuits, which hold the key to making smaller and lighter mobile phones.

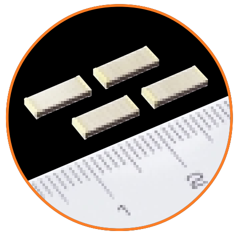
❑ **ITS (Intelligent Transport Systems)**

ITS such as ETC (Electronic Toll Collection) systems for expressways are becoming a reality in some parts of Japan. More will be installed. This is a field that will be driven by technological innovation. TDK wants to be at the forefront of this trend. Tapping its proprietary expertise in stacking ultra-thin layers of different types of materials to form tiny multilayer components, TDK developed two products for ETC systems: a patch antenna that is used in terminals fitted to vehicles and a compact, high-performance bandpass filter (a filter that allows only signals within a specific band of frequencies to pass) for the 5.8GHz high frequency range.

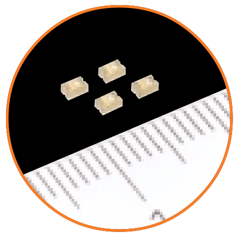


❑ Bluetooth Equipment and Wireless LANs

Bluetooth is an international standard in low-power wireless networks. It's fast becoming part of the vernacular. TDK has developed a nondirectional monopole antenna for wireless communications equipment operating in the 2.4GHz spectrum. Furthermore, TDK has invested in a U.S.-based venture for the development of modules and cards for high-speed wireless LANs in the 5GHz bandwidth. These innovations and actions symbolize TDK's determination to apply its unrivaled materials and circuit technologies to produce multilayer hybrid modules to deliver products that match the needs of customers in the broadband and mobile communications era.



MULTILAYER CHIP ANTENNA FOR BLUETOOTH
Leveraging its hybrid materials and hybrid multilayer techniques, TDK developed this compact, high-performance antenna that stands apart from existing types.



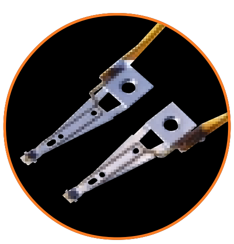
FILTERS FOR WIRELESS ETC COMMUNICATIONS
This bandpass filter for wireless communications operates in the 5.8GHz high-frequency range used in ETCs. It was developed using hybrid multilayer techniques and is around two-thirds the size of existing filters.

Wireline Communications

ADSL, technology that uses ordinary copper lines to transmit digital data at high speed, is taking hold in Japan. TDK is keeping pace with emerging needs. Take TDK's POTS splitter, for example. Dividing signals into different elements, this device is crucial for facilitating the transmission of voice and data traffic at different frequencies over the same line. TDK has also developed a coil for a POTS filter used in ADSL modems. Optical communications is another strategic area. TDK already supplies optical isolators and other products. Moving forward, TDK will consider developing optical communications technologies that draw on its expertise in applications for single crystal garnet.

COMMUNICATIONS RECORDING COMMUNICATIONS RECORDING

POTS SPLITTER FOR ADSL
TDK developed this POTS splitter for ADSL, that uses conventional copper phone lines to transmit digital data at high speed. This splitter also showcases TDK's advanced technologies.



MAGNETIC TUNNELING JUNCTION HEADS
TDK is developing magnetic tunneling junction heads (TMR), the next generation of GMR heads, with an eye on increasing HDD capacity.

RECORDING

PERIPHERAL STORAGE TECHNOLOGIES

The advent of the broadband era is fueling an increase in streaming video, image files and other forms of high-volume data. But how will all this data be stored? High-capacity HDDs and optical media, most notably DVDs, hold the answer.

HDDs have the edge in providing high-capacity storage and fast access. Technological progress is expected to continue unabated. While this makes the outlook for HDD head suppliers bright, companies must keep up with the astounding pace of progress in magnetic recording heads to succeed. Areal recording density is increasing at a rate of 100% per year. TDK is at the forefront of this progress. In fiscal 2001, TDK succeeded in developing a magnetic tunneling junction head (TMR). And to lay the groundwork for future advances, a team of Japanese and U.S. researchers at TDK's Data Storage Technology Center (DSTC) demonstrated in January 2001 the

feasibility of a technology capable of achieving an areal density of 100GB per square inch, the highest in the world. Not limiting itself to heads, TDK will also explore ways to achieve the technological breakthroughs needed so that hard disks can keep up with advances in heads.

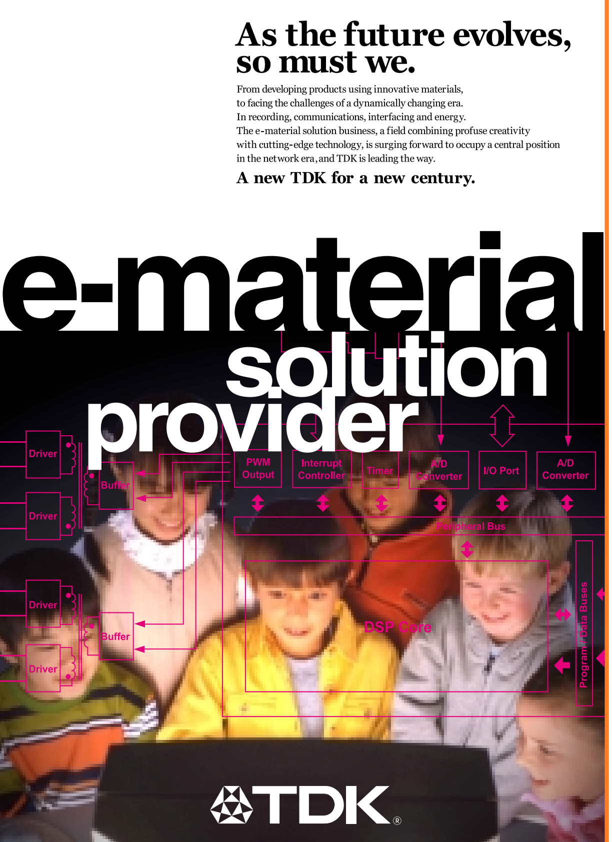
Improvements in the ease-of-use of PC software are expected to boost HDD demand. To respond to this market trend, DSTC is focusing not only on raising areal density, but also on making HDD heads at a competitive cost for diversifying applications.

PROGRESS IN OPTICAL RECORDING TECHNOLOGY CONTINUES

Optical recording is strategically positioned alongside magnetic recording as a central R&D theme at DSTC. In fiscal 2001, TDK again broke new ground. For one, it achieved a data transmission rate of 100Mbps in an optical disk drive. Other accomplishments included development of mastering technology compatible with DVD-RW Ver.1.1, the use of a metallic responsive layer to create a 4X recording film, and a DVD that can be used with a blue laser.

In the current fiscal year, TDK intends to leverage blue laser technology to develop a DVD with 200GB of storage capacity and a data transmission rate of 200Mbps.

With these and other technologies, TDK is squarely taking aim at the Communications and Recording markets—and its goals in Exciting 108.



HIGH-CAPACITY OPTICAL MEDIA
By developing high-speed phase-change layers, using blue semiconductor lasers and high-NA lenses, TDK has succeeded in developing a phase-change optical disc with a high recording data transmission rate of 70Mbps.

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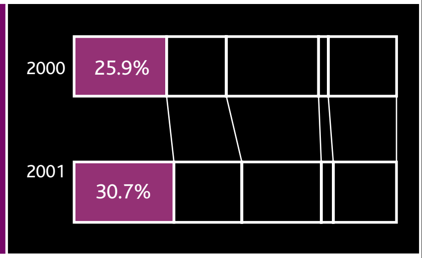
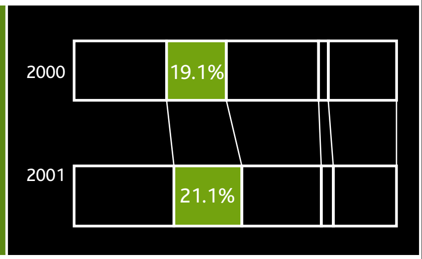
ELECTRONIC MATERIALS

MAIN PRODUCTS
Multilayer chip capacitors, ferrite cores for inductors and transformers, deflection yoke cores for TVs and computer monitors, ferrite and rare-earth metal magnets

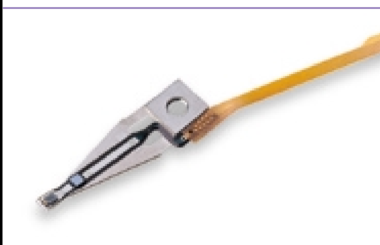


ELECTRONIC DEVICES

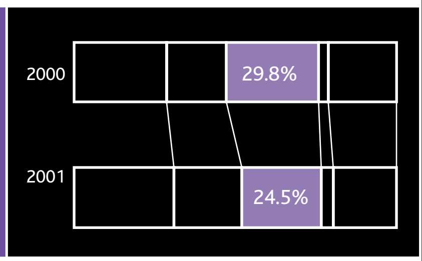
MAIN PRODUCTS
Inductors, EMC (noise-reduction) components, transformers, high-frequency components, NTC thermistors, chip varistors, DC-DC converters, DC-AC inverters, switching power supplies



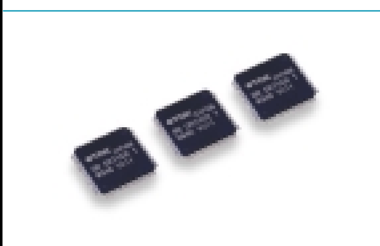
RECORDING DEVICES



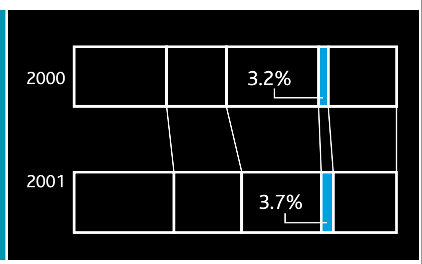
MAIN PRODUCTS
MR and GMR heads for hard disk drives, heads for high-capacity floppy disk drives, thermal printer heads



SEMICONDUCTORS AND OTHERS

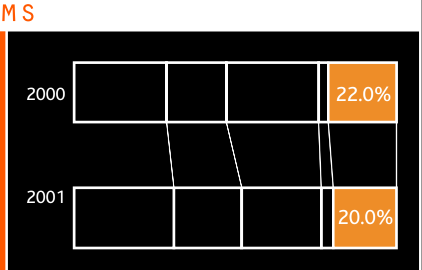


MAIN PRODUCTS
ICs for modems and LAN/WAN applications, factory automation equipment, anechoic testing chambers



RECORDING MEDIA & SYSTEMS

MAIN PRODUCTS
Audiotapes, videotapes, CD-R discs, MiniDiscs (MD), tape-based data storage media for computers, PC cards

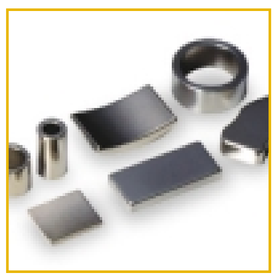


e-material solution provider

Consolidated net sales in fiscal 2001, ended March 31, 2001, rose 2.3 percent year on year to ¥689,911 million. Sales in the electronic materials and electronic devices sectors rose sharply on the back of the explosive popularity of mobile phones, expanding demand in IT-related areas, and the increasing digitalization of products. These gains were negated somewhat, however, by poor performances in the recording devices sector and the recording media & systems segment.

ELECTRONIC MATERIALS AND COMPONENTS

ELECTRONIC MATERIALS



Product Overview ▶ Multilayer chip capacitors are produced by alternately stacking extremely thin layers of a conductor (palladium or nickel) and dielectric material (titanic acid barium or titanium dioxide). These capacitors are used mainly to store electrical energy and suppress voltage fluctuations, as well as to eliminate electromagnetic interference, or "noise."

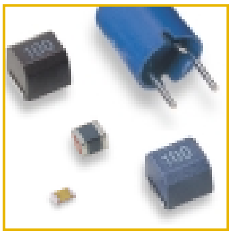
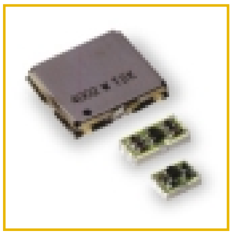
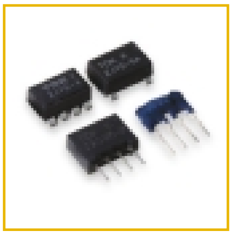
Ferrite is a ceramic material consisting of a crystalline structure of ferric oxide and a metallic oxide such as nickel or zinc. Ferrite is used in two main applications. In transformers and cores ferrite improves efficiency by concentrating magnetic energy. Ferrite is also used in motor magnets for office equipment, audio and visual equipment, and automobiles. TDK also manufactures rare-earth metal magnets. Compared to ferrite, these magnets are able to store a much larger amount of energy relative to their size. As such they are instrumental to the production of smaller and lighter motors for HDDs and other products.

Results ▶ Sales in the electronic materials sector increased 21.3 percent to ¥212,133 million. ***Multilayer chip capacitors,*** which account for the majority of capacitor sales, posted a sharp increase in sales due to brisk demand from manufacturers of PCs and peripherals and mobile phones. Demand triggered by the digitalization of audio and visual equipment also spurred growth. A slowing U.S. economy in the fourth quarter of the fiscal year, however, hampered sales as customers in a broad range of markets reduced their inventories. This difficult environment is expected to extend into the current fiscal year as well. The medium-term outlook, however, is encouraging as the digitalization of products is likely to increase demand in a variety of fields. In line with this outlook, TDK started operations in May 2001 at its new Kitakami Plant, which is located in northern Honshu.

In ***ferrite cores and magnets,*** sales were held to a modest gain despite strong growth in demand for cores required by data-communications devices, notably ISDN (Integrated Services Digital Network) and ADSL (Asymmetric Digital Subscriber Lines) devices, as high-speed and broadband infrastructures were put in place. Results also benefited from steady growth in the digital household appliance and information and communications markets. Negating these gains were lower sales of deflection yoke cores and flyback transformer cores, both key components in TVs and computer monitors, due to severe competition.

Sales of ferrite magnets declined, as volumes were flat and sales prices dropped. In the first half of the year, volumes grew due to solid demand from manufacturers of small motors used in automobiles and office equipment. From the latter half of the third quarter, however, volumes dropped as customers reduced inventories. In metal magnets, falling prices caused sales to decrease marginally year on year despite growth in volumes.

ELECTRONIC DEVICES


Product Overview ▶ This sector can be broken down into three broad categories: inductive devices, high-frequency components, and power supplies and other products. Inductive devices are coils that are made by physically winding wires around a core or using printing or thin film formation processes to form a coiled pattern, and are used to maintain a stable electrical current. Other categories of inductive devices, are EMC noise reduction filters, which combine inductors and capacitors, to protect circuitry from interference; and transformers used to step up AC voltage.

In high-frequency components, TDK produces isolators that use ferrite to control signal movements, and VCOs (voltage-controlled oscillators) that produce frequencies required for signal reception in mobile phones. This category also consists of diplexers that split and combine signals of differing frequencies in mobile phones.

In power supplies, TDK offers switching power supplies that convert alternating current into direct current, DC-AC inverters that convert direct current into alternating current, and DC-DC converters that alter DC voltages.

Results ▶ Sales in this sector increased 12.5 percent to ¥145,216 million as a result of growth in most product categories. The largest product category is inductive devices, which represents inductors (coils), EMC (Electromagnetic Compatibility, or “noise reduction”) components, and transformers. TDK’s total sales of inductive devices increased by around 10 percent over the previous fiscal year. Sales of coils rose substantially due to increasing demand in the audio and visual products, office equipment and communications markets. Furthermore, sales of EMC components surged due to expansion in output of audio and visual products and communications equipment. Transformers did not perform as well, with sales decreasing despite significantly higher demand from manufacturers of communications devices. Limiting transformer results were lower sales of deflection yokes and transformers as TDK’s products became less cost competitive.

In high-frequency components, sales soared, rising by over 30 percent year on year. This performance reflected increased production capacity to serve the rapidly expanding mobile phone market as well as the success of R&D programs that targeted mainly components used in GSM-format mobile phones, which represent a significant market segment. However, mobile phone demand began to taper off in the last few months of 2000 and then dropped sharply in the fiscal year’s fourth quarter.

In other products, demand increased for chip NTCs and chip varistors for PC peripherals and mobile phones. Robust demand for DC-DC converters and DC-AC inverters for PC peripherals and mobile phones also contributed to the higher sales in this sector.

RECORDING DEVICES

Product Overview ▶ The main products in this sector are magnetic recording heads used in HDDs. Magnetic recording heads read signals stored on disks using magneto-resistive elements. At present, GMR (giant magneto-resistive) heads are the mainstream in the HDD head market. These heads boast an extremely high magneto-resistive effect, greater than that of MR heads.

Products in this sector also include heads for FDDs and thermal printer heads.

Results ▶ Sales in this sector declined 15.7 percent to ¥169,140 million and earnings deteriorated sharply. There were several contributing factors within an environment in which the rate of progress has been remarkable, with the annual increase in areal recording density soaring from 60 percent to 100 percent. One factor was that TDK misjudged the new technologies required to match market trends and thus failed to develop in a timely fashion the products customers sought. A second factor was falling production yields of new areal-recording-density GMR heads as TDK commenced volume production in the latter half of the fiscal year's second quarter. In addition, there was a six-day suspension in production of these heads in Japan following record-setting rain in mid-September 2000. As a result, TDK's share of the HDD head market fell. Production yields showed signs of improvement around the end of 2000. However, this good news coincided with drastic inventory corrections by customers as they reacted to the slowdown in the U.S. economy.

TDK's HDD head business is an integral element of the company's Exciting 108 medium-term plan. TDK aims to expand its market share by building on its technological edge in this field. Unfortunately, TDK's inability to take the right actions enabled other companies to catch up in fiscal 2001. The Company was thus unable to set itself apart. This situation also prevented TDK from obtaining all the potential benefits of its March 2000 acquisition of Headway Technologies, Inc. To achieve its Exciting 108 goal, TDK will quickly overhaul its worldwide HDD head R&D organization to earn the trust of customers by meeting their demands in a more accurate and timely manner.

SEMICONDUCTORS AND OTHERS

Product Overview ▶ Sales in this sector are derived primarily from ICs used in modems and LANs, factory automation equipment and anechoic testing chambers. U.S.-based TDK Semiconductor Corp. designs ICs for cable TV set-top boxes, LAN devices and other ICs used for communications. Factory automation equipment mostly represents systems that accurately place electronic components on circuit boards at an extremely high rate of speed. Anechoic testing chambers are spaces designed to prevent reflections of electromagnetic radiation and are mainly used to test products for susceptibility to electromagnetic interference.

Results ▶ Sector sales rose 21.6 percent to ¥25,706 million. In semiconductors, which account for a large proportion of sales, TDK Semiconductor recorded sales growth in ICs for LANs and set-top box applications. The design of communication ICs is a forte of this subsidiary. Noise-reduction anechoic testing chambers and measurement systems also posted higher sales, which were driven by the increasing digitalization of products and the use of higher frequencies.

RECORDING MEDIA & SYSTEMS

Product Overview ▶ The main products in this segment are audiotapes, videotapes, optical discs and software. Optical discs are accounting for an increasing share of sales as the world moves into the digital era. TDK manufactures several types of optical discs: write-once CD-Rs and CD-RWs that can be recorded repeatedly. TDK also produces DVD-R, DVD-RAM and DVD-RW discs. Although they have the same 12cm diameter as their CD-type counterparts, these discs can hold large volumes of data, making them ideal for storing moving images as well as for backing up computer data.

Results ▶ Segment sales decreased 7.4 percent year on year to ¥137,716 million, reflecting a number of factors. First, the long-term decline in audiotape sales continued due to the rising popularity of optical media. Second, CD-Rs, which generate the bulk of TDK's optical media sales, recorded lower sales. While CD-R demand increased due to their application in a broader range of areas, higher production levels created a supply glut, triggering a pricing offensive by some industry players. The resultant precipitous fall in prices dragged down sales. A third factor was lower sales of videotapes as unit prices fell while volumes were largely unchanged. Severely impacted by this difficult environment, the segment posted an operating loss.

TDK previously saw CD-Rs as a growth driver as recording media demand shifts from analog to digital. Results in the past fiscal year have altered TDK's view. Now, the main theme is to turn earnings around by pushing ahead with the consolidation of production bases and focusing on next-generation, value-added optical media products.

DIRECTORS AND CORPORATE AUDITORS

HAJIME SAWABE President and CEO

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

YUTAKA MORI
Corporate Auditor

TAKUMA OTSUKA
Corporate Auditor

HIROMI KITAGAWA
Corporate Auditor

OSAMU NAKAMOTO
Corporate Auditor

(As of June 28, 2001)

SEGMENT SALES

Consolidated net sales increased 2.3 percent to ¥689.9 billion ($5,564 million) in fiscal 2001, the year ended March 31, 2001. This was mainly the result of strong sales to manufacturers of mobile phones, PCs and PC peripherals in the electronic materials and components segment during the year's first three quarters. The increase in net sales for the year was limited, however, by a rapid slowdown in orders in the fourth quarter.

In the electronic materials and components segment, net sales rose 5.0 percent to ¥552.2 billion ($4,453 million). The majority of the increase reflected sharply higher sales of components for use in mobile phones. Demand was particularly strong for multilayer chip capacitors and high-frequency components, which are used in mobile phones and other communications equipment. TDK ramped up production capacity to respond to this demand. Other products contributing to the segment's sales increase were coils and DC-DC converters. Ferrite cores and magnets, however, recorded lower sales as competition intensified and sales prices decreased. In HDD heads, TDK's misjudgment of the technological direction of the market and manufacturing process problems caused the company to lose market share. Sales fell accordingly.

Recording media & systems sales decreased 7.4 percent to ¥137.7 billion ($1,111 million). Audiotape sales declined due to the increasingly widespread use of optical media. Sales of CD-Rs, which account for well over half of TDK's optical media sales, were lower due to a sharp drop in prices, despite higher volumes.

SALES BY REGION

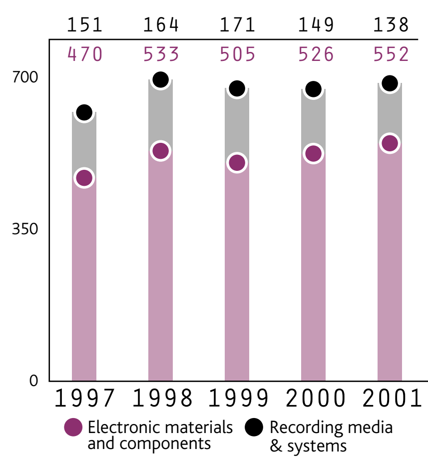
Yen in millions (%)

Years ended March 31	**2001**		2000		1999	
Japan	**¥222,090**	**(32.2)**	231,939	(34.4)	233,342	(34.5)
Americas	**131,219**	**(19.0)**	108,245	(16.1)	120,084	(17.8)
Europe	**101,018**	**(14.6)**	90,564	(13.4)	93,006	(13.7)
Asia (excluding Japan) and Oceania	**234,372**	**(34.0)**	242,438	(35.9)	227,279	(33.6)
Middle East and Africa	**1,212**	**(0.2)**	1,278	(0.2)	2,539	(0.4)
Net sales	**¥689,911**	**(100.0)**	674,464	(100.0)	676,250	(100.0)

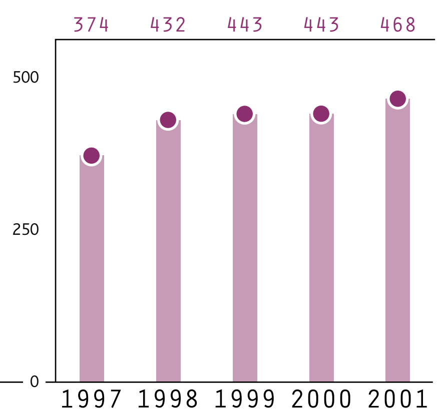
By region, sales in Japan decreased 4.2 percent to ¥222.1 billion ($1,791 million) and overseas sales rose 5.7 percent to ¥467.8 billion ($3,773 million). Overseas sales accounted for 67.8 percent of consolidated net sales.

In Japan, orders for multilayer chip capacitors and high-frequency components for mobile phones increased, as did sales of related products, amid generally lackluster demand. These gains, however, could not offset decreases in the recording media & systems segment and in recording devices brought about by falling demand and prices.

NET SALES
YEN IN BILLIONS



OVERSEAS SALES
YEN IN BILLIONS



In Asia (excluding Japan) and Oceania, electronic components represent a high share of total sales. In fiscal 2001, the decrease in sales was mainly due to lower sales of recording devices, which outweighed higher sales of multilayer chip capacitors and growth in a few other product categories. Another factor was the appreciation of the yen in relation to the U.S. dollar, the main currency used for sales in this region.

In the Americas, sales rose mainly on account of two factors. One was the first full year of sales at Headway Technologies, Inc., which was acquired in March 2000, in the recording devices sector. The other was higher sales of recording media & systems products and electronic components for mobile phones and PCs.

In Europe, orders rose for multilayer chip capacitors and high-frequency components for GSM-format mobile phones, resulting in higher sales in the electronic materials and electronic devices sectors. This increase outweighed lower sales in the recording media & systems segment. But sales decreased sharply after conversion into yen due to a 13 percent appreciation in the yen against the euro.

EFFECT OF FOREIGN EXCHANGE MOVEMENTS

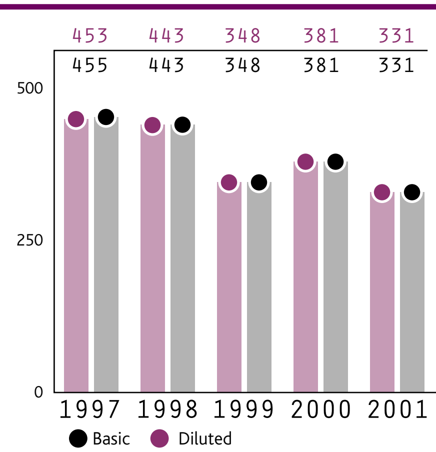
In fiscal 2001, overseas sales accounted for 67.8 percent of consolidated net sales, up 2.2 percentage points. As a result, fluctuations in foreign exchange rates have a significant effect on TDK's consolidated sales and income. During fiscal 2001, the yen gained strength against most other major currencies. The yen appreciated 1 percent in relation to the U.S. dollar and 13 percent in relation to the euro, based on TDK's average internal exchange rates. Overall, TDK estimates that exchange rate movements during fiscal 2001 had the net effect of reducing net sales by ¥12.7 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 2001 represented 116.9 percent of sales in Asia (excluding Japan) and Oceania, 60.9 percent in the Americas, and 40.0 percent in Europe. Overseas production accounted for 56.5 percent of total sales in fiscal 2001, compared with 56.8 percent one year earlier, and for 83.3 percent of overseas sales, compared with 86.6 percent one year earlier. The March 2000 acquisition of Headway Technologies increased TDK's production in the U.S. During fiscal 2001, other investments increased capacity and added new product lines at several 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 and options for some foreign currency-denominated obligations. Refer to Note 14 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.

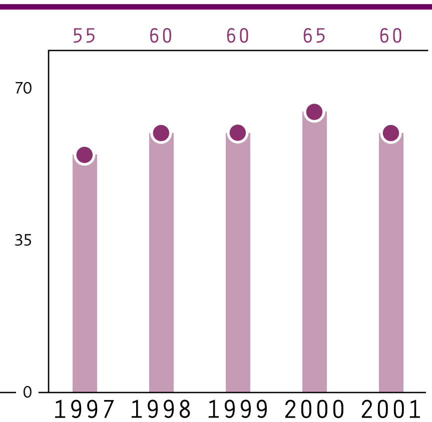
NET INCOME PER SHARE

YEN



DIVIDENDS PER SHARE

YEN



EXPENSES AND NET INCOME

Yen in millions (%)

Years ended March 31	2001		2000		1999	
Net sales	**¥689,911**	**(100.0)**	674,464	(100.0)	676,250	(100.0)
Cost of sales	**496,083**	**(71.9)**	475,340	(70.5)	473,760	(70.1)
Selling, general, and administrative expenses	**141,899**	**(20.5)**	124,517	(18.4)	126,174	(18.6)
Other revenues (other expenses)	**12,587**	**(1.8)**	(1,193)	(0.2)	(891)	(0.1)
Income taxes and minority interests	**20,533**	**(3.0)**	22,684	(3.4)	29,080	(4.3)
Net income	**¥ 43,983**	**(6.4)**	50,730	(7.5)	46,345	(6.9)

The cost of sales increased 4.4 percent and rose from 70.5 percent to 71.9 percent of net sales. This reflected strong downward pressure on prices, as well as an increase in depreciation expenses due to the high volume of capital expenditures in recent years. Gross profit declined due to the effects of price discounting and the yen's appreciation, which outweighed the benefits of higher sales of multilayer chip capacitors and cost reduction programs.

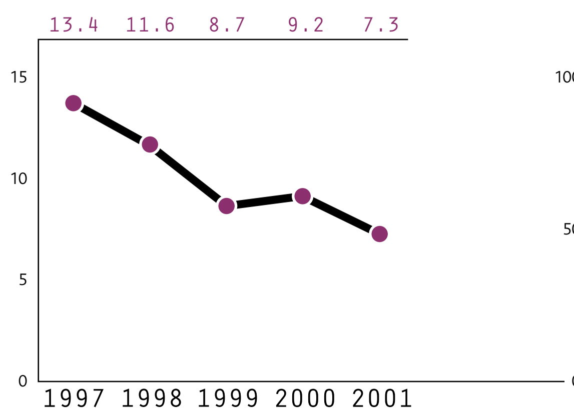
Selling, general, and administrative expenses increased ¥17.4 billion ($140 million) and increased from 18.4 percent to 20.5 percent of net sales. This was primarily on account of higher research and development expenses, which rose primarily due to Headway Technologies and Data Storage Technology Center and Telecom Technology Development Center in Japan. Research and development expenses represented 5.4 percent of net sales, compared with 4.0 percent in the previous year. The increase in selling, general, and administrative expenses also reflects restructuring charges of ¥3.1 billion ($25 million) related to the downsizing and transfer of production facilities. The charges consist of ¥0.8 billion ($7 million) and ¥2.3 billion ($18 million) in the electronic materials and components segment and recording media and systems segment, respectively.

Other revenues (other expenses) contributed ¥12.6 billion ($102 million), compared with net other expenses of ¥1.2 billion in fiscal 2000. The main factors were a gain on contribution of investment securities to a pension trust of ¥12.5 billion ($101 million) and reduction of ¥3.5 billion in the foreign exchange loss.

Net income decreased 13.3 percent to ¥44.0 billion ($355 million) and net income per share was ¥330.54 ($2.67). The return on equity deteriorated from 9.2 percent to 7.3 percent. Cash dividends paid during the fiscal year totaled ¥60 ($0.48). This dividend is the sum of the June 2000 year-end dividend of ¥30 and the November 2000 interim dividend of ¥30. Shareholders of record on March 31, 2001 received a cash dividend of ¥30 per share at the end of June 2001.

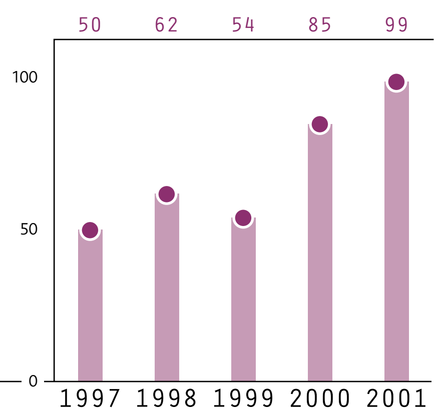
RETURN ON EQUITY

%



CAPITAL EXPENDITURES

YEN IN BILLIONS



FISCAL 2000 VS. FISCAL 1999

Consolidated net sales declined 0.3 percent to ¥674.5 billion. Foreign exchange movements had the net effect of reducing net sales by ¥57.0 billion. Sales in Japan decreased 0.6 percent to ¥231.9 billion as demand waned across all TDK product lines, with the exception of multilayer chip capacitors, due to the prolonged recession. Overseas sales decreased 0.1 percent to ¥442.5 billion. Sales in Asia (excluding Japan) and Oceania increased on account of higher demand for multilayer chip capacitors and high-frequency components. In the Americas, sales were slightly higher in U.S. dollars but lower when translated into yen. In Europe, sales decreased as strength in the electronic materials and electronic devices sectors was insufficient to offset lower sales in the recording media & systems segment.

In the electronic materials and components segment, net sales increased 4.1 percent to ¥525.8 billion. Most of this increase was attributable to much higher sales of mobile phone components. Sales in the recording media & systems segment declined 13.1 percent to ¥148.7 billion. Audiotape sales were down due to shrinking demand worldwide. Videotape and MD sales declined because of falling sales prices. Optical disc sales continued to achieve rapid growth, despite lower unit prices.

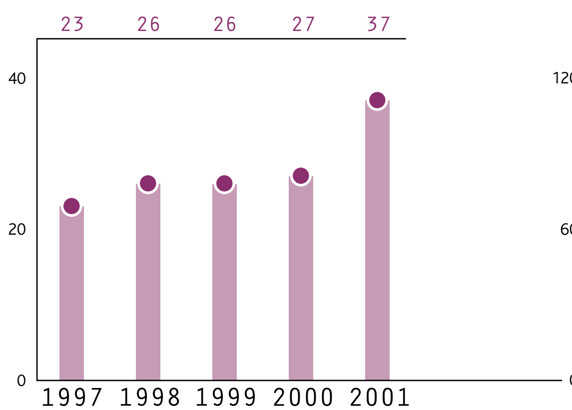
Costs and expenses increased 0.2 percent to ¥610.8 billion, reflecting the effect of the yen's appreciation and higher depreciation expenses. The effective tax rate decreased because of higher income in low-tax-rate regions and a corporate tax rate reduction in Japan. Net income increased 9.5 percent to ¥50.7 billion.

CAPITAL EXPENDITURES

In fiscal 2001, capital expenditures on a cash basis were ¥99.5 billion ($802 million), compared with ¥84.8 billion in fiscal 2000. The large increase represents TDK's aggressive actions to move rapidly to take advantage of opportunities in strategic market sectors. Among major overseas projects were HDD head facility expansions and upgrades in China and the U.S., and expansion of production facilities for electronic materials and components in China. In Japan, multilayer chip capacitors and other electronic materials and components production facilities, including construction of a new plant, and production and research facilities for HDD heads were significant elements of capital outlays.

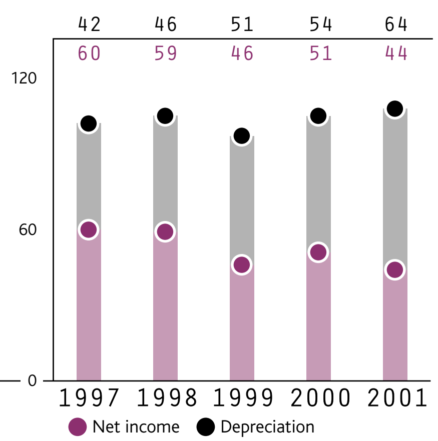
RESEARCH AND DEVELOPMENT

YEN IN BILLIONS



NET CASH FLOWS

YEN IN BILLIONS



FINANCIAL POSITION

Yen in millions (%)

March 31	2001		2000		1999	
Short-term debt	¥ 5,120	(0.8)	1,417	(0.3)	2,327	(0.4)
Current installments of long-term debt	759	(0.1)	516	(0.1)	1,490	(0.3)
Trade notes payable	791	(0.1)	722	(0.1)	691	(0.1)
Long-term debt, excluding current installments	1,004	(0.2)	46	(0.0)	1,787	(0.3)
Stockholders' equity	637,749	(98.8)	571,013	(99.5)	535,398	(98.9)
Total capital	¥645,423	(100.0)	573,714	(100.0)	541,693	(100.0)

Total assets amounted to ¥820.2 billion ($6,614 million) as of March 31, 2001, an increase of ¥44.2 billion. Cash and cash equivalents declined ¥23.6 billion to ¥150.9 billion ($1,217 million). Net trade receivables decreased by ¥6.0 billion, but inventories increased ¥31.6 billion, mainly due to a sudden drop in orders for mobile phone components in the fiscal year's fourth quarter.

Current liabilities increased due to an increase in income taxes and other factors, although trade payables decreased ¥6.1 billion to ¥64.7 billion ($522 million) as orders for mobile phone components dropped sharply in the fourth quarter of fiscal 2001. Short- and long-term debt represents almost entirely loans that TDK is obligated to hold until contractual repayment dates. The increase in fiscal 2001 primarily reflects debt at Headway Technologies. Retirement and severance benefits fell by ¥25.1 billion to ¥31.8 billion ($256 million). This was attributable to the establishment of a pension trust. Refer to Note 8 of the notes to the consolidated financial statements for more information. Total stockholders' equity increased 11.7 percent to ¥637.7 billion ($5,143 million). Foreign currency translation adjustments decreased as a weaker yen increased yen translations of overseas assets. The change also reflected movements in the minimum pension liability adjustments. Although there is currently 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	2001	2000	1999
			Yen in millions
Net income	**¥ 43,983**	50,730	46,345
Adjustments to reconcile net income to net cash provided by operating activities	**23,614**	43,178	79,979
Net cash provided by operating activities	**67,597**	93,908	126,324
Net cash used in investing activities	**(92,538)**	(98,777)	(62,809)
Net cash used in financing activities	**(8,814)**	(12,785)	(11,120)
Effect of exchange rate changes on cash and cash equivalents	**10,153**	(7,946)	(6,742)
Net change in cash and cash equivalents	**¥(23,602)**	(25,600)	45,653

Cash and cash equivalents decreased ¥23.6 billion to ¥150.9 billion ($1,217 million). Net cash provided by operating activities was ¥26.3 billion less than in fiscal 2000. Depreciation and amortization increased ¥14.1 billion, but this was offset by a ¥6.7 billion decrease in net income and a net ¥6.4 billion increase in cash used by changes in trade receivables, inventories and trade payables. In addition, the overall decrease in net cash provided by operating activities reflected adjustments for a gain on contribution of equity securities to a pension trust of ¥12.5 billion and contribution of cash and cash equivalents to a pension trust of ¥15.3 billion.

Investing activities used net cash of ¥92.5 billion ($746 million), ¥6.2 billion less than in fiscal 2000. Although capital expenditures increased ¥14.7 billion over the previous year, there was a decrease in payment for purchase of investments of ¥16.5 billion and proceeds from maturities of marketable securities of ¥3.8 billion.

Net cash used in financing activities was ¥4.0 billion lower than in fiscal 2000 due to an increase of ¥4.5 billion in short-term debt. As in fiscal 2000, dividends paid accounted for the majority of financing cash requirements.

TDK estimates that operating cash flows and other internal resources will provide adequate liquidity in fiscal 2002.

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. Foreign exchange 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 cost and fair value of these equity securities were ¥3.9 billion ($31 million) and ¥3.3 billion ($27 million) as of March 31, 2001, and ¥24.1 billion and ¥36.8 billion as of March 31, 2000, respectively. As of March 31, 2001, the industries in which the issuers operate consist mainly of technology, and the cost and fair value of the equity securities was ¥3.4 billion ($27 million) and ¥3.0 billion ($24 million), respectively. As of March 31, 2000, the industries in which the issuers operate consist mainly of electrical machinery and financial services, and the cost and fair value of the equity securities were ¥21.0 billion and ¥33.7 billion, 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, foreign exchange contracts and currency option 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, 2001 and 2000, and potential, near-term losses affecting future earnings, fair values, and/or cash flows from reasonable near-term changes in interest rates are immaterial.

Forward-Looking Statements

This report contains forward-looking statements based on assumptions and beliefs of the Company and its group companies in accordance with data currently available. Consequently, these projections should not be relied upon as the sole basis for evaluating the Company. Actual results may differ substantially from the projections depending on a number of factors.

The electronics markets in which the Company operates are highly susceptible to rapid changes. Furthermore, the Company operates not only in Japan, but in many other countries. As such, factors that can have significant effects on its results include, but are not limited to, shifts in technology, demand, prices, competition, economic environments and foreign exchange rates.

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) 2001		2000		U.S. Dollars (Thousands) 2001		Change (%)
ELECTRONIC MATERIALS AND COMPONENTS							
Net sales							
Unaffiliated customers	¥552,195		525,807		$4,453,185		5.0
Intersegment	–		–		–		
Total revenue	552,195	(100.0%)	525,807	(100.0%)	4,453,185	(100.0%)	5.0
Operating expenses	486,837	(88.2%)	453,694	(86.3%)	3,926,104	(88.2%)	7.3
Operating profit	¥ 65,358	(11.8%)	72,113	(13.7%)	$ 527,081	(11.8%)	-9.4
Identifiable assets	572,087		485,255		4,613,605		
Depreciation and amortization	55,472		45,059		447,355		
Capital expenditures	91,509		75,483		737,976		
RECORDING MEDIA AND SYSTEMS							
Net sales							
Unaffiliated customers	¥137,716		148,657		$1,110,613		-7.4
Intersegment	–		–		–		
Total revenue	137,716	(100.0%)	148,657	(100.0%)	1,110,613	(100.0%)	-7.4
Operating expenses	146,751	(106.6%)	146,163	(98.3%)	1,183,476	(106.6%)	0.4
Operating profit (loss)	¥ (9,035)	(-6.6%)	2,494	(1.7%)	$ (72,863)	(-6.6%)	–
Identifiable assets	114,182		107,593		920,823		
Depreciation and amortization	8,107		8,787		65,379		
Capital expenditures	7,943		9,297		64,056		
ELIMINATIONS AND CORPORATE							
Corporate assets	¥133,908		183,144		$1,079,903		
TOTAL							
Net sales							
Unaffiliated customers	¥689,911		674,464		$5,563,798		2.3
Intersegment	–		–		–		
Total revenue	689,911	(100.0%)	674,464	(100.0%)	5,563,798	(100.0%)	2.3
Operating expenses	633,588	(91.8%)	599,857	(88.9%)	5,109,580	(91.8%)	5.6
Operating profit	¥ 56,323	(8.2%)	74,607	(11.1%)	$ 454,218	(8.2%)	-24.5
Identifiable and corporate assets	820,177		775,992		6,614,331		
Depreciation and amortization	63,579		53,846		512,734		
Capital expenditures	99,452		84,780		802,032		

Notes: 1. The Company adopted Statement of Financial Accounting Standards No.115 (SFAS 115), "Accounting for Certain Investments in Debt and Equity Securities", from the fiscal year beginning April 1, 2000, and has applied SFAS 115 retroactively.

2. Effective from the fiscal year ended March 31, 2001, certain products that had been included in Electronic materials and components are now included in Recording media and systems. Results in the previous fiscal year have been restated accordingly. The effect of this change for the previous fiscal year is not material.

3. Operating profit is defined as net sales less cost of sales and selling, general and administrative expenses (excluding the amortization of identifiable intangibles).

4. Depreciation and amortization does not include the amortization of identifiable intangibles.

Geographic Segment Information

Years ended March 31	Yen (Millions) 2001	2000	U.S. Dollars (Thousands) 2001	Change (%)
JAPAN				
Net sales	¥459,685	440,258	$3,707,137	4.4
Operating profit	39,504	28,075	318,581	40.7
Identifiable assets	389,195	360,255	3,138,670	8.0
AMERICAS				
Net sales	136,342	116,888	1,099,532	16.6
Operating profit	(1,394)	2,302	(11,242)	-
Identifiable assets	94,166	52,162	759,403	80.5
EUROPE				
Net sales	100,258	87,300	808,532	14.8
Operating profit	2,236	3,248	18,032	-31.2
Identifiable assets	62,618	48,388	504,984	29.4
ASIA AND OTHERS				
Net sales	299,015	307,482	2,411,412	-2.8
Operating profit	20,982	40,704	169,210	-48.5
Identifiable assets	197,502	189,907	1,592,758	4.0
ELIMINATIONS AND CORPORATE				
Net sales	305,389	277,464	2,462,815	
Operating profit	5,005	(278)	40,363	
Identifiable assets	76,696	125,280	618,516	
TOTAL				
Net sales	¥689,911	674,464	$5,563,798	2.3
Operating profit	56,323	74,607	454,218	-24.5
Identifiable assets	820,177	775,992	6,614,331	5.7

Overseas Sales							
Americas	¥131,219	(19.0%)	108,245	(16.1%)	$1,058,218	(19.0%)	21.2
Europe	101,018	(14.6%)	90,564	(13.4%)	814,661	(14.6%)	11.5
Asia and others	235,584	(34.2%)	243,716	(36.1%)	1,899,871	(34.2%)	-3.3
Overseas sales total	¥467,821	(67.8%)	442,525	(65.6%)	$3,772,750	(67.8%)	5.7

Notes: 1. The Company adopted Statement of Financial Accounting Standards No.115 (SFAS 115), "Accounting for Certain Investments in Debt and Equity Securities", from the fiscal year beginning April 1, 2000, and has applied SFAS 115 retroactively.

2. Operating profit is defined as net sales less cost of sales and selling, general and administrative expenses (excluding the amortization of identifiable intangibles).

	Yen (Millions)				
	2001	2000	1999	1998	1997
Net sales	**¥689,911**	674,464	676,250	696,677	620,695
Electronic materials and components	**552,195**	525,807	505,187	532,543	469,559
Recording media and systems	**137,716**	148,657	171,063	164,134	151,136
(Overseas sales)	**467,821**	442,525	442,908	432,362	374,076
Cost of sales	**496,083**	475,340	473,760	469,872	426,341
Selling, general, and administrative expenses	**141,899**	124,517	126,174	128,501	117,106
Income before income taxes	**64,516**	73,414	75,425	99,620	103,304
Income taxes	**19,792**	22,245	28,745	40,205	42,553
Net income	**43,983**	50,730	46,345	59,053	60,299
Per common share (yen):					
Net income/Basic	**330.54**	380.89	347.96	443.38	454.51
Net income/Diluted	**330.54**	380.89	347.96	443.38	452.99
Cash dividends	**60.00**	65.00	60.00	60.00	55.00
Working capital	**306,771**	310,842	331,750	315,858	278,637
Stockholders' equity	**637,749**	571,013	535,398	530,791	484,994
Total assets	**820,177**	775,992	743,512	733,104	667,227
Capital expenditures	**99,452**	84,780	54,330	61,768	49,948
Depreciation and amortization	**67,973**	53,846	50,960	45,663	42,362
Research and development	**36,970**	26,948	26,333	25,547	23,305
Number of employees	**37,251**	34,321	31,305	29,747	28,055

	Yen (Millions)				
	1996	1995	1994	1993	1992
Net sales	541,416	485,121	457,373	526,397	534,866
Electronic materials and components	409,614	352,388	319,627	358,673	369,330
Recording media and systems	131,802	132,733	137,746	167,724	165,536
(Overseas sales)	315,934	275,520	240,575	278,914	270,675
Cost of sales	377,369	342,133	329,970	360,990	360,950
Selling, general, and administrative expenses	109,989	104,668	107,211	120,807	119,896
Income before income taxes	51,933	30,767	17,798	33,448	48,432
Income taxes	24,018	17,634	12,355	14,856	26,661
Net income	27,693	13,017	5,484	18,398	21,588
Per common share (yen):					
Net income/Basic	210.59	98.99	41.70	139.91	165.37
Net income/Diluted	208.64	98.46	41.70	138.85	163.57
Cash dividends	50.00	50.00	50.00	50.00	50.00
Working capital	210,337	200,801	191,701	202,163	198,189
Stockholders' equity	415,984	381,093	374,785	386,408	386,651
Total assets	644,854	583,466	562,905	594,964	627,341
Capital expenditures	46,150	37,457	36,894	47,109	78,239
Depreciation and amortization	42,558	41,696	42,250	41,843	40,197
Research and development	27,147	25,353	26,142	27,670	26,309
Number of employees	29,070	27,276	26,830	26,379	25,073

Note: The company adopted Statement of Financial Accounting Standards No.115 (SFAS 115), "Accounting for Certain Investments in Debt and Equity Securities", from the fiscal year beginning April 1, 2000, and has applied SFAS 115 retroactively to the consolidated financial statements from 1995 to 2000.

CONSOLIDATED STATEMENTS OF INCOME

TDK Corporation and Subsidiaries
years ended March 31, 2001, 2000 and 1999

	Yen (Millions)			U.S. Dollars (Thousands) (Note 2)
	2001	2000	1999	**2001**
Revenues:				
Net sales	**¥689,911**	674,464	676,250	**$5,563,798**
Interest and dividends income	**5,089**	5,227	5,000	**41,041**
Gain on securities (net of loss) (Note 4)	**13,450**	1,452	–	**108,468**
Other income	**2,437**	3,027	3,541	**19,653**
Total revenues	**710,887**	684,170	684,791	**5,732,960**
Costs and expenses:				
Cost of sales	**496,083**	475,340	473,760	**4,000,669**
Selling, general and administrative expenses	**141,899**	124,517	126,174	**1,144,347**
Interest expense	**490**	568	1,177	**3,952**
Loss on securities (net of gain) (Note 4)	**–**	–	659	**0**
Other deductions	**7,899**	10,331	7,596	**63,702**
Total costs and expenses	**646,371**	610,756	609,366	**5,212,670**
Income before income taxes	**64,516**	73,414	75,425	**520,290**
Income taxes (Note 7)	**19,792**	22,245	28,745	**159,613**
Income before minority interests	**44,724**	51,169	46,680	**360,677**
Minority interests	**741**	439	335	**5,975**
Net income	**¥ 43,983**	50,730	46,345	**$ 354,702**

	Yen (except number of common shares outstanding)			U.S. Dollars
Amounts per share:				
Basic and diluted net income per share	**¥ 330.54**	380.89	347.96	**$ 2.67**
Weighted average and diluted common shares outstanding in thousands	**133,064**	133,190	133,190	
Cash dividends paid during the year (Note 9)	**¥ 60.00**	65.00	60.00	**$ 0.48**

See accompanying notes to consolidated financial statements.

ASSETS	Yen (Millions) 2001	2000	U.S. Dollars (Thousands) (Note 2) 2001
Current assets:			
Cash and cash equivalents	¥150,917	174,519	$1,217,073
Marketable securities (Note 4)	–	6,530	–
Trade receivables:			
Notes	11,799	12,443	95,153
Accounts	147,526	153,050	1,189,726
Allowance for doubtful receivables	(2,740)	(2,945)	(22,097)
Net trade receivables	156,585	162,548	1,262,782
Inventories (Note 5)	116,423	84,839	938,895
Prepaid expenses and other current assets (Notes 7 and 8)	28,988	27,337	233,774
Total current assets	452,913	455,773	3,652,524
Investments and advances (Notes 4, 7 and 12)	21,143	66,347	170,508
Property, plant, and equipment, at cost:			
Land	21,705	21,161	175,040
Buildings	175,463	161,280	1,415,024
Machinery and equipment	499,331	450,457	4,026,863
Construction in progress	28,838	20,042	232,565
	725,337	652,940	5,849,492
Less accumulated depreciation	446,712	418,666	3,602,516
Net property, plant, and equipment	278,625	234,274	2,246,976
Prepaid pension cost (Note 8)	41,290	–	332,984
Other assets (Notes 7, 8 and 16)	26,206	19,598	211,339
	¥820,177	775,992	$6,614,331

See accompanying notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	Yen (Millions) 2001	2000	U.S. Dollars (Thousands) (Note 2) 2001
Current liabilities:			
Short-term debt (Note 6)	¥ 5,120	1,417	$ 41,290
Current installments of long-term debt (Note 6)	759	516	6,121
Trade payables:			
Notes	791	722	6,379
Accounts	63,882	70,054	515,177
Accrued salaries and wages	8,334	12,559	67,210
Other accrued expenses	26,248	15,145	211,677
Income taxes (Note 7)	19,638	14,727	158,371
Other current liabilities (Note 7)	21,370	29,791	172,339
Total current liabilities	146,142	144,931	1,178,564
Long-term debt, excluding current installments (Note 6)	1,004	46	8,097
Retirement and severance benefits (Notes 7 and 8)	31,755	56,845	256,089
Deferred income taxes (Note 7)	93	407	750
Total liabilities	178,994	202,229	1,443,500
Minority interests	3,434	2,750	27,694
Stockholders' equity:			
Common stock of ¥50 ($0.40) par value—			
Authorized 480,000,000 shares;			
Issued 133,189,659 shares in 2001 and 2000	32,641	32,641	263,234
Additional paid-in capital	63,051	63,051	508,476
Legal reserve (Note 9)	13,409	13,302	108,137
Retained earnings (Note 9)	556,165	520,276	4,485,201
Accumulated other comprehensive income (loss) (Notes 7, 8 and 11)	(24,851)	(58,257)	(200,411)
Treasury stock at cost; 170,462 shares in 2001 (Note 10)	(2,666)	–	(21,500)
Total stockholders' equity	637,749	571,013	5,143,137
Commitments and contingent liabilities (Note 13)			
	¥820,177	775,992	$6,614,331

	Yen (Millions)			U.S. Dollars (Thousands) (Note 2)
	2001	2000	1999	**2001**
Common stock:				
Balance at beginning of period	**¥ 32,641**	32,641	32,641	**$ 263,234**
Balance at end of period	**32,641**	32,641	32,641	**263,234**
Additional paid-in capital:				
Balance at beginning of period	**63,051**	63,051	63,051	**508,476**
Balance at end of period	**63,051**	63,051	63,051	**508,476**
Legal reserve (Note 9):				
Balance at beginning of period	**13,302**	12,674	11,791	**107,274**
Transferred from retained earnings	**107**	628	883	**863**
Balance at end of period	**13,409**	13,302	12,674	**108,137**
Retained earnings (Note 9):				
Balance at beginning of period	**520,276**	478,832	441,362	**4,195,774**
Net income	**43,983**	50,730	46,345	**354,702**
Cash dividends	**(7,987)**	(8,658)	(7,992)	**(64,412)**
Transferred to legal reserve	**(107)**	(628)	(883)	**(863)**
Balance at end of period	**556,165**	520,276	478,832	**4,485,201**
Accumulated other comprehensive income (loss) (Notes 7, 8 and 11):				
Balance at beginning of period	**(58,257)**	(51,800)	(18,054)	**(469,814)**
Other comprehensive income (loss) for the period, net of tax	**33,406**	(6,457)	(33,746)	**269,403**
Balance at end of period	**(24,851)**	(58,257)	(51,800)	**(200,411)**
Treasury stock (Note 10):				
Balance at beginning of period	**–**	–	–	**–**
Acquisition of treasury stock	**(2,666)**	–	–	**(21,500)**
Balance at end of period	**(2,666)**	–	–	**(21,500)**
Total stockholders' equity	**¥637,749**	571,013	535,398	**$5,143,137**
Disclosure of comprehensive income:				
Net income for the period	**¥ 43,983**	50,730	46,345	**$ 354,702**
Other comprehensive income (loss) for the period, net of tax (Note 11)	**33,406**	(6,457)	(33,746)	**269,403**
Total comprehensive income for the period	**¥ 77,389**	44,273	12,599	**$ 624,105**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

TDK Corporation and Subsidiaries
years ended March 31, 2001, 2000 and 1999

	Yen (Millions)			U.S. Dollars (Thousands) (Note 2)
	2001	2000	1999	**2001**
Cash flows from operating activities:				
Net income	**¥ 43,983**	50,730	46,345	**$ 354,702**
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	**67,973**	53,846	50,960	**548,170**
Loss on disposal of property and equipment	**5,144**	2,156	2,328	**41,484**
Deferred income taxes	**(10,986)**	(3,375)	4,935	**(88,597)**
Loss (gain) on securities	**(13,450)**	(1,452)	659	**(108,468)**
Contribution of cash and cash equivalents to pension trust	**(15,315)**	–	–	**(123,508)**
Changes in assets and liabilities:				
Decrease (increase) in trade receivables	**22,365**	(24,427)	11,741	**180,363**
Decrease (increase) in inventories	**(23,607)**	(9,408)	7,795	**(190,379)**
Increase (decrease) in trade payables	**(18,969)**	20,002	3,832	**(152,976)**
Increase in income taxes	**4,766**	2,566	39	**38,435**
Other – net	**5,693**	3,270	(2,310)	**45,911**
Net cash provided by operating activities	**67,597**	93,908	126,324	**545,137**
Cash flows from investing activities:				
Capital expenditures	**(99,452)**	(84,780)	(54,330)	**(802,032)**
Proceeds from sale of investments	**2,492**	4,256	26,418	**20,097**
Payment for purchase of investments	**(692)**	(17,189)	(27,539)	**(5,581)**
Proceeds from sale and settlement of marketable securities	**–**	–	4,171	**–**
Proceeds from maturities of marketable securities	**3,761**	–	6,263	**30,331**
Payment for purchase of marketable securities	**–**	(1,993)	(18,250)	**–**
Other – net	**1,353**	929	458	**10,911**
Net cash used in investing activities	**(92,538)**	(98,777)	(62,809)	**(746,274)**
Cash flows from financing activities:				
Proceeds from long-term debt	**614**	72	83	**4,952**
Repayment of long-term debt	**(1,536)**	(2,505)	(1,512)	**(12,387)**
Increase (decrease) in short-term debt	**2,761**	(1,694)	(1,699)	**22,267**
Payment to acquire treasury stock	**(2,666)**	–	–	**(21,500)**
Dividends paid	**(7,987)**	(8,658)	(7,992)	**(64,412)**
Net cash used in financing activities	**(8,814)**	(12,785)	(11,120)	**(71,080)**
Effect of exchange rate changes on cash and cash equivalents	**10,153**	(7,946)	(6,742)	**81,879**
Net increase (decrease) in cash and cash equivalents	**(23,602)**	(25,600)	45,653	**(190,338)**
Cash and cash equivalents at beginning of period	**174,519**	200,119	154,466	**1,407,411**
Cash and cash equivalents at end of period	**¥150,917**	174,519	200,119	**$1,217,073**

See accompanying 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 and systems. 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 and systems, which accounted for 80% and 20% of net sales, respectively, for the year ended March 31, 2001. Main products which are manufactured and sold by the two business segments are as follows:

a) Electronic materials and components products:

Ferrite cores, Ceramic capacitors, High-frequency components, Coils, GMR heads, and Semiconductors

b) Recording media and systems products:

Audio tapes, Video tapes, CD-Rs, MDs, DVDs, and PC cards

TDK sells electronic materials and components products to electric and communication equipment manufacturers and audio equipment manufacturers, mainly in Asia and Japan, and recording media and systems 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.

(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 the estimated periods, not exceeding 10-year periods.

(d) Cash Equivalents

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

(e) Marketable Securities

The Company changed its method of accounting for certain investments in debt and equity securities and restated the consolidated financial statements as of and for the years ended March 31, 2000, and 1999 to apply Statement of Financial Accounting Standards No.115 ("SFAS 115"), "Accounting for Certain Investments in Debt and Equity Securities". Under SFAS 115, certain investments in debt and equity securities should be classified as trading, available-for-sale, or held-to-maturity securities. Trading securities are bought and held principally for the purpose of selling them in the near term. Held-to-maturity securities are those securities in which the Company has the ability and intent to hold the security until maturity. All securities not included in trading or held-to-maturity are classified as available-for-sale.

Trading and available-for-sale securities are recorded at fair value. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts. Unrealized holding gains and losses on trading securities are included in earnings. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of other comprehensive income until realized.

Prior to the application of SFAS 115, marketable securities were carried at the lower of cost or market. The cost of such securities was based on the average cost.

As a result of the application of SFAS 115, total assets increased ¥7,510 million, stockholders' equity increased ¥7,519 million and comprehensive income increased ¥4,232 million in the consolidated financial statements for the year ended March 31, 2000 and total assets increased ¥3,332 million, stockholders' equity increased ¥3,287 million and comprehensive income decreased ¥6,853 million in the consolidated financial statements for the year ended March 31, 1999. The effect on deferred taxes resulting from a change in the income tax rate increased net income by ¥338 million for the year ended March 31, 1999.

(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 in the United States of America. 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) Derivative Financial Instruments

The Company and certain of its subsidiaries use financial instruments with off-balance-sheet risk, such as currency swaps, interest rate and currency swaps, interest rate swaps, forward foreign exchange contracts and currency option contracts, to limit their exposure to fluctuations in foreign exchange rates and interest rates. Gains and losses on foreign exchange instruments that qualify for hedge accounting treatment are recognized in the same period in which gains or losses from the transaction being hedged are recognized. The differential to be paid or received on interest rate swap agreements is recognized over the life of the agreement as an adjustment to interest expense. Derivative financial instruments that do not meet the criteria for hedge accounting are marked to market.

(o) 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.

(p) Revenue Recognition

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 (“SAB 101”), “Revenue Recognition in Financial Statements”. SAB 101 summarizes certain of the SEC’s views in applying generally accepted accounting principles to revenue recognition in financial statements and provides guidance on revenue recognition issues in the absence of authoritative literature addressing a specific arrangement or a specific industry. The Company adopted SAB 101 in the year ended March 31, 2001 and recognizes revenue when persuasive evidence of an arrangement including title transfer exists, delivery has occurred, the sales price is fixed or determinable, and collectibility is probable. Adoption of this guidance did not have a material effect on the Company’s consolidated financial position or results of operations.

(q) New Accounting Standards Not Yet Adopted

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 (“SFAS 133”), “Accounting for Derivative Instruments and Hedging Activities”. In June 2000, the Financial Accounting Standards Board also issued Statement of Financial Accounting Standards No. 138 (“SFAS 138”), “Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133”. Both standards establish accounting and reporting standards for derivative instruments and for hedging activities, and require that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. SFAS 133, as amended, and 138 are effective for fiscal years beginning after June 15, 2000. The Company adopted SFAS 133 and 138 as of April 1, 2001. The cumulative effect adjustment upon the adoption of SFAS 133 and 138, net of the related income tax effect, resulted in a decrease to other comprehensive income of approximately ¥90 million ($726,000).

In May 2000, the Emerging Issues Task Force reached a final consensus on Issue 00-14 (“EITF 00-14”), “Accounting for Certain Sales Incentives”. EITF 00-14 addresses accounting and reporting standards for sales incentives such as coupons or rebates that are provided by vendors or manufacturers and are exercisable by customers at the point of sale. EITF 00-14 should be applied no later than in financial statements for the fiscal year or quarter beginning after December 15, 2001. The Company will adopt EITF 00-14 in the year ending March 31, 2003. Currently, the effect on the Company’s consolidated financial statements of adopting EITF 00-14 has not been determined.

In April 2001, the Emerging Issues Task Force also reached a final consensus on a portion of Issue 00-25 (“EITF 00-25”), “Vendor Income Statement Characterization of Consideration to a Purchaser of the Vendor’s Products or Services”. EITF 00-25 addresses the income statement characterization of consideration, other than that directly addressed in EITF 00-14, from a vendor (typically a manufacturer or distributor) to a customer (typically a retailer or wholesaler) in connection with the sale to the customer of the vendor’s products or promotion of sales of the vendor’s products by the customer. EITF 00-25 should be applied no later than in financial statements for the fiscal year or quarter beginning after December 15, 2001. The Company will adopt EITF 00-25 in the year ending March 31, 2003. Currently, the effect on the Company’s consolidated financial statements of adopting EITF 00-25 has not been determined.

(r) Reclassifications

In 2001, the Company changed the format of the consolidated statements of income from multi-step to single-step for the purpose of more appropriate presentation of its operational activities. The consolidated statements of income and related notes for the years ended March 31, 2000 and 1999 have been reclassified in conformity with the 2001 presentation. Certain other reclassifications have also been made to the prior year’s consolidated financial statements to conform to the presentation used for the year ended March 31, 2001.

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, 2001, have also been translated into U.S. dollar amounts, solely for the convenience of the reader, at the rate of ¥124=U.S.$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 30, 2001. This translation should not be construed as a representation that the amounts shown could be converted into U.S. dollars at such rate.

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)
	2001	2000	1999	2001
Net assets	¥326,392	276,998	274,152	$2,632,194
Net sales	449,764	422,327	423,031	3,627,129
Net income (loss)	(5,239)	41,332	48,733	(42,250)

4. Marketable Securities and Investments and Advances

Marketable securities and investments and advances consist of available-for-sale securities. Information with respect to such securities at March 31, 2001 and 2000, is as follows:

	2001				2000			
	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Yen (Millions):								
Marketable securities:								
Debt securities	¥ –	–	–	–	6,519	11	–	6,530
Investments and advances:								
Equity securities	3,903	35	(592)	3,346	24,061	14,944	(2,231)	36,774
Debt securities	2,851	32	–	2,883	102	–	(17)	85
	¥ 6,754	67	(592)	6,229	30,682	14,955	(2,248)	43,389
U.S. Dollars (Thousands):								
Marketable securities:								
Debt securities	$ –	–	–	–				
Investments and advances:								
Equity securities	31,476	282	(4,774)	26,984				
Debt securities	22,992	258	–	23,250				
	$54,468	540	(4,774)	50,234				

Debt securities classified as available-for-sale at March 31, 2001 mature in fiscal 2003 through 2004 (weighted average remaining term of 2.1 years).

The proceeds from sale and settlement of available-for-sale securities are ¥2,492 million ($20,097,000), ¥4,044 million and ¥30,589 million for the years ended March 31, 2001, 2000 and 1999, respectively. The gross realized gains on the sale of available-for-sale securities are ¥999 million ($8,056,000), ¥1,623 million and ¥14,669 million for the years ended March 31, 2001, 2000 and 1999, respectively. The gross realized losses on the sale and settlement of available-for-sale securities are ¥74 million ($597,000), ¥47 million and ¥15,001 million for the years ended March 31, 2001, 2000 and 1999, respectively. During 2001, the Company contributed equity securities of ¥34,573 million ($278,815,000) to a pension trust. The gross realized gains and losses on this contribution are ¥13,329 million ($107,492,000) and ¥811 million ($6,540,000), respectively.

5. Inventories

Inventories at March 31, 2001 and 2000, are summarized as follows:

	Yen (Millions)		U.S. Dollars (Thousands)
	2001	2000	**2001**
Finished goods	**¥ 53,724**	34,188	**$433,258**
Work in process	**29,755**	24,886	**239,960**
Raw materials	**32,944**	25,765	**265,677**
	¥116,423	84,839	**$938,895**

6. Short-Term and Long-Term Debt

Short-term debt and weighted average interest rates at March 31, 2001 and 2000, are as follows:

	Yen (Millions)		U.S. Dollars (Thousands)	Weighted average interest rate	
	2001	2000	**2001**	**2001**	2000
Short-term bank loans	**¥5,120**	1,417	**$41,290**	**5.54%**	5.80%

At March 31, 2001, unused short-term credit facilities for issuance of commercial paper amounted to ¥37,170 million ($299,758,000).

Long-term debt at March 31, 2001 and 2000, is set forth below:

	Yen (Millions)		U.S. Dollars (Thousands)
	2001	2000	**2001**
Loans from banks, unsecured, due fiscal 2002–2003, interest 7.91%–13.43% (weighted average 2001–12.60%; 2000–8.44%)	**¥ 365**	¥443	**$ 2,944**
Other	**1,398**	119	**11,274**
	1,763	562	**14,218**
Less current installments	**759**	516	**6,121**
	¥1,004	¥ 46	**$ 8,097**

The aggregate annual maturities of long-term debt outstanding at March 31, 2001, are as follows:

	Yen (Millions)	U.S. Dollars (Thousands)
Year ending March 31,		
2002	¥ 759	$ 6,121
2003	595	4,798
2004	400	3,226
Later years	9	73
	¥1,763	$14,218

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 years ended March 31, 2001 and 2000 and 47% in the year ended March 31, 1999.

An amendment to the Japanese tax regulations was enacted on March 24, 1999. As a result of this amendment, the normal income tax rate was reduced from approximately 47% to 41% effective from April 1, 1999. Current income taxes were calculated at the rate of 41% in effect for the years ended March 31, 2001 and 2000, and 47% in effect for the year ended March 31, 1999. Deferred income tax was calculated at the rate of 41% for the year ended March 31, 1999. The effect of the income tax rate reduction on the deferred income tax balance as of March 31, 1999 is immaterial.

The effective tax rate of the companies for the years ended March 31, 2001, 2000 and 1999, are reconciled with the Japanese statutory tax rate in the following table:

	2001	2000	1999
Japanese statutory tax rate	**41.0%**	41.0%	47.0%
Expenses not deductible for tax purposes	**0.3**	0.3	0.9
Amortization of goodwill	**1.4**	0.6	0.1
Difference in statutory tax rates of foreign subsidiaries	**(14.1)**	(8.4)	(7.6)
Change in the valuation allowance at the beginning of the year	**(0.3)**	(0.5)	(0.5)
Other	**2.4**	(2.7)	(1.8)
Effective tax rate	**30.7%**	30.3%	38.1%

Total income taxes for the years ended March 31, 2001, 2000 and 1999 are allocated as follows:

	Yen (Millions)			U.S. Dollars (Thousands)
	2001	2000	1999	**2001**
Income before income taxes	**¥19,792**	22,245	28,745	**$159,613**
Stockholders' equity:				
Foreign currency translation adjustments	**(1,893)**	(1,339)	(1,837)	**(15,266)**
Net unrealized gains (losses) on securities	**(6,404)**	2,900	(5,797)	**(51,645)**
Minimum pension liability adjustments	**9,587**	8,487	(8,143)	**77,315**
Total income taxes	**¥21,082**	32,293	12,968	**$170,017**

Income before income taxes and income taxes for the years ended March 31, 2001, 2000 and 1999, are summarized as follows:

		Income Before Income Taxes	Income Taxes		
			Current	Deferred	Total
Yen (Millions):	2001				
	Japanese	**¥ 64,394**	**25,832**	**(10,662)**	**15,170**
	Foreign	**122**	**4,946**	**(324)**	**4,622**
		¥ 64,516	**30,778**	**(10,986)**	**19,792**
	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	5,292	24,646
	Foreign	53,103	4,456	(357)	4,099
		¥ 75,425	23,810	4,935	28,745
U.S. Dollars (Thousands):	2001				
	Japanese	**$519,306**	**208,323**	**(85,984)**	**122,339**
	Foreign	**984**	**39,887**	**(2,613)**	**37,274**
		$520,290	**248,210**	**(88,597)**	**159,613**

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2001 and 2000, are as follows:

	Yen (Millions)		U.S. Dollars (Thousands)
	2001	2000	**2001**
Deferred tax assets:			
Trade accounts receivable, principally due to allowance for doubtful debt	**¥ 121**	–	**$ 976**
Inventories, principally due to elimination of intercompany profit	**4,752**	2,128	**38,322**
Accrued business tax	**1,530**	934	**12,339**
Accrued expenses	**3,765**	2,673	**30,363**
Retirement and severance benefits	**5,447**	3,219	**43,927**
Net operating loss carryforwards	**2,837**	876	**22,879**
Tax credit carryforwards	**2,779**	89	**22,411**
Net unrealized losses on securities	**196**	–	**1,581**
Minimum pension liability adjustments	**3,714**	13,301	**29,952**
Other	**1,635**	1,103	**13,185**
Total gross deferred tax assets	**26,776**	24,323	**215,935**
Less valuation allowance	**(5,646)**	(959)	**(45,532)**
Net deferred tax assets	**¥21,130**	23,364	**$170,403**
Deferred tax liabilities:			
Trade accounts receivable, principally due to allowance for doubtful debt	**–**	(126)	**–**
Investments, principally due to undistributed earnings of foreign subsidiaries and differences in valuation	**(14,141)**	(17,884)	**(114,040)**
Property, plant, and equipment, principally due to differences in depreciation	**(577)**	(623)	**(4,653)**
Net unrealized gains on securities	**–**	(5,188)	**–**
Other	**(1,486)**	(252)	**(11,984)**
Total gross deferred tax liabilities	**(16,204)**	(24,073)	**(130,677)**
Net deferred tax assets	**¥ 4,926**	(709)	**$ 39,726**

The net changes in the total valuation allowance for the years ended March 31, 2001, 2000 and 1999, are an increase of ¥4,687 million ($37,798,000), decrease of ¥1,427 million and decrease of ¥753 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, 2001.

At March 31, 2001, certain subsidiaries have net operating loss carryforwards for income tax purposes of ¥7,939 million ($64,024,000) which are available to offset future taxable income, if any. Approximately ¥53 million ($427,000) and ¥4,283 million ($34,540,000) of the operating loss carryforwards expire in fiscal 2002 and through 2021, while the remainder have an indefinite carryforward period. Certain subsidiaries also have tax credit carryforwards for income tax purposes of ¥2,779 million ($22,411,000) which are available to reduce future income taxes, if any. Approximately ¥1,343 million ($10,831,000) and ¥1,436 million ($11,581,000) of the tax credit carryforwards expire in fiscal 2002 and through 2020.

Net deferred income tax assets and liabilities at March 31, 2001 and 2000, are reflected in the accompanying consolidated balance sheets under the following captions:

	Yen (Millions)		U.S. Dollars (Thousands)
	2001	2000	**2001**
Prepaid expenses and other current assets	**¥4,266**	2,703	**$34,403**
Other assets	**2,690**	10,240	**21,694**
Other current liabilities	**(1,937)**	(13,245)	**(15,621)**
Deferred income taxes	**(93)**	(407)	**(750)**
	¥4,926	(709)	**$39,726**

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, 2001, the undistributed earnings of these subsidiaries and affiliates are approximately ¥163,085 million ($1,315,202,000).

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. In addition, in September 2000, the Company contributed equity securities with a fair value of ¥34,573 million ($278,815,000) and cash of ¥15,315 million ($123,508,000) to the pension trust. The Company also has an unfunded retirement plan for directors and statutory auditors.

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)
	2001	2000	**2001**
Change in benefit obligations:			
Benefit obligations at beginning of period	**¥218,470**	208,302	**$1,761,855**
Service cost	**10,923**	9,404	**88,089**
Interest cost	**6,390**	6,070	**51,532**
Plan participants' contributions	**662**	656	**5,339**
Actuarial gain	**(1,559)**	(2,166)	**(12,573)**
Benefits paid	**(4,771)**	(3,377)	**(38,476)**
Translation adjustment	**618**	(419)	**4,984**
Benefit obligations at end of period	**230,733**	218,470	**1,860,750**
Change in plan assets:			
Fair value of plan assets at beginning of period	**141,755**	113,784	**1,143,185**
Actual return on plan assets	**(15,549)**	20,930	**(125,395)**
Employer contributions	**55,845**	9,622	**450,363**
Plan participants' contributions	**662**	656	**5,339**
Benefits paid	**(3,599)**	(2,926)	**(29,024)**
Translation adjustment	**444**	(311)	**3,581**
Fair value of plan assets at end of period	**179,558**	141,755	**1,448,049**
Funded status	**(51,175)**	(76,715)	**(412,701)**
Unrecognized net transition obligation being recognized over 18 years	**(9,039)**	(10,370)	**(72,895)**
Unrecognized net actuarial loss	**80,084**	64,195	**645,839**
Net amount recognized	**¥ 19,870**	(22,890)	**$ 160,243**
Amounts recognized in the statement of financial position consist of:			
Prepaid benefit cost	**¥ 41,290**	100	**$ 332,984**
Accrued benefit liability	**(31,755)**	(56,845)	**(256,089)**
Intangible assets	**1,276**	1,414	**10,291**
Accumulated other comprehensive income (loss)	**9,059**	32,441	**73,057**
Net amount recognized	**¥ 19,870**	(22,890)	**$ 160,243**
Actuarial present value of accumulated benefit obligations at end of period	**¥209,503**	198,066	**$1,689,540**

Net cost of retirement and severance benefits for the years ended March 31, 2001, 2000 and 1999, consisted of the following:

	Yen (Millions)			U.S. Dollars (Thousands)
	2001	2000	1999	**2001**
Components of net periodic benefit cost:				
Service cost	**¥10,923**	9,404	8,537	**$ 88,089**
Interest cost	**6,390**	6,070	6,073	**51,532**
Expected return on plan assets	**(4,417)**	(3,566)	(3,929)	**(35,621)**
Amortization of transition assets	**(1,331)**	(1,331)	(1,331)	**(10,734)**
Recognized actuarial loss	**2,598**	3,963	3,044	**20,952**
Net periodic benefit cost	**¥14,163**	14,540	12,394	**$114,218**

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 2001 and 2000. The rates of increase in future compensation levels were 3.0% for 2001 and 2000.

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 ($0.24) per share aggregating ¥3,990 million ($32,177,000) in respect of the year ended March 31, 2001, or for the related appropriation to the legal reserve.

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

10. Stock Option Plan

On April 24, 2000, the Board of Directors decided to implement the Company's first stock option plan for Directors and certain employees of the Company, and to purchase the Company's own shares for transfer to them under the plan, pursuant to Article 210-2 of the Japanese Commercial Code. Upon approval at the Ordinary General Meeting of Shareholders held on June 29, 2000 and subsequent Board of Directors' resolutions, stock options (rights to purchase common shares) were provided to the then 13 Directors on the Board and 191 associate directors and officials in amounts ranging from 500 to 10,000 common shares each, exercisable from August 1, 2002 to April 30, 2006, at an exercise price of ¥15,640 ($126.13) per share, which was calculated by a formula approved by shareholders at the said annual shareholders meeting and is subject to an adjustment in certain events, including but not limited to a stock split, stock dividend and issue of new shares at price less than the current market price of the shares of the Company. To cover these options the Company purchased on the Tokyo Stock Exchange a total of 170,400 common shares with an aggregate purchase price of ¥2,665 million ($21,492,000) from July 3, 2000 through August 2, 2000.

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123) defines a fair value based method of accounting for a stock option. SFAS 123 gives an entity a choice of recognizing related compensation expense by adopting the new fair value method or to continue to measure compensation using the intrinsic value-based method under Accounting Principles Board Opinion No.25 (APB 25), "Accounting for Stock Issued to Employees", the former standard. The Company chose to use the measurement prescribed by APB 25, and no compensation cost for the stock option plan has been incurred in fiscal 2001. Had compensation cost for the Company's stock option plan been determined consistent with SFAS 123, the Company's net income and net income per share would have been ¥43,776 million ($353,032,000) and ¥328.98 ($2.65), respectively.

Stock options activity for the year ended March 31, 2001, is as follows:

	Number of shares	Weighted average exercise price		Weighted average remaining life	Exercise price	
		Yen	U.S. Dollars		Low	High
Outstanding at March 31, 2000	–	–	–			
Granted	170,400	15,640	126.13			
Exercised	–	–	–			
Forfeited or Expired	–	–	–			
Outstanding at March 31, 2001	170,400	15,640	126.13	4.25 years	¥15,640	¥15,640
[Exercisable at March 31, 2001]	0	–	–			

The fair value of these stock options was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	2001
Grant-date fair value	¥4,127 ($33.28)
Expected life	3.9 years
Risk-free interest rate	0.89%
Expected volatility	37.92%
Expected dividend yield	0.40%

11. Other Comprehensive Income (Loss)

Change in accumulated other comprehensive income (loss) for the years ended March 31, 2001, 2000 and 1999, are as follows:

	Yen (Millions)			U.S. Dollars (Thousands)
	2001	2000	1999	**2001**
Foreign currency translation adjustments:				
Balance at beginning of period	**¥(50,237)**	(27,333)	(9,623)	**$(405,137)**
Adjustments for period	**26,439**	(22,904)	(17,710)	**213,218**
Balance at end of period	**(23,798)**	(50,237)	(27,333)	**(191,919)**
Net unrealized gains on securities:				
Balance at beginning of period	**6,499**	2,267	9,120	**52,411**
Adjustments for period	**(6,828)**	4,232	(6,853)	**(55,065)**
Balance at end of period	**(329)**	6,499	2,267	**(2,654)**
Minimum pension liability adjustments:				
Balance at beginning of period	**(14,519)**	(26,734)	(17,551)	**(117,088)**
Adjustments for period	**13,795**	12,215	(9,183)	**111,250**
Balance at end of period	**(724)**	(14,519)	(26,734)	**(5,838)**
Total accumulated other comprehensive income (loss):				
Balance at beginning of period	**(58,257)**	(51,800)	(18,054)	**(469,814)**
Adjustments for period	**33,406**	(6,457)	(33,746)	**269,403**
Balance at end of period	**¥(24,851)**	(58,257)	(51,800)	**$(200,411)**

Tax effects allocated to each component of other comprehensive income (loss) and reclassification adjustments for the years ended March 31, 2001, 2000 and 1999, are as follows:

	Yen (Millions)		
	Before tax amount	Tax (expense) or benefit	Net-of-tax amount
2001			
Foreign currency translation adjustments	**¥ 24,546**	**1,893**	**26,439**
Unrealized gains on securities:			
Unrealized holding gains (losses) arising for period	**(691)**	**242**	**(449)**
Reclassification adjustments for (gains) losses realized in net income	**(12,541)**	**6,162**	**(6,379)**
Net unrealized gains (losses)	**(13,232)**	**6,404**	**(6,828)**
Minimum pension liability adjustments	**23,382**	**(9,587)**	**13,795**
Other comprehensive income (loss)	**¥ 34,696**	**(1,290)**	**33,406**
2000			
Foreign currency translation adjustments	¥ (24,243)	1,339	(22,904)
Unrealized gains on securities:			
Unrealized holding gains (losses) arising for period	7,153	(2,913)	4,240
Reclassification adjustments for (gains) losses realized in net income	(21)	13	(8)
Net unrealized gains (losses)	7,132	(2,900)	4,232
Minimum pension liability adjustments	20,702	(8,487)	12,215
Other comprehensive income (loss)	¥3,591	(10,048)	(6,457)
1999			
Foreign currency translation adjustments:	¥ (19,547)	1,837	(17,710)
Unrealized gains on securities:			
Unrealized holding gains (losses) arising for period	4,202	(2,124)	2,078
Reclassification adjustments for (gains) losses realized in net income	(16,852)	7,921	(8,931)
Net unrealized gains (losses)	(12,650)	5,797	(6,853)
Minimum pension liability adjustments	(17,326)	8,143	(9,183)
Other comprehensive income (loss)	¥ (49,523)	15,777	(33,746)

	U.S. Dollars (Thousands)		
	Before tax amount	Tax (expense) or benefit	Net-of-tax amount
2001			
Foreign currency translation adjustments	**$197,952**	**15,266**	**213,218**
Unrealized gains on securities:			
Unrealized holding gains (losses) arising for period	**(5,573)**	**1,952**	**(3,621)**
Reclassification adjustments for (gains) losses realized in net income	**(101,137)**	**49,693**	**(51,444)**
Net unrealized gains (losses)	**(106,710)**	**51,645**	**(55,065)**
Minimum pension liability adjustments	**188,565**	**(77,315)**	**111,250**
Other comprehensive income (loss)	**$279,807**	**(10,404)**	**269,403**

12. Leases

The companies occupy offices and other facilities under various cancellable lease agreements expiring in fiscal 2002 through 2003. Lease deposits made under such agreements, aggregating ¥1,900 million ($15,323,000) and ¥1,962 million, at March 31, 2001 and 2000, 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, 2001:

	Yen (Millions)	U.S. Dollars (Thousands)
Year ending March 31,		
2002	¥ 3,310	$26,694
2003	2,718	21,919
2004	1,881	15,169
2005	1,374	11,081
2006	871	7,024
Later years.	1,170	9,436
	¥11,324	$91,323

13. Commitments and Contingent Liabilities

At March 31, 2001, commitments outstanding for the purchase of property, plant, and equipment approximated ¥19,545 million ($157,621,000). Contingent liabilities for guarantees of loans of the Company's employees and affiliates amounted to approximately ¥8,631 million ($69,605,000).

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.

14. Risk Management Activities and Derivative Financial Instruments

The Company and its subsidiaries operate internationally which exposes them to the risk of changes in foreign exchange rates and interest rates, and therefore utilize derivative financial instruments to reduce these risks. 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 swaps, interest rate and currency swaps, interest rate swaps, forward foreign exchange contracts and currency option contracts is represented by the fair values of contracts with a positive fair value at the reporting date.

The Company and one of its subsidiaries have currency swaps and interest rate and currency swaps with certain financial institutions to limit their exposure to fluctuations in foreign exchange rates involved mainly in loans made by the Company to its subsidiaries in a total amount of ¥20,323 million ($163,895,000) and ¥3,798 million at March 31, 2001 and 2000, respectively. These swaps require the Company and the subsidiary to pay principally euros and U.S. dollars and to receive Japanese yen at a specified rate on specific dates. The remaining terms of these swaps range from one month to 2.5 years as of March 31, 2001. Gains or losses on these swaps are included in other income or other deductions in the consolidated statements of income in the period in which the exchange rates change and are 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.

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 had a total notional and contract amount of ¥2,921 million at March 31, 2000. Gains or losses on the currency swaps used for loans from financial institutions are included in other income or other deductions 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.

Forward exchange contracts and currency option contracts have been entered into to hedge adverse effects of foreign currency exchange rate fluctuations mainly on foreign-currency-denominated trade receivables and foreign-currency-denominated forecasted transactions.

At March 31, 2001 and 2000, the Company and certain of its subsidiaries had forward exchange contracts to sell and buy foreign currencies (principally U.S. dollars and Malaysian ringgit) for a contract amount of ¥16,264 million ($131,161,000) and ¥30,169 million, respectively.

Written foreign currency option contracts are entered into in combination with purchased option contracts to offset premium amounts to be paid for purchased option contracts. Notional amounts, exercise dates and exercise prices of both written and purchased contracts are the same. Notional amounts of purchased foreign currency option contracts as of March 31, 2001 totaled ¥26,019 million ($209,831,000). Notional amounts of written foreign currency option contracts as of March 31, 2001 totaled ¥18,585 million ($149,879,000). All foreign currency option contracts are measured at their fair values by recognizing a foreign exchange gain or loss on the consolidated statements of income, 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.

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 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 excesses, and are included in other current liabilities in the consolidated balance sheets. Gains or losses on swaps, when recognized, are included in other income or other deductions in the consolidated statements of income.

15. 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 practicable:

(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 Swaps, Currency and Interest Rate Swaps, Interest Rate Swaps, Forward Foreign Exchange Contracts and Foreign Currency Option Contracts

The fair values of currency swaps, currency and interest rate swaps, interest rate swaps, forward foreign exchange contracts and foreign currency option 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, 2001 and 2000, are summarized as follows:

	Yen (Millions)				U.S. Dollars (Thousands)	
	2001		2000		**2001**	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Nonderivatives:						
Assets:						
Marketable securities	**¥ –**	**–**	6,530	6,530	**$ –**	**–**
Investments and advances for which it is:						
Practicable to estimate fair value	**7,638**	**7,638**	41,037	41,037	**61,597**	**61,597**
Not practicable to estimate fair value	**2,319**	**–**	1,801	–	**18,702**	**–**
Liability:						
Long-term debt	**(365)**	**(365)**	(443)	(443)	**(2,944)**	**(2,944)**
Derivatives:						
Currency and interest rate swaps in a:						
Gain position	**26**	**24**	710	724	**210**	**194**
Loss position	**(507)**	**(590)**	–	–	**(4,089)**	**(4,758)**
Forward foreign exchange contracts in a:						
Gain position	**125**	**1**	125	34	**1,008**	**8**
Loss position	**(461)**	**(405)**	(274)	(205)	**(3,718)**	**(3,266)**
Currency option contracts - purchased in a:						
Gain position	**136**	**136**	–	–	**1,097**	**1,097**
Loss position	**(158)**	**(158)**	–	–	**(1,274)**	**(1,274)**
Currency option contracts - written in a:						
Loss position	**(1,055)**	**(1,055)**	–	–	**(8,508)**	**(8,508)**

The carrying amounts of the nonderivative assets and liabilities are included in the consolidated balance sheets under the indicated captions. The carrying amounts of the currency swaps, the currency and interest rate swaps, the interest rate swaps, forward foreign exchange contracts and currency option 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 13. 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.

16. Acquisition

In March 2000 the Company purchased all of the outstanding voting common stock of Headway Technologies, Inc. (Headway) through its subsidiary, SAE Magnetics (H.K.) Ltd. Headway is headquartered in California and is a manufacturer of MR heads. The total cost of the acquisition was ¥12,874 million in cash. The acquisition was accounted for as a purchase and the purchase price was allocated to assets acquired and liabilities assumed based on estimated fair values. The results of operations of Headway were included in the consolidated financial statements from April 1, 2000. The identifiable intangible assets are amortized over their estimated useful lives and the excess of the cost of the acquisition over the sum of identifiable net assets is amortized over a 5-year period. The amortization was included in selling, general and administrative expenses. The acquisition did not have a significant effect on the Company's consolidated financial statements.

17. Supplementary Information

	Yen (Millions)			U.S. Dollars (Thousands)
	2001	2000	1999	**2001**
(a) Statement of Income				
Research and development	**¥36,970**	26,948	26,333	**$298,145**
Rent	**9,616**	8,174	8,802	**77,548**
Maintenance and repairs	**14,649**	13,058	11,752	**118,137**
Advertising costs	**12,398**	13,175	14,927	**99,984**
(b) Statement of Cash Flows				
Cash paid during year for:				
Interest	**¥ 555**	553	1,185	**$ 4,476**
Income taxes	**¥26,163**	22,804	22,368	**$210,992**

Noncash activities

In 2001, the Company contributed equity securities of ¥34,573 million ($278,815,000) to a pension trust.

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

The Board of Directors
TDK Corporation:

We have audited the accompanying consolidated balance sheets of TDK Corporation and subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of income, stockholders' equity, and cash flows for the years ended March 31, 2001, 2000, and 1999, 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.

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 report dated May 10, 2000, our opinion on the 2000 and 1999 consolidated financial statements of TDK Corporation and subsidiaries was qualified because of the effects of the departure from Statement of Financial Accounting Standards No.115 in accounting for certain investments in debt and equity securities. As described in note 1(e) of the notes to the consolidated financial statements, TDK Corporation and subsidiaries have changed their method of accounting for such investments in debt and equity securities and restated their 2000 and 1999 consolidated financial statements to conform with accounting principles generally accepted in the United States of America. Accordingly, our present opinion on the accompanying 2000 and 1999 consolidated financial statements, as presented herein, is different from that expressed in our previous report.

In our opinion, except for the omission of the segment information results in an incomplete presentation, as discussed in the third 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, 2001 and 2000, and the results of their operations and their cash flows for the years ended March 31, 2001, 2000, and 1999, 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, 2001, 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 10, 2001

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

ISSUED NUMBER OF SHARES
133,189,659 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
18,471

INDEPENDENT AUDITORS
KPMG

TRANSFER AGENT
The Chuo Mitsui Trust & Banking Co., Ltd.
3-33-1, Shiba, Minato-ku, Tokyo 150-8574, Japan

TDK Listed NYSE

(As of March 31, 2001)

QUARTERLY RESULTS AND STOCK PRICE DATA

Yen in millions, except per share amounts

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
Fiscal 2001	**I**	**II**	**III**	**IV**
Net sales	¥175,322	¥176,704	¥180,174	¥157,711
Net income	12,835	19,770	10,392	986
Net income per share (basic and diluted)	96.37	148.59	78.08	7.50
Stock price (Tokyo Stock Exchange):				
High	17,010	17,200	14,300	11,510
Low	11,530	13,260	10,120	6,600

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:
>> Semi-annual Report
>> Value and Performance Indicators
>> Corporate Brochure

INTERNET ADDRESS
http://www.tdk.co.jp/
Please visit the IR Information section of our site.

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