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