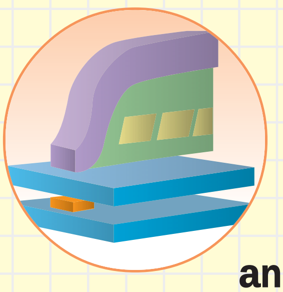
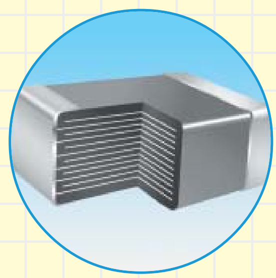
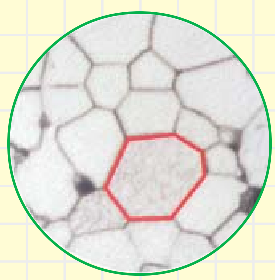
Annual Report 2003

April 2002-March 2003 TDK Corporation

HDD heads. Chip capacitors.
And much more. TDK products
take many shapes and sizes.
But all share the same basic
ingredients: material technology,
process technology
and creativity.







Understanding TDK Today

e-material solution provider

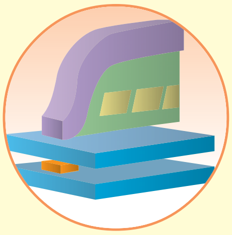
TDK CORPORATION

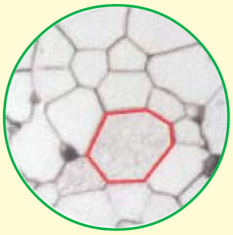
About TDK

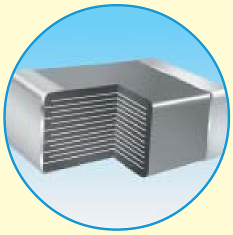
TDK was established in 1935 as the world's first company to commercialize a magnetic material called ferrite. In the ensuing years, TDK has developed and commercialized a host of other materials and products. This drive is based on the company's founding spirit of "Contribute to culture and industry through creativity."

Looking ahead, TDK is determined to further refine its core competence in electronic materials technologies and related process technologies to become an "e-material solution provider"—a company that can deliver with perfect timing the innovative products that are of true value to customers.

On the Cover







GMR Head: Pictured is a cross section of a GMR head for a hard disk. The spin valve of GMR heads, which is the part that actually retrieves data from the hard disk, showcases the sophistication of TDK's ultra-precise process, control and materials technologies. This microscopic element is fabricated by stacking many layers of film no thicker than a few nanometers on top of one another. And, incredibly, GMR heads float a mere 10 or so nanometers above a hard disk as it spins at high speed.

Ferrite: A ferrite crystal. Ferrite is a magnetic material that consists primarily of ferric oxide. There are two types of ferrite: soft and hard ferrite. The former, which is used for transformer cores, is created by sintering powder materials in a mold. The latter is created by applying a magnetic charge to soft ferrite. In developing ferrite materials, one of the company's signature products since its foundation, TDK gives full play to its reservoir of materials, powder metallurgy, molding and sintering technologies.

Capacitors: Multilayer ceramic chip capacitors are produced by alternately stacking many layers of conductive and dielectric materials. Why is this significant? Because each layer is no thicker than several microns. TDK's smallest capacitor, the 0603, measures only 0.6mm by 0.3mm, making it ideal for use in compact electronic devices. It is also extremely durable and highly reliable. Capacitors such as these draw on TDK's strengths in materials, multilayering and sintering technologies. A cross-sectional picture of a multilayer chip capacitor is shown above.

Cautionary Statement About Projections

This Annual Report contains forward-looking statements, including projections, plans, policies, management strategies, targets, schedules, understandings and evaluations, about TDK and its group companies that are not historical facts. These forward-looking statements are based on current forecasts, estimates, assumptions, plans, beliefs and evaluations in light of information available to management at the time this Annual Report was prepared.

In preparing forecasts and estimates, TDK and its group companies have used as their basis, certain assumptions as necessary, in addition to confirmed historical facts. However, due to their nature, there is no guarantee that these statements and assumptions will prove to be accurate in the future. TDK therefore wishes to caution readers that these statements, facts and certain assumptions contained in this earnings release are subject to a number of risks and uncertainties and may prove to be inaccurate.

The electronics markets in which TDK and its group companies operate are highly susceptible to rapid changes. Furthermore, TDK and its group companies operate 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

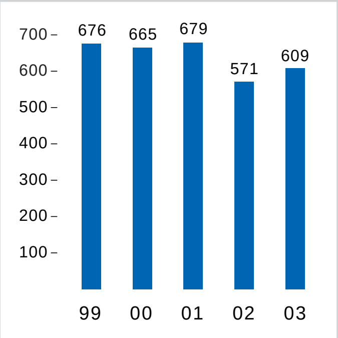
Years ended March 31	Yen in millions except per share amounts 2003	2002	U.S. dollars in thousands except per share amounts 2003	Change (%)
OPERATING RESULTS				
Net sales	**¥608,880**	570,511	**$5,074,000**	6.7
Electronic materials	**168,949**	161,846	**1,407,909**	4.4
Electronic devices	**112,729**	105,937	**939,408**	6.4
Recording devices	**175,986**	147,004	**1,466,550**	19.7
Semiconductors and others	**14,865**	18,099	**123,875**	(17.9)
Electronic materials and components	**472,529**	432,886	**3,937,742**	9.2
Recording media & systems	**136,351**	137,625	**1,136,258**	(0.9)
(Overseas sales)	**443,377**	405,707	**3,694,808**	9.3
Net income (loss)	**12,019**	(25,771)	**100,158**	–
Net income (loss) per share (basic and diluted)	**90.56**	(193.91)	**0.75**	
Cash dividends per share	**45.00**	60.00	**0.38**	
FINANCIAL POSITION				
Total assets	**¥747,337**	749,910	**$6,227,808**	(0.3)
Stockholders' equity	**553,885**	583,927	**4,615,708**	(5.1)
Long-term debt, excluding current installments	**94**	459	**783**	(79.5)
PERFORMANCE INDICATORS				
Overseas production/net sales	**56.0**	53.8		
Gross profit margin percentage	**24.5**	18.6		
Operating profit margin percentage	**3.6**	(7.7)		
Return on equity	**2.1**	(4.2)		
Price-earnings ratio	**50.0**	–		

Notes: 1. Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥120=US$1.

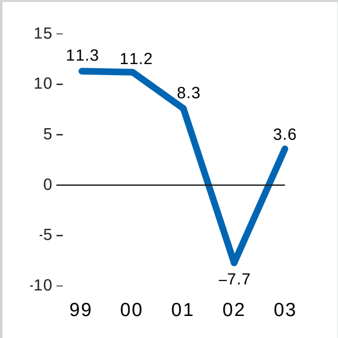
2. Operating profit ratio is based on net sales and operating profit defined as net sales less cost of sales, selling, general and administrative expenses, and restructuring costs.

3. TDK adopted the Emerging Issues Task Force Issue 01-9 ("EITF 01-9"), "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)" from the fiscal year beginning April 1, 2002 and certain amounts in the prior year's Net sales have been reclassified with no effect on net income (loss), to conform to the fiscal year 2003 presentation.

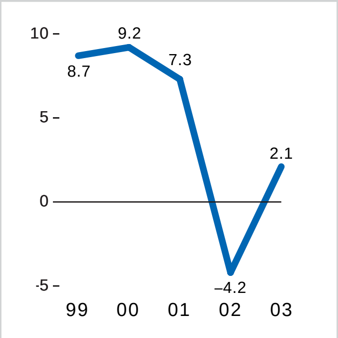
Net Sales
(Yen in billions)



Operating Profit Ratio
(%)



Return on Equity
(%)



To Our Stakeholders

Hajime Sawabe *President and CEO*

Our Operating Environment

Macroeconomic conditions remained severe in fiscal 2003, ended March 31, 2003. The bellwether U.S. economy, the driving force of the world economy, appeared to gradually move back onto a recovery footing after taking a step backwards at the start of 2002. However, in the closing months of 2002 consumer and corporate sentiment nosedived due to stagnant demand and tumbling share prices. The Japanese and European economies, which are highly reliant on external demand, felt the effects of the US slowdown. Asia, including China, fared relatively well, but this region is nowhere near becoming a leading force in the world economy just yet.

Fiscal 2003 Results

■ Sales and Earnings

TDK shook off this difficult operating environment to post a 6.7% increase in consolidated net sales, to ¥608,880 million, in fiscal 2003. Growth was paced by the electronics materials and components segment, with recording devices, in particular, posting higher sales on the back of a recovery in TDK's share of the HDD-head market. Consolidated net income also bounced back. TDK recorded a sharp increase to ¥12,019 million, reversing a net loss in fiscal 2002 of ¥25,771 million. The turnaround stems from structural reforms implemented during the past two years.

Sales by Segment

Sales increased in the electronic materials and components segment. This reflected higher sales in recording devices, where growth was spurred by a recovery in the market share of TDK's HDD heads, and higher demand for capacitors and inductive devices, which is being fueled by the digitalization of audio and visual equipment and the increasing use of electronics in automotive applications.

Sales in the recording media & systems segment edged down slightly. In optical media, demand for CD-Rs and DVDs was buoyant, but this was negated by falling MD demand and lower sales prices of CD-Rs, resulting in largely flat sales overall. Audiotape sales fell as demand waned, and higher sales of tape-based data storage media for computers and software were insufficient to offset this decline. Although sales dipped, this segment moved back into the black in the year ended March 31, 2003 as the results of major structural reforms began to show through. Looking ahead, we will build on this momentum by gaining certification for new tape-based data storage media standards and working on the commercialization of Blu-ray Discs, which are widely expected to be the next generation in optical discs.

Improving Cash Flows and Return on Assets

TDK focused on improving its inventory turnover, fixed asset turnover and trade receivables turnover in fiscal 2003 in an effort to improve cash flows and the return on assets. Due to improvements in data processing systems and mindset of everyone at TDK, we are making progress as planned. The numbers bear this out. As of March 31, 2003, the inventory turnover was 1.5 months, which contrasts with 1.9 months a year earlier. Likewise, fixed asset turnover has improved from 2.1 times to 2.5 times and trade receivables turnover improved from 3.1 months to 2.8 months over the same time frame. We are confident that we can raise our cash flows even more by enhancing our supply chain management system and making other improvements.

Continuation of Structural Reforms

Given the challenges we faced in fiscal 2003, we worked to generate profits with the presumption that our top line wouldn't grow. Our accomplishments of the past year were a major step toward building a base that can once again generate sustained earnings growth. We lowered our break-even point by reining in fixed costs. We overhauled our profit structure by concentrating resources on selected businesses. And we raised production efficiency. These measures allowed us to hit our initial operating income target of ¥20 billion. There is still work to be done though. While fixed costs have been trimmed as planned, we haven't seen the improvements we had hoped for in respect of the variable expense ratio. This is because languishing demand and a supply glut caused sales prices to drop sharply.

Another noteworthy development in fiscal 2003 was the progress we made in corporate governance, an area that is attracting increasing attention. By introducing the post of Corporate Officer, we have clearly separated the roles of determining policies and strategies and overseeing the day-to-day operations of TDK in accordance with these guidelines. We are committed to making further improvements as we go forward.

But with challenging external conditions in mind we are determined to make further refinements to our profit structure by tackling a number of ongoing themes. These include achieving greater rationalization of our existing product lineup; making TDK more competitive in terms of cost by raising productivity; ceasing to produce products that we can't count on to contribute to earnings; and increasing sales of highly profitable products.

Fiscal 2004 Basic Policy

■ Difficult Operating Environment

As we turn our focus to the year ahead, one factor is almost certain to remain constant—macroeconomic conditions will continue to stagnate. Heretofore, much of the money in the world has been channeled into the U.S., which has set the tone for the world economy. But now this flow of money has changed. Two causes are falling share prices in the U.S. and increasing euro-denominated foreign currency reserves held by many countries. Net capital inflows prevented the U.S. economy from contracting, but now that these inflows are declining, the U.S. economy has lost some of its momentum. That said, for the time being, it is difficult to see another country replacing the U.S. as the key growth driver in the world economy. One other external factor is casting a pall over our operating environment—the protracted stagnation in demand and fall in prices in the electronics industry.

The stagnation in demand is the result of three main forces. One is that the markets for PCs and mobile phones are now being shaped by replacement demand. These markets will likely tread water until applications for harnessing the potential of broadband emerge. Secondly, we are still in a period of correction following the excessive capital expenditures by companies during the IT bubble. In short, companies continue to curb their capital expenditures. The third reason is structural economic reforms brought about by the Internet. Given this situation, no major expansion in demand in the electronics industry can be expected for the time being.

Regarding falling sales prices, two main factors suggest that the downward trend will persist. One is excess supply resulting from an increase in the supply capabilities of companies in Asia, including China, and excess capacity that is a remnant of the IT bubble. A second reason is that Internet-based sales are exerting downward pressure on prices of products of all kinds.

It is with these difficult macroeconomic conditions in mind that we will advance our businesses in the current fiscal year.

The Second Stage of Structural Reforms

Despite the ever-present economic difficulties, we see the year ahead as a period in which we can lay the groundwork for a new stage of growth. As I said earlier, we must generate earnings without counting on top-line growth. But we must also raise sales even without market growth. These are two main goals of ours for fiscal 2004. We must reform our physical constitution to one that is not at the whim of sudden market shifts, and we must change our way of thinking so as to respond to an era of uncertainty and rapid change. This will make us more profitable and drive growth.

Reforms for Earnings Growth

1. Timely Provision of New Products Customers Really Want

Taking a medium- to long-term point of view, the electronics industry can be expected to expand. But, as I said before, it is unlikely that we can count on any major upturn in demand in the next few years. A company must, however, strive to grow no matter what conditions it faces. That leads to an important question: what will it take to increase sales in a market that itself is not growing? The answer is simple: inventive, new products that the market wants. But that also demands the highly specialized capabilities required to make products that generate profits.

TDK has these skills. We develop our own materials, an underlying source of our strength since our inception. And we have the ability to refine process technologies that transform these materials into products. By combining these unique strengths, accurately identifying what customers want and putting it all together, I believe we can deliver distinctive products in a timely manner. Put another way, we aim to reinforce our core ability as an “e-material solution provider” and generate a greater proportion of sales from highly profitable new products. We have already set into motion several strategies that are building the platform for delivering on this promise.

Narrowing Down Development Themes and More Reviews—TDK is narrowing the focus of existing R&D themes to three key fields where growth is expected in the coming years—IT Home Electronics Appliances, High-Speed, Large-Capacity Networks and Car Electronics. All are fields where we have a competitive edge. And by monitoring R&D progress and conducting reviews more regularly, we can speed up the review cycle so as to be in step with market changes.

Sales Force Reforms and Establishment of the Application Center—To respond to dizzying changes in markets and customer needs and effectively apply our strengths, we are realigning our sales force, placing emphasis on the three fields I have just mentioned. This focus should enable us to quickly identify customer needs. And to provide the best new products matched to those needs in a timely fashion, we have established the Application Center to support product development. The center’s primary role is ensuring that TDK’s collective strengths are effectively brought together and applied.

Establishment of Intellectual Properties Center—The importance of patents and other forms of intellectual property is growing constantly. We have established the Intellectual Properties Center as a specialist body to promote business development by integrating intellectual property considerations with our operations and R&D.

2. Improving the Variable Expense Ratio

In fiscal 2003, we failed to sufficiently improve the ratio of variable expenses to net sales due mainly to large sales price discounts. Given that calls for discounts will likely continue, we must strengthen our constitution and overcome this challenge. What is called for are measures to eliminate unprofitable products and boost productivity.

■ A Mindset Change

Development, manufacturing and sales lead times are all becoming shorter. But TDK has more work to do if we are to adapt to this rapidly changing pace of business. One area we must target in particular is changing our mindset. We must alter our corporate mindset and culture in areas where they aren't in sync with our operating environment and markets. I want our people to be aware of the need to understand the true nature of the challenges we face and the status of front-lines operations like manufacturing and sales. I want everyone to recognize the importance of acting with speed. And I want us to have a sense our urgency about everything we do.

As in fiscal 2003, the macroeconomic environment in fiscal 2004 will no doubt be characterized by uncertainty. But I am confident that in the long term the electronics industry will experience further growth. Broadband is expected to come of age in 2005 and 2006, propelling us toward a ubiquitous information society and the electronics industry toward more growth. But for now the industry is in a transitional stage. Our actions in fiscal 2004 reflect this as well as current economic conditions—we will push through the second stage of structural reforms that target an increase in profits. With the stronger operating base that results, we will be better positioned for creating corporate value over the medium term.

Fiscal 2004 marks the end of Exciting 108, our current medium-term management plan. Unfortunately, it will be very difficult for us to achieve our goals in the wake of the bursting of the IT bubble and the miscalculation of capital expenditures that the IT bubble brought about. Nevertheless, we are intent on completing our program of structural reforms and achieving our targets even if we are a little late in doing so. I ask for your continued support and guidance as we work to put TDK firmly back on a growth path.

June 2003

Hajime Sawabe
President and CEO

Exciting 108 Progress Report

Exciting 108 Medium-Term Management Plan

The ultimate goal of Exciting 108, which was launched in April 2000 and runs through March 2004, is to maximize TDK's value by firmly establishing an identity as an "Exciting Company." Exciting 108 challenges TDK to reach several numeral targets. The analysis below shows how fiscal 2003 results stacked up.

Due to the collapse of the IT bubble and other macroeconomic factors, TDK believes that it will have difficulty hitting its Exciting 108 targets in fiscal 2004, the final year of the plan. Nevertheless, TDK remains committed to achieving the targets of Exciting 108—raising profitability and capital efficiency—by continuing to advance structural reforms and delivering innovative products in a timely manner that match market needs.

Profitability and Asset Utilization

TDK's profitability improved in fiscal 2003 as it reaped the benefits of structural reforms started in fiscal 2002, and of its policy of Selection and Concentration, as shown in the table below.

Moreover, from the standpoint of asset utilization, TDK's asset turnover also improved, thanks to efforts to improve inventory turnover and trade receivables turnover.

	Fiscal 2001 (Actual)	Fiscal 2002 (Actual)	Fiscal 2003 (Actual)	Fiscal 2004 (Target)
Operating profit ratio	8.3%	–7.7%	3.6%	13.0%
ROE	7.3%	–4.2%	2.1%	12.0%
TVA	–1.4%	–11.8%	–6.0%	3.0%
Asset turnover	0.9	0.7	0.8	1 or higher

Notes:
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, selling, general and administrative expenses (excluding the amortization of certain identifiable intangibles in 2001), and resturcturing costs.
3. Effective from the fiscal year ended March 31, 2003, TDK adopted the Emerging Issues Task Force Issue 01-9 ("EITF 01-9"), "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)." Accordingly, TDK has applied EITF 01-9 retroactively, restating net sales for fiscal 2001 and fiscal 2002. The operating profit ratio was calculated based on these restated figures.

Share of Sales and Growth Rates for Strategic Fields

During fiscal 2003, sales climbed sharply in Recording as TDK recaptured market share for HDD heads, compared with fiscal 2002. In Communications, however, sales dropped, despite a slight upswing in demand for mobile phone components, as communications infrastructure-related demand failed to recover.

	Fiscal 2001 (Actual)		Fiscal 2002 (Actual)		Fiscal 2003 (Actual)		Fiscal 2004 (Target)	
	Share of TDK sales	YoY growth rate	Share of TDK sales	YoY growth rate	Share of TDK sales	YoY growth rate	Share of TDK sales	YoY growth rate
Communications	14%	30%	9%	–50%	7%	–14%	20%	25%
Recording	41%	–7%	43%	–11%	47%	16%	45%	10%

Capital Expenditures

TDK held down total capital expenditures in fiscal 2003 and concentrated these expenditures on rationalization measures.

	Fiscal 2001 (Actual)		Fiscal 2002 (Actual)		Fiscal 2003 (Actual)		Fiscal 2004 (Target)
	Year	Cum.	Year	Cum.	Year	Cum.	Cum.
Capital Expenditures	99,452	99,452	58,777	158,229	41,451	199,680	350,000

Environmental Activities

Determined to play its part in preserving resources for future generations, TDK positioned environmental activities as a major theme in its Exciting 108 medium-term management plan.

Presently, TDK is going all out to achieve zero emission status at all sites in Japan and five sites overseas. And, having formulated a fundamental environmental plan, "TDK Environmental Action 2010," the company is committed to contributing to the creation of a society oriented toward recycling.

Fundamental Environmental Plan—"TDK Environmental Action 2010"

Formulated as the next step in the company's environmental activities, this plan runs through 2010. The plan contains nine concrete action points that were established based on the nature of TDK's business activities, and sets medium- and long-term goals. Furthermore, the TDK Environmental Action 2010 clearly defines the roles and responsibilities of sites, business groups and head office.

1. Enhancement of Environmental Management Systems

The plan urges all members of the TDK group, including sites overseas, to earn and retain ISO 14001 certification. Additional measures aimed at enhancing EMS are introduction of an external auditor system, implementation of environmental accounting overseas, across-the-board implementation of green purchasing, upgraded environmental training for all employees, and improvements in systems to assess more accurately the environmental activities of divisions.

2. Strict Observance of Laws

TDK will strictly observe laws and regulations governing air pollution and plant wastewater, as it has in the past, while improving the cost effectiveness of compliance activities.

3. Risk Management

TDK will progressively eliminate underground tanks and pipes, which could contaminate soil if ruptured, switching to aboveground tanks and double piping systems. It will also establish systems to manage environmental risks of this nature.

4. Information Management

TDK is committed to disseminating information concerning its environmental activities both internally and externally. It will produce environmental reports for its sites and build a global environmental information management system.

5. Global Warming Countermeasures

TDK will manage its operations in a way that ensures energy is used efficiently and create a system to reduce energy unit consumption by at least 1.5% on an annual basis. Additional measures to counter global warming will include a greenery drive at plants and offices, promotion of increased efficiency in distribution, and a switch to environmentally friendly vehicles for sales and other company uses. TDK is also considering the introduction of an intra-company environmental tax.

6. Waste Countermeasures

Aiming to achieve zero emissions by March 2004, TDK is reducing the total volume of waste generated. Initiatives include accelerating measures to prevent the generation of waste material by recycling resources more efficiently.

7. Chemical Waste Release Controls

TDK will reduce releases of PRTR chemicals.

8. Regional and Social Contributions

In addition to ongoing cleanup activities, forest preservation programs, environmental education, environmental support and other activities, TDK will establish a green foundation, investigate ways to collect and recycle its products, and hold environmental forums.

9. Product Development

TDK will improve support systems for the development of environmentally conscious products; create more environmentally conscious products; completely eliminate the use of cadmium, hexavalent chromium and other substances that can damage the environment; and establish an environmental guarantee system.

Zero Emission Status Report

During fiscal 2003, five TDK business locations in Japan, including the Mikumagawa Plant, achieved zero emission status, bringing the total number of TDK sites to reach this exacting target to seven. As of March 31, 2003, the TDK group as a whole was recycling 92.4% of all the waste it generates.

Understanding TDK Today

Three Strategic Growth Fields: IT Home Electronic Appliances; High-Speed, Large-Capacity Networks; and Car Electronics

Three key markets—growth markets—will be the focus of TDK in the coming years. Advances in digital technologies and the wedding of various electronic devices spell growth for IT home electronics appliances. The same is true of high-speed, large-capacity networks that make the sending and receiving of video content not just a dream but a reality. And car electronics, increasingly used to enhance safety and link vehicles to data communication networks, are also expected to witness burgeoning demand.

Why is TDK focusing on these markets? Because they all use electronic components, many of which have at their nucleus distinctive TDK expertise—materials technology and process technologies. Such components include ferrite cores, capacitors, inductors, EMC components ("noise" reduction components), high-frequency components, sensors, magnets, transformers, power supplies, HDD heads, semiconductors and recording media—the list goes on and will become longer as TDK channels its energies into these growth fields.

IT Home Electronics Appliances

Growing Demand for Digital Household Appliances a Boon for Electronic Components

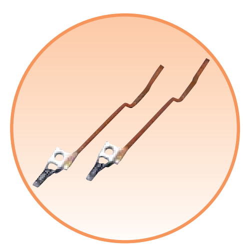
Recent technological advances have spurred the digitalization of home electronics appliances. One example is the traditional cathode ray tube (CRT), which is more and more playing second fiddle to plasma display panels (PDPs) and liquid crystal displays (LCDs). And video cassette recorders (VCRs) are giving way to DVD players/recorders, while 35mm film cameras are taking a back seat to digital still cameras (DSCs). Car navigation systems further demonstrate just how pervasive digital appliances have already become. More will follow.

Another trend looks set to redefine the shape of home appliances. They will be able to do more. Previously, most home appliances were designed only for a single function; they basically performed only one task. In the future, appliances will offer communications, including Internet connectivity; they will be able to use HDDs and other media to record large volumes of data, such as digital TV broadcasts; and they will function as computers. In short, look out for products bursting with functionality. Also predicted is the advent of home servers, allowing the integrated management of broadcasting, communications and computer data through one channel.

The four digital home appliances mentioned above—PDPs/LCDs, DVDs, DSCs and car navigation systems—now account for a considerably higher proportion of electronic device production in monetary terms than they did just a few years ago. More growth is forecast. Indeed, these appliances are expected to follow in the footsteps of PCs and mobile phones as huge growth markets.

TDK's Magnetic Heads—Key to Helping Make HDDs Ubiquitous

HDDs, with their ability to store large volumes of data, as well as the ability to record and retrieve data at high speed, have readily found a home in a broad range of external storage equipment for computers, ranging from large-scale units to PCs. Recently, HDDs have also been increasingly employed in non-PC applications, such as game consoles, video equipment and surveillance camera systems. But they will be asked to do more. Today, the need to record and retrieve large volumes of data, including movies, advances in computer software and the development of mobile devices are all placing new demands on HDDs. They will be required to store even more data, operate at higher speeds, and be more resistant to shocks. Technological innovation is the order



GMR heads

of the day. The rewards will be great too: The HDD market is expected to expand as these storage devices are used in all manner of electronic products in addition to PCs.

As a leading company in the development and mass production of HDD magnetic heads, TDK is well positioned to benefit from these trends. Based on its resources in core ferrite materials technology, TDK leverages ultra-thin-film formation process technology that is conducted on a nanometer level and ultra-fine-patterned lithographic technology to manufacture HDD magnetic heads. HDD heads float a mere 10 or so nanometers above a hard disk as it spins at high speed. To achieve this level of precision, TDK developed ceramic processing technology that provides the optimal conditions for controlling the floatation of the head. This technology takes many years to cultivate and is the result of both the development of ceramic materials and processes related to their use and manufacture. In the future, TDK is intent on leveraging its vast technical resources in this area to provide head products that will facilitate an even larger volume of data on HDDs.

Other innovations have been made possible through technological cooperation with Matsushita Electric Co., Ltd. These include the successful development of an HDD head that can withstand an impact, while operating, of 1000G[*1] or five times the current specified tolerance for existing products.[*2]

Until now, impact resistance has been a problem, however, this advance is expected greatly increase the potential of mobile devices with HDDs. The advent of HDD-equipped mobile devices will move the world closer to a ubiquitous information society.

*1 1000G during operation refers to the force of impact experienced when a small mobile device such as a mobile phone is dropped, while operating, from a height of about 1.5 meters onto a concrete surface.

*2 As of September 27, 2002 (TDK survey).

EMC (Electro Magnetic Compatibility) Components—Rising in Importance With Digitalization of Electronic Devices

The digitalization of electronic devices offers many benefits to users. But this technology also has a drawback—noise. The consequence of impedance mismatching in circuits and unnecessary harmonics, noise inevitably accompanies all digital signal processing. There is one more issue that cannot be overlooked. The rising density of electronic circuit packaging is accompanying the miniaturization of electronic devices is progressively narrowing the spaces between electronic

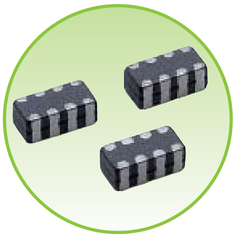
Understanding TDK Today—Three Strategic Growth Fields

components as well as signal paths. This proximity makes mutual interference among components and circuits increasingly likely. Moreover, the high-speed transmission of digital signals, examples of which include USB2.0 and Digital Visual Interface (DVI), has created a significant need to reduce noise in the line interface of electronic devices.

So while the digitalization, miniaturization and speeding up of electronic devices is benefiting users in the form of greater convenience, these advances are also causing noise, which in turn causes IC malfunctions and various other problems in electronic devices. EMC components are thus becoming increasingly important for holding noise below mandated levels.

Enter TDK's EMC products. These components, including common-mode filters and beads, are grounded on a fount of magnetic materials technology, notably ferrite, built up since TDK's founding. In fact, TDK can offer total EMC solutions, extending from radio wave absorbing materials, anechoic chambers and EMC testing systems. Underscoring TDK's expertise in EMC components are products like the industry's smallest* thin-film common-mode filter array that is compatible with high-speed differential signal transmission. This groundbreaking product was developed by applying fine-patterned conductor technology used in thin-film magnetic heads. Another example is highly reliable multilayer chip beads that are the smallest in the industry*. Both the reliability and small size were made possible by the use of an entirely monolithic structure produced by layering and sintering magnetic and conductive materials using control technology of the micron order.

*Source: As of March 31, 2003 (TDK survey)



Thin-film common-mode filter arrays

TDK's Low ESL Decoupling Capacitors Underpin the Latest CPUs

As CPUs operate at faster speeds and use higher frequencies, decoupling capacitors, which are used in peripheral circuitry, require a smaller ESL (Equivalent Series Inductance) to accommodate higher clock frequencies. Leveraging proprietary multilayering technology and technology for designing internal electrodes, TDK is able to supply low-ESL decoupling capacitors for the latest CPUs.

Blu-ray Disc

Blu-ray Disc—Next-Generation, High-Capacity Optical Media

TDK is well known for its ferrite materials and magnetic recording media, especially audiotapes and videotapes. But TDK has also spent many years developing optical recording media.

Presently, TDK is selling writable CDs and DVDs that are backed by many distinctive technologies. And a Blu-ray Disc has already been commercialized. Blu-ray Discs are widely seen as the next generation of optical media.

Moreover, TDK has won plaudits for its “Super Hard Coat DVDs.” Boasting a rugged recording surface along with superior lubricity and anti-static characteristics, these discs set TDK apart from the competition. And TDK isn’t just focusing on reliability. TDK is also working hard to commercialize environmentally friendly recording products.

High-Speed, Large-Capacity Networks

High-Speed, Large-Capacity Networks—Bringing a Ubiquitous Information Society Closer to Reality

xDSL, CATV and other services are propelling the Internet into a broadband age. The world is shifting from communication centered on voice, most notably the telephone, to communication that involves the swapping of video content and other data in large volumes. Concurrently, we are seeing the start of digital TV broadcasting and highly sophisticated mobile communications with the roll-out of third-generation (3G) systems. And gradually we are seeing broadcasting and communications converge as high-speed, large-capacity networks become more widespread.

These trends spell opportunities for TDK, too. Most obvious is rising demand for electronic components for mobile phones. Other attractive areas include DC-DC converters used in communications equipment for transmitting and receiving data; recording media; EMC components and xDSL filters for combating noise that interferes with the sending/reception of information.

Tape-Based Data Storage Media for Computers—Essential to the High-Capacity Data Era

LTO

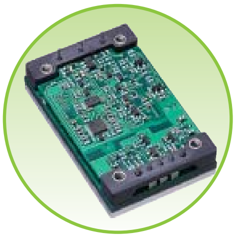
The mushrooming of networks in recent years has brought about an explosion in the volume of data being shared, prompting demand for larger-volume, higher-speed recording media. That’s why TDK has applied itself to the development of tape-based data storage media for computers. These products tap TDK’s expertise in thin-film coating and vapor deposition technologies refined in the development of audiotapes, videotapes and other products for the consumer media field. LTO (Linear Tape-Open) Ultrium 2[*1] tapes, one of the latest products on the market, has a capacity of 200GB[*2] and can transfer data at 40MB[*3] per second, making it ideal for the data storage needs of the new era. It is also alive with TDK technology. This product showcases TDK’s state-of-the-art magnetic materials and thin-layer coating technology, including specially designed Super Finavinx metallic magnetic particles and magnetic layers where the thickness is controlled to the nanometer order. By employing a high-precision cartridge mechanism, this tape is highly durable and highly reliable for use in LTO Ultrium 2 systems.

*1: Linear Tape-Open, LTO, LTO logo, Ultrium and Ultrium logo are trademarks of HP, IBM and Seagate RSS in the U.S., other countries or both.
*2: Without compression
*3: Maximum without compression

Understranding TDK Today—Three Strategic Growth Fields

Innoveta Technologies, Inc. Acquired to Beef up Development of DC-DC Converters

TDK's recent acquisition of Innoveta Technologies, Inc., a U.S.-based manufacturer of power supplies, has bolstered TDK's ability to develop a full lineup of DC-DC converters for the communications market. Innoveta Technologies has won applause from the marketplace for developing DC-DC converters for wireless, communications, recording and data network applications. By combining Innoveta Technologies' converter design technologies with its materials and ferrite components technologies, TDK is applying itself to the development of new DC-DC converters for distributed power supply systems used in servers and for third-generation mobile phone communications infrastructure. The acquisition of Innoveta Technologies will also allow TDK to offer a broader range of AC-DC, insulated DC-DC and non-insulated DC-DC converters to meet customer needs.



Quarter-brick type
DC-DC converter

Car Electronics

Electronic Devices—On the Move

For some time now, electronics have been used in cars for engine and driving control. Recently, electronics have found wider application in automobiles to enhance safety and comfort. Growth has been rapid. What's more, electronics may play an even greater part in the prevention of global warming by enhancing fuel efficiency and helping to reduce the weight of cars.

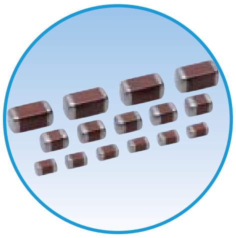
Hybrid Electric Vehicles (HEVs), Fuel Cell Electric Vehicles (FCEVs) and other developments are expected to spur even greater use of electronics in automobiles. Naturally, this will fuel growth in demand for automotive electronics.

Since people depend so heavily on cars, these electronics have to meet the strictest quality and reliability standards. TDK has proven that it can meet these exacting demands, having supplied components to carmakers and automotive electronic devices manufacturers for the best part of three decades.

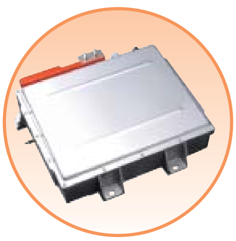
Automotive Electronics—In Greater Demand

Automobiles today are equipped with more than just engine control systems that regulate timing and fuel injection based on information from sensors. They also have electronic control units (ECUs) that regulate electronics for gauges, air conditioning and other systems. ECUs transmit and control information via automobile local area networks (LANs) such as CAN (Control Area Network)-BUS. The greater use of electronics in automobiles, however, creates "noise" in various forms, raising the need to prevent malfunctioning of on-board electronics. This is absolutely vital for cars that are unequivocally safe and reliable. In collaboration with manufacturers of ICs for automobile LANs, TDK stole a march on rivals by developing common-mode filters that are effective in suppressing noise.

Car electronics must naturally possess certain electrical characteristics. But they must also be highly reliable, heat resistant, shock-proof and non-corrosive. And, they must also be lighter and smaller to help reduce the weight of cars. There is also another trend—moving ECUs to the engine compartment to raise fuel efficiency by making the wire harness, the transmission line connecting the engine and ECU, shorter and lighter. Responding to this trend, TDK developed the X8R capacitor, which can withstand heat of up to 150 degrees Celsius. The use of motors in cars is also on the rise for everything from windows to mirrors, creating further demand for TDK's ferrite magnets and EMC components.



X8R capacitors



DC-DC converter for HEV

Next-Generation Motor Vehicles

HEVs and FCEVs require specialized DC-DC converters to handle voltages of at least 200V. Beating out other companies, TDK was first to market with a DC-DC converter for HEVs. This converter showcases many of the technologies for which TDK is renowned—low-loss ferrite for greater efficiency, circuit technology to make smaller converters, and technology to optimize magnetic circuitry.

e-material solution provider—Leveraging Materials and Process Technologies

Materials and process technologies define TDK today. Ferrite has been one of TDK's defining technologies since the company was established in 1935. But TDK hasn't stopped there. It has developed dielectric, semiconductor, piezoelectric and other materials. All have been a driving force behind the development of smaller, lighter, thinner and higher performing electronic devices. TDK has also unlocked the potential of electronic materials with process technologies of the nanometer order, all developed with a fervent desire to satisfy customer needs.

Several trends promise to widen the applications for passive components, the company's main business line. As the use of ICs and other active components rises—fueled by digitalization, the need to operate at higher frequencies and higher electric currents, demand for larger storage capacity, and increasing use of car electronics—the need for passive components will almost certainly increase as a direct result. The consummate e-material solution provider, TDK is concentrating on the three key markets—growth fields—to deliver the best possible products that dovetail with emerging customer needs. This will be achieved by accurately identifying what customers want and refining core materials and process technologies—a TDK hallmark throughout the years.

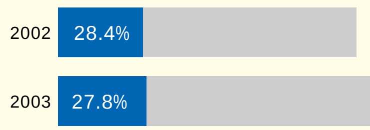
TDK at A Glance

Years ended March 31	Yen (Millions) 2003	2002	U.S. Dollars (Thousands) 2003	Change (%)
Electronic materials and components	¥472,529	432,886	$3,937,742	9.2
Electronic materials	168,949	161,846	1,407,909	4.4
Electronic devices	112,729	105,937	939,408	6.4
Recording devices	175,986	147,004	1,466,550	19.7
Semiconductors and others	14,865	18,099	123,875	(17.9)
Recording media & systems	136,351	137,625	1,136,258	(0.9)
Total	¥608,880	570,511	$5,074,000	6.7

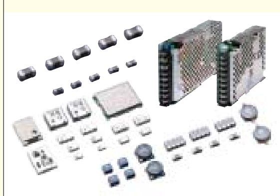
Electronic materials and components

Electronic Materials

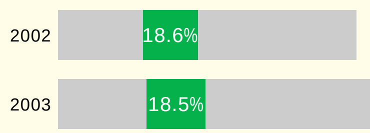
Main Products
Multilayer chip capacitors, ferrite cores for coils and transformers, deflection yoke cores for TVs and computer monitors, ferrite and rare-earth magnets



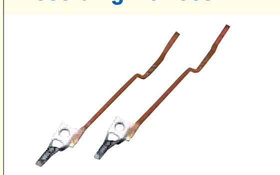
Electronic Devices



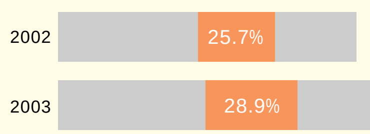
Main Products
Coils, EMC components, transformers, high-frequency components, piezoelectric components, chip varistors, DC-DC converters, DC-AC inverters, switching power supplies



Recording Devices

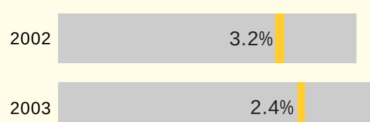


Main Products
GMR heads for hard disk drives, heads for high-capacity floppy disk drives, thermal printer heads



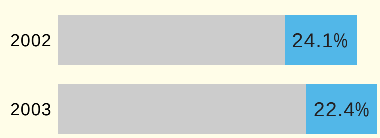
Semiconductors and Others

Main Products
ICs for modems and LAN/WAN applications, anechoic chambers



Recording Media & Systems

Main Products
Audiotapes, videotapes, CD-Rs, MiniDiscs (MDs), tape-based data storage media for computers, PC cards



Review of Operations

e-material solution provider

Consolidated net sales for fiscal 2003, ended March 31, 2003, increased 6.7 percent to ¥608,880 million. Sales in the electronic materials and components segment increased. This reflected higher sales in recording devices, where growth was spurred by a recovery in the market share of TDK's HDD heads, and higher demand for capacitors and inductive devices, which is being fueled by the digitalization of audio and visual equipment and the increasing use of electronics in automobiles. Sales in the recording media & systems segment declined slightly. In optical media, higher demand for CD-Rs and DVDs negated falling MD demand and lower sales prices of CD-Rs, resulting in largely flat sales. Meanwhile, lower sales of audiotapes, due to falling demand, could not be fully offset by rising sales of tape-based data storage media for computers, and software.

Electronic Materials and Components Segment

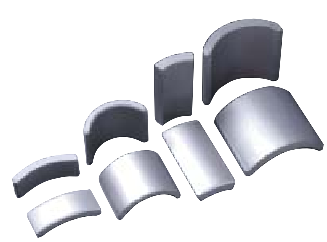
In the electronic materials and components segment, net sales increased 9.2 percent to ¥472,529 million. This was due to higher sales in recording devices, where growth was spurred by a recovery in the market share of TDK's HDD heads, and higher demand for capacitors and inductive devices, which is being fueled by the digitalization of audio and visual equipment and the increasing use of electronics in automobiles.

Electronic Materials

[Product Overview] The electronic materials sector is broadly divided into two product sectors: capacitors, and ferrite cores and magnets.

Multilayer chip capacitors, the mainstay product of the first category, are produced by alternately stacking many layers of electrodes, consisting mainly of palladium or nickel, and dielectric material, mainly barium titanate or titanium oxide. The standout feature of these capacitors, which are designed to store electrical energy, is that each of the layers is no thicker than several to tens of micrometers. The ability to form such thin layers is one of TDK's greatest strengths and is critical to capacitor performance because energy storage increases with the number of layers. Multilayer chip capacitors store and discharge electric charges in the circuits of electronic devices. They are

Ferrite cores



Ferrite magnets

used to smooth out and stabilize electrical current, eliminate electromagnetic interference, or "noise," and allow alternate current to pass while blocking direct current, a process known as coupling. The multilayer chip capacitorts produced at TDK are made of ceramic materials.

Ferrite is an electronic material that is mainly used as a magnetic material. Consisting primarily of ferric oxide, ferrite also includes cobalt, nickel, manganese or other metals to obtain precisely the desired properties. As ferrite is produced by sintering powder materials, it is called a magnetic ceramic. Ferrite is broadly divided into two types. One is soft ferrite, which is used in cores for transformers and coils. By improving the characteristic of soft ferrite, it is possible to make smaller, lighter and more efficient transformers and coils. The other type is hard ferrite. This material is used chiefly to make magnets that are essential to the operation of motors in office equipment, audio and visual products, automobiles and other widely used products.

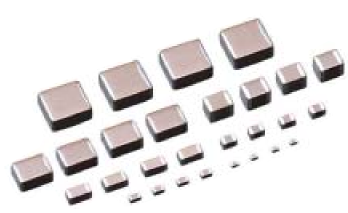
TDK has also commercialized rare-earth magnets, consisting mainly of metals such as samarium and neodymium. Extremely powerful in relation to their small size, rare-earth magnets are used in small, voice coil motors (VCMs) for HDDs and other high-end products.

[Results] Sector sales rose 4.4 percent to ¥168,949 million.

In capacitors, sales of multilayer chip capacitors, which account for the majority of capacitor sales, increased on the strength of the digitalization of audio and visual equipment and increasing use of electronics in automotive applications mentioned above. Hampering further growth were calls for price discounts from customers.

In ferrite cores and magnets, overall sales of ferrite cores slipped year on year, despite strong demand for cores used in LCD backlights and power supplies for audio and visual products. The drop in sales was the result of the failure of demand to recover for cores used in IT-related information and communications applications, and lower sales of deflection yoke cores, a key component of TVs and computer monitors, as well as other products due to stiff competition. Magnet sales increased as firm demand from the automobile and parts fields carried over from the previous fiscal year. Overall, sales of ferrite cores and magnets edged down slightly year on year.

Rare-earth magnets



Multilayer chip capacitors

Electronic Devices

[Product Overview] The electronic devices sector is broken down into three broad categories: inductive devices, high-frequency components, and power supplies and other products.

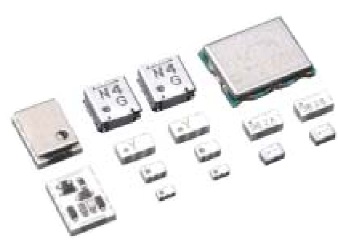
The main products in the inductive devices category are coils, transformers and EMC components. Coils, which are typically made by winding a wire around a ferrite core, produce a magnetic field when an alternating current passes through the wire. TDK manufactures two types of coils. In one, wire is wrapped around a ferrite core. The other type is multilayer coils, which are a solid block of materials in which a coil pattern is formed by using thick or thin film printing processes to stack different materials in precise patterns. Transformers, which place two or more coils in a single circuit, use electromagnetic coupling to step up and down AC voltage or convert impedance. EMC components, such as noise filters, combine coils (inductors) and capacitors to control noise, which can prevent electronic devices from functioning properly.

High-frequency components are chiefly used in circuits for mobile phones and other devices that handle high frequency signals. In mobile phones, voice frequencies must be modulated and demodulated at extremely high frequencies. TDK produces isolators that use ferrite to control the movement of these signals, and VCOs (voltage-controlled oscillators) that produce frequencies required for transmission and reception in mobile phones. This category also consists of diplexers that split and combine signals of differing frequencies in mobile phones. These products are made of capacitors, coils, semiconductors devices and other components.

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.

In other products, TDK manufactures products such as sensors and actuators, as well as chip varistors. Sensors are measurement devices that produce an electrical signal that varies in accordance with a specific parameter such as humidity or printer toner level. Actuators, are products that convert electrical energy into mechanical energy for such applications as buzzers. Chip varistors protect electronic circuits from abnormal voltages, such as static electricity and pulses, that can cause equipment to malfunction.

Coils (Inductors)



High-frequency components

[Results] Sector sales increased 6.4 percent to ¥112,729 million.

Inductive devices, the largest product category in this sector, recorded higher sales, reflecting the growing use of automotive electronics as well as growth in demand for digital audio and visual products such as DVD players and digital still cameras. These are the same factors that are driving growth in the capacitor sector. This allowed TDK to absorb the effects of price discounts and production cutbacks, mainly by manufacturers of audio and visual products, in the fourth quarter.

Sales of high-frequency components, a large proportion of which are used in communications applications, particularly mobile phones, were hamstrung by a soft mobile phone market. While sales volumes have been trending upward since the summer of 2002, following a period of parts inventory reductions by customers, demands for price reductions from customers have been more severe than in other electronic components sectors due to the continuing supply glut. Overall, sales increased, but they did not increase to the same extent as volumes.

In other products, sales increased. Sales of DC-DC converters for video game systems were higher for the year despite cutbacks to production levels beginning in the latter half of the third quarter. Power supplies for LCD projectors and other PCs and peripherals also benefited from strong demand. The sector was further boosted by brisk sales of actuators and chip varistors used in PCs and peripherals and in communications products.

Switching power supplies/DC-AC inverters

Chip varistors

Recording Devices

[Product Overview] The recording devices sector is divided into two categories: heads for HDDs, the mainstay of the sector, and other types of heads. HDD heads employ a thin-film construction and magneto-resistive (MR) material to "read" signals recorded on hard disks. MR refers to the phenomenon in which a material's electrical resistance varies when exposed to a magnetic field. The commercialization of HDD heads using this MR effect has made its possible to "read" signals recorded on hard disks at much higher areal densities. At present, GMR (Giant-MR) heads, which have higher playback sensitivity than conventional MR heads, are the mainstream technology in the HDD head market.

Other heads includes magnetic heads used in floppy disk drives (FDDs) and thermal printer heads.

[Results] Sector sales climbed 19.7 percent to ¥175,986 million. One factor was a recovery in TDK's share of the HDD head market as 40 gigabyte/disk HDD heads won back customers. Additionally, the average number of heads used per HDD did not decline as rapidly as had been expected. Total demand remained high as a result, and sales climbed. Sales of other heads fell due to a drop-off in demand and other factors.

During fiscal 2003, demand for HDD units and HDD heads rose over 10 percent despite only a slight increase in demand for PCs. The demand for HDD units seems to be the result of increased repurchase demand for HDD units as well as the main demand for PCs, and new demand for video game consoles and HDD video recorders. Regarding demand for HDD heads, the average number of heads used per HDD hardly declined due to a slower-than-expected transition from 40 gigabyte/disk HDD heads to 80 gigabyte/disk HDD heads.

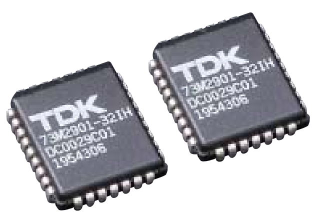
GMR heads

Semiconductors and Others

[Product Overview] In the semiconductors and others sector, two of the main products are semiconductors and anechoic chambers.

Semiconductors represent ICs for cable TV set-top box modems, LAN devices and other ICs used for communications. These products are designed at U.S.-based TDK Semiconductor Corp. Anechoic chambers are rooms in which the walls are covered in ferrite tiles that absorb electromagnetic waves. These spaces, designed to block electromagnetic waves emanating from outside as well as to control reflections of electromagnetic radiation within the chamber, facilitate the evaluation and testing of noise in electronic devices, including those used in automobiles.

[Results] Sector sales declined 17.9 percent to ¥14,865 million, reflecting a sharp drop in sales of semiconductors for set-top box modems and LAN/WAN applications due to the continuing low levels of investment in communications infrastructure equipment. Another factor was lower sales of anechoic chambers due to a string of project cancellations and postponements prompted by the global economic downturn and uncertain economic outlook.



ICs for modems

Anechoic chamber

Recording Media & Systems Segment

[Product Overview] In the recording media & systems segment, the main products are audiotapes, videotapes, optical discs, tape-based data storage media for computers and software.

TDK supplies several types of optical discs, including write-once CD-Rs and 4.7 gigabyte DVDs that can hold approximately 7 times more data that their CD counterparts, although having the same 12cm diameter. TDK has also commercialized a Blu-ray Disc that can store huge volumes of data. These discs are being seen as the next generation of optical media.

In tape-based data storage media for computers, TDK has commercialized a product that has been verified under LTO Ultrium 2 standards, making it compatible with magnetic-tape backup equipment meeting the LTO* (Linear Tape-Open) standard.

Linear Tape-Open, LTO, the LTO logo, Ultrium and the Ultrium logo are registered trademarks of Hewlett-Packard Company, IBM Corporation and Seagate Removable Storage Solutions in the United States and other countries.

* Linear Tape-Open, LTO, LTO logo, Ultrium and Ultrium logo are trademarks of HP, IBM and Seagate RSS in the U.S., other countries or both.

[Results] Segment sales edged down slightly by 0.9 percent to ¥136,351 million. There were several reasons. Audiotape sales shrank further from the previous fiscal year as the long-term decline in demand continued due to the market shift to optical media. While there is a similar long-term decline in demand for videotapes due to the rising popularity of optical media and DVD software, sales rose slightly during the year, boosted by demand stemming from the 2002 FIFA World Cup™. In optical media, demand for CD-Rs and DVDs was buoyant, but this strength was negated by falling MD demand and lower sales prices of CD-Rs, resulting in largely flat sales overall. Tape-based data storage media for computers, which obtained new-standard LTO (Linear Tape-Open) verification in the previous fiscal year, and software also recorded sales gains. This segment moved back into the black for the first time in three fiscal years as the results of major structural reforms began to show through. Looking ahead, TDK will build on this momentum by gaining certification for new tape-based data storage media standards and working on the commercialization of Blu-ray discs, which are referred to as the next generation in optical discs.

CD-R

DVD

LTO

Directors, Corporate Auditors and Corporate Officers

Directors (☆Outside Director)

Hajime Sawabe
President and CEO

Hirokazu Nakanishi
Director

Jiro Iwasaki
Director

Shinji Yoko
Director

Takeshi Nomura
Director

Mitsuaki Konno
Director

Yasuhiro Hagihara☆
Director

Corporate Auditors (*Outside Corporate Auditor)

Takuma Otsuka
Corporate Auditor

Masaaki Miyoshi
Corporate Auditor

Osamu Nakamoto*
Corporate Auditor

Kazutaka Kubota*
Corporate Auditor

Kaoru Matsumoto*
Corporate Auditor

Corporate Officers

Hajime Sawabe
President and CEO

Hirokazu Nakanishi
Senior Vice President

Jiro Iwasaki
Senior Vice President

Shinji Yoko
Senior Vice President

Kiyoshi Ito
Senior Vice President

Takeshi Nomura
Senior Vice President

Takehiro Kamigama
Senior Vice President

Katsuhiro Fujino
Corporate Senior Officer

Takeshi Ohwada
Corporate Senior Officer

Mitsuaki Konno
Corporate Officer

Kunihiro Fukushima
Corporate Officer

Yukio Hirokawa
Corporate Officer

Masatoshi Shikanai
Corporate Officer

Yukio Harada
Corporate Officer

Yoshitomo Suzuki
Corporate Officer

Michinori Katayama
Corporate Officer

Kenryo Namba
Corporate Officer

Takaya Ishigaki
Corporate Officer

Minoru Takahashi
Corporate Officer

(As of June 27, 2003)

Financial Review

Operating results

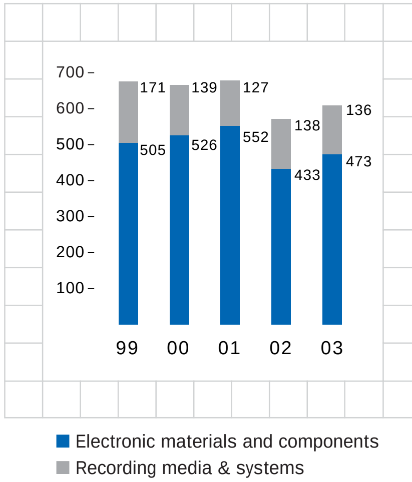
SEGMENT SALES

Consolidated net sales increased 6.7 percent to ¥608.9 billion ($5,074 million) in fiscal 2003, the year ended March 31, 2003, from ¥570.5 billion in fiscal 2002, the year ended March 31, 2002. The Company's operating environment in fiscal 2003 remained as very severe as it was the previous fiscal year. The bellwether U.S. economy, the driving force of the world economy, appeared to gradually move back onto a recovery footing after taking a step backwards at the start of 2002. However, in the closing months of 2002 consumer and corporate sentiment nosedived due to stagnant demand and tumbling share prices. The Japanese and European economies, which are highly reliant on external demand, felt the effects of the U.S. slowdown. Asia, including China, fared relatively well, but this region is nowhere near becoming a leading force in the world economy just yet.

The increase in sales in this difficult operating environment reflects a recovery in the Company's share of the HDD head market and rising demand for electronic components, which is being fueled by the digitalization of audio and visual equipment and the increasing use of electronics in automobiles.

In the electronic materials and components segment, net sales rose 9.2 percent to ¥472.5 billion ($3,938 million) in fiscal 2003, from ¥432.9 billion in fiscal 2002. In the electronic materials sector, sales rose 4.4 percent, from ¥161.8 billion to ¥168.9 billion ($1,408 million). Sales of multilayer chip capacitors, a mainstay of capacitor products, increased on the strength of the digitalization of audio and visual equipment and increasing use of electronics in automobiles. Sales of ferrite cores and magnets edged down slightly year on year due to reduced demand for ferrite cores used in IT-related information and communications applications, despite increased magnet sales in the automobile and parts fields. In the electronic devices sector, sales increased 6.4 percent, from ¥105.9 billion to ¥112.7 billion ($939 million). Inductive devices recorded higher sales, reflecting the growing use of automotive electronics as well as growth in demand for digital audio and visual products. However, sales of high-frequency components, a large proportion of which are used in communications applications, particularly mobile phones, declined with demands for price reductions from customers having been severe due to the continuing supply glut. Recording devices sales climbed 19.7 percent, from ¥147.0 billion to ¥176.0 billion ($1,467 million). This increase was due to a recovery in the Company's market share amid firm overall demand in the HDD head market. The Company's 40 gigabyte/disk HDD heads were instrumental in winning back customers. In the semiconductors & others sector, sales dipped 17.9 percent, from ¥18.1 billion to ¥14.9 billion ($124 million). Sales of semiconductors for communications applications dropped sharply due to the continuing low levels of investment in communications infrastructure equipment.

Net Sales
(Yen in billions)



In the recording media & systems segment, sales edged down slightly by 0.9 percent, to ¥136.4 billion ($1,136 million) in fiscal 2003 from ¥137.6 billion in fiscal 2002. There were several reasons. Audiotape sales continued to shrink from the previous fiscal year as the long-term decline in demand continued due to the market shift to optical media. While there is a similar long-term decline in demand for videotapes due to the rising popularity of optical media and DVD software, sales rose slightly during the year, boosted by demand stemming from the 2002 FIFA World Cup™. In optical media, demand for CD-Rs and DVDs was buoyant, but this strength was negated by falling MD demand and lower sales prices of CD-Rs, resulting in largely flat sales overall. Tape-based data storage media for computers, which obtained new-standard LTO* (Linear Tape-Open) verification in the previous fiscal year, and software also recorded sales gains.

* Linear Tape-Open, LTO, LTO logo, Ultrium and Ultrium logo are trademarks of HP, IBM and Seagate RSS in the U.S., other countries or both.

SALES BY REGION

Yen in millions (%)

Years ended March 31	2003		2002		2001	
Japan	**¥165,503**	**(27.2)**	164,804	(28.9)	221,279	(32.6)
Americas	**106,060**	**(17.4)**	109,452	(19.2)	126,269	(18.6)
Europe	**78,740**	**(12.9)**	79,639	(13.9)	96,263	(14.2)
Asia (excluding Japan)	**255,901**	**(42.0)**	214,377	(37.6)	234,063	(34.4)
Middle East and Africa	**2,676**	**(0.5)**	2,239	(0.4)	1,212	(0.2)
Net sales	**¥608,880**	**(100.0)**	570,511	(100.0)	679,086	(100.0)

Note: Sales by region are classified by the customer location.

By region, sales in Japan increased 0.4 percent to ¥165.5 billion ($1,379 million) in fiscal 2003 from ¥164.8 billion in fiscal 2002. There was a 9.3 percent increase in overseas sales year on year to ¥443.4 billion ($3,695 million) in fiscal 2003 from ¥405.7 billion in fiscal 2002. Overseas sales accounted for 72.8 percent of consolidated net sales.

While robust demand was recorded for capacitors and DC-DC converters for video game systems, sales in Japan were largely unchanged due to lower sales in the recording media & systems segment as audiotape demand declined.

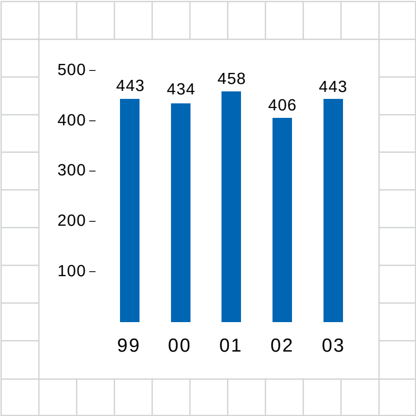
In Asia (excluding Japan) and Oceania, sales increased due to higher sales in recording devices, as the Company regained market share, and higher sales in electronic materials and electronic devices.

In the Americas, sales declined as lower sales in the electronic materials and components segment out-weighed higher sales in other areas, particularly for tape-based data storage media for computers.

In Europe, sales declined. Sales of automotive components in the electronics materials and components segment were strong. However, total sales in this region were brought down by waning demand for high-frequency components for mobile phones, particularly GSM-format phones, and falling demand for audiotapes and MDs in the recording media & systems segment.

Overseas Sales

(Yen in billions)



EFFECT OF FOREIGN EXCHANGE MOVEMENTS

In fiscal 2003, overseas sales accounted for 72.8 percent of consolidated net sales, up 1.7 percentage points. As a result, fluctuations in foreign exchange rates have a significant effect on the Company's consolidated sales and income. During fiscal 2003, the yen appreciated 2.4 percent in relation to the U.S. dollar and depreciated 9.5 percent in relation to the euro, based on the Company's average internal exchange rates. Overall, the Company estimates that exchange rate movements during fiscal 2003 had the net effect of reducing net sales by about ¥2.8 billion, in relation to the prior fiscal year. The Company 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 2003 represented 111.3 percent of sales in Asia (excluding Japan) and Oceania, 28.6 percent in the Americas, and 33.0 percent in Europe. Overseas production accounted for 56.0 percent of total sales in fiscal 2003, compared with 53.8 percent one year earlier, and for 76.9 percent of overseas sales, compared with 75.7 percent one year earlier. The rise in the percentage of overseas production in fiscal 2003 is mainly due to higher production in Asia in the electronic materials and components segment as a result of an increase in the capacity utilization rate, which increased in line with sales growth resulting from a recovery in market share in recording devices.

The Company and certain overseas subsidiaries hedge exposure to foreign exchange movements by entering into forward foreign exchange contracts and swaps for some foreign currency-denominated obligations. Foreign exchange risk arising in operating activities is hedged by using forward foreign exchange contracts. In principle, the Company's policy is to hedge up to 50 percent of expected foreign currency-denominated accounts receivable for each month for the next six months. 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.

EXPENSES AND NET INCOME (LOSS)

Yen in millions (%)

Years ended March 31	2003		2002		2001	
Net sales	**¥608,880**	**(100.0)**	570,511	(100.0)	679,086	(100.0)
Cost of sales	**459,616**	**(75.5)**	464,620	(81.4)	496,083	(73.1)
Selling, general and administrative expenses	**121,839**	**(20.0)**	123,741	(21.7)	131,074	(19.3)
Restructuring cost	**5,345**	**(0.9)**	25,872	(4.6)	–	–
Other revenues (other expenses)	**(3,999)**	**(–0.6)**	25	(0.0)	12,587	(1.9)
Income taxes and minority interests	**6,062**	**(1.0)**	(17,926)	(–3.2)	20,533	(3.0)
Net income (loss)	**¥ 12,019**	**(2.0)**	(25,771)	(–4.5)	43,983	(6.5)

The cost of sales decreased 1.1 percent from ¥464.6 billion in fiscal 2002 to ¥459.6 billion ($3,830 million) in fiscal 2003 despite an increase in net sales, and fell from 81.4 percent to 75.5 percent of net sales, respectively. This reflected both an improvement in the capacity utilization rate accompanying higher sales, and cutbacks in expenses and various cost improvements resulting from structural reforms. These benefits outweighed strong downward pressure on prices and adverse effects of foreign exchange movements. As a result, gross profit increased 41.0 percent.

Selling, general and administrative expenses decreased ¥1.9 billion from ¥123.7 billion in fiscal 2002 to ¥121.8 billion ($1,015 million) in fiscal 2003, and decreased from 21.7 percent to 20.0 percent of net sales, respectively. This was because the Company managed to hold expenses to an increase of only 1.5 percent, although sales rose 6.7 percent, thanks to thoroughgoing expenditure reviews. Research and development expenses represented 5.2 percent of net sales, compared with 6.8 percent in the previous fiscal year. In addition, the Company recognized restructuring costs of ¥5.3 billion ($45 million) for structural reforms, but this was a sharp decrease from the ¥25.9 billion recognized in the previous fiscal year.

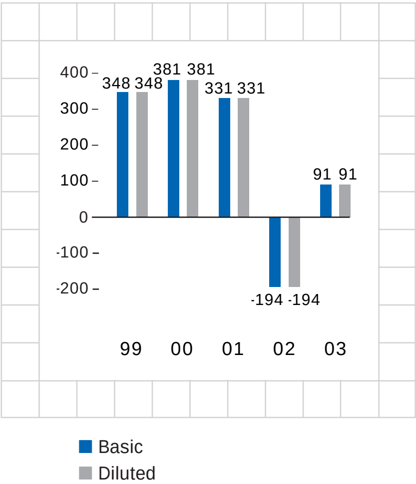
Other expenses increased ¥4.0 billion from the previous fiscal year, mainly on account of a ¥3.1 billion increase in loss on securities (net of gain) and a ¥2.1 billion rise in foreign exchange losses included in other deductions, offset by a ¥1.3 billion increase in equity in earnings of affiliates.

The ratio of income taxes and income tax benefit to income (loss) before income taxes (the effective tax rate) decreased from 38.9 percent in fiscal 2002 to 29.3 percent in fiscal 2003. The decrease reflects the higher amounts of income earned in China during fiscal 2003, which were taxed at rates lower than the Company's effective rate for all other jurisdictions in which it pays income taxes. The difference between the Company's statutory tax rate of 41 percent and its effective tax rate is principally due to differences in statutory rates of foreign subsidiaries and the generation of net operating loss carryforwards currently reserved.

The Company posted a net income of ¥12.0 billion ($100 million), resulting in net income per share of ¥90.56 ($0.75) for fiscal 2003 as compared to minus ¥193.91 in fiscal 2002. The return on equity was 2.1 percent, compared to minus 4.2 percent in fiscal 2002. Cash dividends paid during the fiscal year totaled ¥45 ($0.38). This dividend is the sum of the June 2002 year-end dividend of ¥20 and the November 2002 interim dividend of ¥25. Shareholders of record on March 31, 2003 received a cash dividend of ¥25 per share at the end of June 2003.

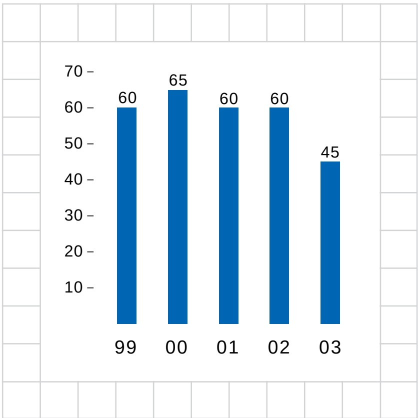
Net Income Per Share

(Yen)



Dividend Per Share

(Yen)



FISCAL 2002 VS. FISCAL 2001

SEGMENT SALES

Consolidated net sales decreased 16.0 percent from ¥679.1 billion in fiscal 2001 to ¥570.5 billion in fiscal 2002, the year ended March 31, 2002, despite an increase in sales in the recording media & systems segment. This result reflected sharply lower sales in the electronic materials and components segment. Sales were affected by inventory corrections at the Company's customers in a broad range of categories. These corrections were prompted by two main factors: the slowdown in the U.S. economy from the fourth quarter of fiscal 2001, and a global downturn in IT investment. Prolonging the correction period was a huge surplus of inventories across a broad spectrum of electronic components. An overly optimistic outlook for worldwide demand for mobile phones and PCs was to blame for this situation.

In the electronic materials and components segment, net sales fell 21.6 percent from ¥552.1 billion to ¥432.9 billion. In the electronic materials sector, sales decreased 23.7 percent, from ¥212.1 billion to ¥161.8 billion. The majority of the decrease reflected sharply lower sales of components for use in mobile phones and PCs. Sales were substantially lower for multilayer chip capacitors and high-frequency components used in mobile phones and other communications equipment on account of a dramatic drop-off in orders. Sales of ferrite cores and magnets also fell for use in data-communications devices, such as ADSL (Asymmetric Digital Subscriber Lines) devices, PCs and peripherals, and AV products. In the electronic devices sector, sales decreased 27.0 percent, from ¥145.2 billion to ¥105.9 billion. Sales of inductive devices decreased due to falling demand for audio and visual products, PCs and peripherals, and communications. High-frequency components experienced large decrease in sales as a result of a slowdown in demand for mobile phone. Recording devices sales decreased 13.1 percent, from ¥169.1 billion to ¥147.0 billion. In HDDs, sales dropped in the first half of fiscal 2002, reflecting two factors: The Company lost market share in mainstream 30 gigabyte/disk HDD heads and demand dropped as customers reduced inventories. In fiscal 2002's second half, however, the Company regained some lost market share on strong demand for its next-generation 40 gigabyte/disk HDD heads, which helped to limit the overall decrease in sector sales. In the semiconductors & others sector, sales decreased 29.3 percent, from ¥25.6 billion to ¥18.1 billion due to a continuation of sluggish demand for communications infrastructure equipment and PCs, which drove demand for the Company's products in fiscal 2001.

Recording media & systems sales increased 8.4 percent to ¥137.6 billion in fiscal 2002 from ¥127.0 billion in fiscal 2001. In addition to the yen's depreciation, this rise can be attributed to higher sales of recording equipment, which the Company started to sell in the second half of fiscal 2001. Audiotape and videotape sales declined due to the increasingly widespread use of optical media. However, sales of CD-Rs, which account for a substantial proportion of the Company's optical media sales, rose as higher volumes outweighed price falls.

By region, sales in Japan decreased 25.5 percent to ¥164.8 billion in fiscal 2002 from ¥221.3 billion in fiscal 2001 and overseas sales fell 11.4 percent to ¥405.7 billion in fiscal 2002 from ¥457.8 billion in fiscal 2001. Overseas sales accounted for 71.1 percent of consolidated net sales.

In Japan, sales of multilayer chip capacitors and high-frequency components for mobile phones decreased amid generally lackluster demand. Sales of PC- and peripheral-related products, including recording devices, also dropped. Moreover, the recording media & systems segment posted lower sales due to falling demand and prices.

In Asia (excluding Japan) and Oceania, sales were hit hard by slumping demand for electronic materials and electronic devices, as well as lower sales of recording devices, which represent a high share of total sales.

In the Americas, sales dropped due to a dramatic fall in sales of semiconductors and electronic components for communications equipment and PCs, amid a market downturn. The extent of the decline, however, was limited by higher sales in the recording media & systems segment, which got a boost from recording equipment sales, and the beneficial effect of the yen's depreciation against the U.S. dollar.

In Europe, orders slumped for multilayer chip capacitors and high-frequency components for GSM-format mobile phones, resulting in sharply lower sales of electronic materials and electronic devices. This decrease outweighed higher sales in the recording media & systems segment and depreciation of the yen against the euro.

EFFECT OF FOREIGN EXCHANGE MOVEMENTS

In fiscal 2002, overseas sales accounted for 71.1 percent of consolidated net sales, up 3.7 percentage points. As a result, fluctuations in foreign exchange rates have a significant effect on the Company's consolidated sales and income. During fiscal 2002, the yen weakened against most other major currencies. The yen depreciated 13 percent in relation to the U.S. dollar and 10 percent in relation to the euro, based on the Company's average internal exchange rates. Overall, the Company estimates that exchange rate movements during fiscal 2002 had the net effect of increasing net sales by approximately ¥40.8 billion in relation to fiscal 2001.

The Company 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 2002 represented 113.2 percent of sales in Asia (excluding Japan) and Oceania, 27.3 percent in the Americas, and 43.4 percent in Europe. Overseas production accounted for 53.8 percent of total sales in fiscal 2002, compared with 57.4 percent one year earlier, and for 75.7 percent of overseas sales, compared with 85.1 percent one year earlier. The fall in the percentage of overseas production in fiscal 2002 is mainly due to lower production in the U.S. and the switch in the recording media & systems segment to purchasing externally produced recording media.

The Company and certain of its overseas subsidiaries hedge exposure to foreign exchange movements by entering into forward foreign exchange contracts and swaps for some foreign currency-denominated obligations. 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.

The cost of sales decreased 6.3 percent in fiscal 2002, but rose from 73.1 percent to 81.4 percent of net sales. This reflected both the deterioration of the capacity utilization rate due to lower sales caused by a sharp decrease in orders, and the strong downward pressure on prices. Gross profit declined

42.1 percent, as cost-cutting efforts and the beneficial effects of the yen's depreciation were outweighed by negative factors.

Selling, general and administrative expenses decreased ¥7.3 billion from fiscal 2001. This was primarily because of an overall reduction in various expenses, including personnel and advertising costs. Research and development expenses represented 6.8 percent of net sales, compared with 5.4 percent in the previous year. In addition, the Company booked restructuring costs of ¥25.9 billion for business structural reforms, which increased the extent of the net loss.

Other revenues decreased ¥12.6 billion from fiscal 2001, mainly on account of a ¥13.5 billion decrease in gain on securities (net of loss), principally by contributing investment securities to a pension trust.

The ratio of income taxes and income tax benefit to income (loss) before income taxes (the effective tax rate) increased from 30.7 percent in fiscal 2001 to 38.9 percent in fiscal 2002. The increase reflects the lower amounts of income earned in China during fiscal 2002, which were taxed at rates lower than the Company's effective rate for all other jurisdictions in which it pays income taxes. The difference between the Company's statutory tax rate of 41 percent and its effective tax rate in fiscal 2001 was principally due to differences in statutory rates of foreign subsidiaries.

The Company posted a net loss of ¥25.8 billion, resulting in a net loss per share of ¥193.91. The return on equity deteriorated from 7.3 percent to minus 4.2 percent. Cash dividends paid during the fiscal year totaled ¥60. This dividend is the sum of the June 2001 year-end dividend of ¥30 and the November 2001 interim dividend of ¥30. Shareholders of record on March 31, 2002 received a cash dividend of ¥20 per share at the end of June 2002.

Liquidity and capital resources

OPERATING CAPITAL REQUIREMENTS

The Company's requirements for operating capital primarily are for the purchase of raw materials and parts for use in the manufacture of its products. Also, operating expenses, including manufacturing expenses and SGA expenses, require a substantial amount of operating capital. Payroll and payroll-benefits, and marketing expenses, such as those incurred for advertising and sales promotion, account for a significant portion of operating expenses. The Company's expenditure for R&D is recorded as a part of various operating expenses, and payroll for R&D-related personnel accounts for a material portion of R&D expenses. The necessary funds for these expenses are provided internally from profits, reduction of inventories and other sources.

CAPITAL EXPENDITURES

In fiscal 2003, capital expenditures on a cash basis were ¥41.5 billion ($345 million), compared with ¥58.8 billion in fiscal 2002. With no signs of a broad-based economic recovery and growing uncertainty about the future, the Company emphasized cash flows and concentrated capital expenditures on strategically important business fields. Among major overseas projects were HDD head facility expansions and upgrades in China and the U.S., and the expansion of production facilities for electronic materials and components in China. In Japan, multilayer chip capacitors and other electronic materials and components production and research facilities, and production and research facilities for HDD heads were significant elements of capital outlays. The funds for these capital expenditures are provided by internal resources generated from depreciation and profits.

OFF-BALANCE SHEET ARRANGEMENTS

As part of its ongoing business, the Company does not participate in transactions with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which have been established for the purpose of facilitating off-balance sheet arrangements or other limited purposes.

On March 31, 2003, commitments outstanding for the purchase of property, plant and equipment approximated ¥5.9 billion ($49 million). Contingent liabilities for guarantees of loans of the Company's employees and affiliates amounted to approximately ¥7.2 billion ($60 million). The Company forecasts the use of ¥50.0 billion in capital expenditures for fiscal 2004, primarily for production facilities and rationalization measures. Actual capital expenditures could differ from this forecast as a result of factors such as shifts in technology, demand, prices, competition, economic environments and foreign exchange rates.

Contractual obligations on March 31, 2003 are summarized as follows:

	Payments Due by Period (Yen in millions)			
	Total	Less than 1 year	1 to 5 years	After 5 years
Contractual obligations:				
Long-term debt	582	488	94	–
Operating leases	13,108	4,245	7,791	1,072

The Company's basic policy is to pay a stable dividend over the long term depending on operation results. Funds for paying dividends are allocated from internal funds.

Regarding the shortfall in pension assets, the Company is currently considering the actions to take in response to certain recent reforms to the pension system, including transferring the substitutional portion of employee pension fund liabilities to the government.

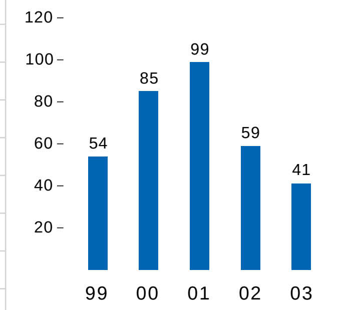
The Company has various employees pension plans covering their employees. The unfunded amount as of March 31, 2003 was ¥104.1 billion ($867 million). The unfunded amount increased significantly by ¥31.5 billion as compared with last year due to a decrease in the discount rate and a low return on plan assets. However, out of this amount, ¥85.0 billion ($708 million) was accrued on the consolidated balance sheet as of March 31, 2003. The Company contributes to the

Employees' Pension Fund in conformity with governmental regulations which require an employer to contribute systematically in accordance with cost allocation methods and to contribute to a special pension premiums in order to fund the unfounded portion over for a maximum of 20 years if such unfunded portion exceeds the specified level prescribed in the regulations. Therefore, although there is no immediate substantial cash funding requirement, the Company's cash funding requirement is affected by possible changes in the interest rates, return on assets, and governmental regulations on a long term basis.

Regarding loans, in principle, the Company's policy is to use funds provided by the parent company to meet the financing requirements of group companies. However, certain of the Company's overseas subsidiaries have their own credit facilities for borrowing funds.

Regarding the Company's capital expenditure plans, the Company's policy is to rigorously select investments in the strategic fields of IT home electronic appliances, high-speed and large-capacity networks and car electronics. Capital expenditures will be funded using internally generated funds.

Capital Expenditures
(Yen in billions)



FINANCIAL MANAGEMENT

The operating capital and capital expenditures are cash generated through operating activities in principle. To improve capital efficiency, to the extent possible, the Company will centralize financial management in the Head Office through the introduction of a cash management system (CMS). Surplus funds are invested with an emphasis on low risk. Funds from within the group will be utilized, to the extent possible, to extend financing to subsidiaries that cannot procure operating capital or funds for capital expenditures themselves.

CASH FLOWS

Yen in millions

Years ended March 31	**2003**	2002	2001
Net income (loss)	**¥ 12,019**	(25,771)	43,983
Adjustments to reconcile net income (loss) to net cash provided by operating activities	**92,339**	67,275	23,614
Net cash provided by operating activities	**104,358**	41,504	67,597
Net cash used in investing activities	**(46,645)**	(57,903)	(92,538)
Net cash used in financing activities	**(7,925)**	(13,202)	(8,814)
Effect of exchange rate changes on cash and cash equivalents	**(4,998)**	4,445	10,153
Net change in cash and cash equivalents	**¥ 44,790**	(25,156)	(23,602)

Cash and cash equivalents increased ¥44.8 billion to ¥170.6 billion ($1,421 million), from ¥125.8 billion in the previous fiscal year. Operating activities provided net cash of ¥104.4 billion ($870 million), a year-on-year increase of ¥62.9 billion. This reflected mainly a ¥37.8 billion increase in net income to ¥12.0 billion ($100 million); a decrease of ¥4.1 billion in depreciation and amortization to ¥57.8 billion ($482 million); a decrease in inventories of ¥14.3 billion ($119 million); and an increase of ¥6.7 billion ($56 million) in trade payables. Regarding the shortfall in pension assets, the Company is currently considering reforms to the pension system, including transferring the substitutional portion of employee pension fund liabilities.

Investing activities used net cash ¥46.6 billion ($389 million), a decrease of ¥11.3 billion, from ¥57.9 billion in the previous fiscal year. The main factor was a ¥17.3 billion decrease in capital expenditures to ¥41.5 billion ($345 million). Regarding research and development expenses, the Company's policy is to focus investments in the strategic fields of IT home electronic appliances, high-speed and large-capacity networks and car electronics. Funds for research and development will be appropriated from internal funds.

Financing activities used net cash of ¥7.9 billion ($66 million), ¥5.3 billion less than the ¥13.2 billion in cash used in the previous fiscal year. This mainly represented a ¥3.3 billion decrease in repayments of short-term debt and a ¥2.0 billion decrease in dividends paid.

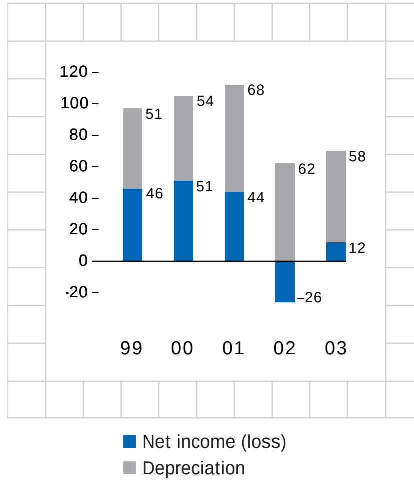
Regarding fund procurement costs, the Company has long-term corporate credit ratings of AA- and A1 from Standard & Poor's and Moody's, respectively. Furthermore, Standard & Poor's gives the Company their highest short-term credit rating, A-1+, and the Company's U.S. subsidiaries have been given the highest rating of P-1 by Moody's. These ratings allow the Company to procure funds if needed at low interest rates.

The Company's basic policy is to pay a stable dividend over the long term. Funds for paying dividends are allocated from internal funds.

With unstable financial conditions expected to continue in Japan, the Company's policy is to maintain a high level of liquidity. The Company thus has no immediate plans to repurchase stock.

The Company estimates that operating cash flows and other internal resources will provide adequate liquidity in fiscal 2004. Regarding cash flows for the fiscal year ending March 31, 2004 and onward, the Company expects to provide the necessary funds from operating cash flows by increasing profitability and improving the return on assets.

Net Cash Flows
(Yen in billions)



FINANCIAL POSITION

Yen in millions (%)

Years ended March 31	**2003**		2002		2001	
Short-term debt	**¥ 1,431**	**(0.3)**	1,655	(0.3)	5,120	(0.8)
Current installments of long-term debt	**488**	**(0.1)**	657	(0.1)	759	(0.1)
Trade notes payable	**824**	**(0.1)**	849	(0.1)	791	(0.1)
Long-term debt, excluding current installments	**94**	**(0.0)**	459	(0.1)	1,004	(0.2)
Stockholders' equity	**553,885**	**(99.5)**	583,927	(99.4)	637,749	(98.8)
Total capital	**¥556,722**	**(100.0)**	587,547	(100.0)	645,423	(100.0)

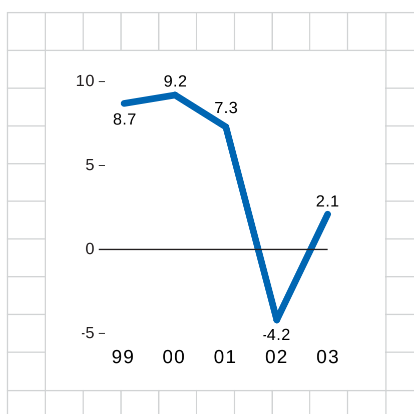
Total assets amounted to ¥747.3 billion ($6,228 million) at March 31, 2003, down ¥2.6 billion from ¥749.9 billion at the previous fiscal year-end. Among current assets, cash and cash equivalents increased ¥44.8 billion, from ¥125.8 billion to ¥170.6 billion ($1,421 million), while net trade receivables decreased ¥2.8 billion, from ¥142.8 billion to ¥140.0 billion ($1,167 million), and inventories were down ¥17.2 billion, from ¥91.1 billion to ¥73.9 billion ($616 million). And property, plant and equipment decreased ¥39.7 billion, from ¥265.6 billion to ¥225.9 billion ($1,883 million), as the Company reviewed capital expenditures.

Total liabilities, meanwhile, increased ¥28.7 billion, from ¥161.4 billion to ¥190.1 billion ($1,584 million). Accrued expenses decreased ¥7.6 billion, from ¥35.7 billion to ¥28.1 billion ($234 million) due to the payment during the year of retirement allowances to employees who applied for a special voluntary retirement package offered as part of structural reforms implemented in fiscal 2002. On the other hand, trade payables increased ¥4.4 billion, from ¥52.6 billion to ¥57.0 billion ($475 million) and retirement and severance benefits increased ¥35.0 billion, from ¥50.0 billion to ¥85.0 billion ($708 million).

Total stockholders' equity declined by a total of ¥30.0 billion, from ¥583.9 billion to ¥553.9 billion ($4,616 million). Accumulated other comprehensive loss rose ¥34.8 billion, from ¥44.0 billion to ¥78.8 billion ($657 million), due to a ¥18.7 billion rise in foreign currency translation adjustments and ¥15.8 billion increase in minimum pension liability adjustments. Offsetting these increases to some extent was a ¥5.8 billion rise in retained earnings, from ¥520.1 billion to ¥525.9 billion ($4,383 million).

The Company currently has no capital market debt outstanding. However, the Company maintains long-term corporate credit ratings of AA- and A1 from Standard & Poor's and Moody's, respectively. Furthermore, Standard & Poor's gives the Company their highest short-term credit rating, A-1+ and the Company's U.S. subsidiaries have been given the highest rating of P-1 by Moody's.

Return on Equity
(%)



Restructuring Charges

During the year ended March 31, 2003, the Company recorded a restructuring charge of ¥5.3 billion ($44.5 million). As a result of the restructuring, a total of 1,302 regular employees were terminated through March 31, 2003. The Company and domestic subsidiaries released 237 employees in Japan and overseas subsidiaries released 1,065 employees mainly in the Americas and Europe. The Company recorded a workforce reduction charge of approximately ¥2.3 billion ($19.6 million) relating primarily to severances. The Company recorded a restructuring charge of ¥3.0 billion ($25.0 million) mainly relating to losses on the disposal of property, plant and equipment in Japan, in the Americas and in Europe.

The downturn in the U.S. economy from the fourth quarter ended March 31, 2001 and the recent reduction in IT investment volume on a world-wide basis had an adverse effect on the Company. Under the circumstances, the Company believes offering competitive pricing is essential to maintaining its advantageous position in the market of electronic components. Additionally, many of the Company's customers who manufacture consumer products have transferred their manufacturing facilities to Asian countries, in particular China. As a result, the Company, as a supplier of electronic components to these customers, will be required to transfer certain of its factories to these Asian countries in order to meet the customer's logistical needs. Given the global economic conditions, the Company decided to restructure its organization to improve its competitive and financial position on a world-wide basis. The structural reforms implemented over the past two years, including manufacturing plant integration and closure, reduction of headcount and other rationalization plans, had been accomplished almost on schedule through March 31, 2003.

Through March 31, 2003, the Company has paid ¥5.1 billion ($42.7 million) of the ¥5.3 billion ($44.5 million) restructuring charges. The Company anticipates that substantially all of the remaining restructuring costs will be paid by the end of first quarter of fiscal 2004.

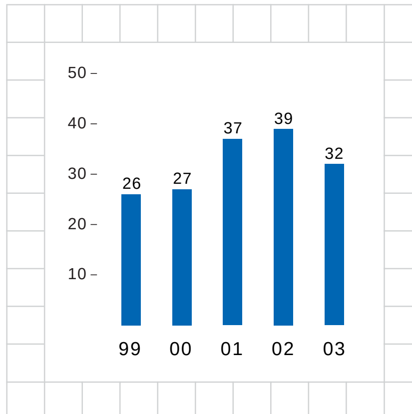
Research and development, patents and licenses, etc.

R&D expenditures amounted to ¥31.9 billion ($266 million), 5.2 percent of net sales in fiscal 2003, ¥38.6 billion, 6.8 percent of net sales in fiscal 2002 and ¥37.0 billion, 5.4 percent of net sales in fiscal 2001.

In its R&D activities, the Company continues to work on strengthening and expanding development of new products that respond to diversification in the electronics market. In particular, the Company is concentrating on next-generation recording-related products, micro electronics modules for mobile communications-related applications, and energy-efficient, environmentally friendly devices based on materials and design technologies. Furthermore, the Company is using its reservoir of technologies to conduct efficient R&D activities concentrating on three strategic areas: IT home electronic appliances, high-speed and large-capacity networks and car electronics. On April 1, 2003, the Company established the Application Center with the aim of quickly responding to market shifts and rising customer needs in strategic fields.

Research and Development

(Yen in billions)



In the recording media & systems field, the Company is pushing ahead with research on next-generation DVD-related products, including DVR Blue, while in the electronic components field R&D themes are development of tunnel-junction MR heads, research in next-generation magnetic recording technologies, improving high-frequency-related components for mobile communications applications and improving wireless LAN-related products. Moreover, in EMC-related areas, which draw on the Company's materials technologies, the Company is working toward the commercialization of products designed for the increasingly higher frequencies used in electronic devices.

R&D at the Company is conducted by four labs—the Corporate Research & Development Center, the Materials Research Center, the Information Technology Development Center and the HMS (Hybrid Material Solutions) Research Center—and the Application Center, Silicon Systems Development Department, the New Business Development Department, the Production Engineering Development Dept. and the R&D functions of each operating group. Each facility is developing new products in its area of responsibility. The Corporate Research & Development Center is primarily responsible for research in thin film-related technology, while the Materials Research Center mainly conducts research in magnetic and dielectric materials that use powder metallurgy. The Information Technology Development Center conducts research in next-generation recording and communications technologies, and the HMS Research Center conducts research in hybrid multilayer development technologies and related areas.

In terms of overseas R&D activities, the Company is conducting R&D projects in collaboration with leading universities in the U.S. and U.K., and overseas R&D subsidiaries are making use of local technological resources. In China, where the Company is aiming to establish and develop an operating base capable of supporting growth, R&D activities are being carried out in the area of electronic components and materials. In addition, consolidated subsidiaries are pushing ahead with various

R&D themes. TDK Semiconductor Corporation is developing semiconductors for LAN/WAN applications and Headway Technologies, Inc. is developing next-generation HDD heads.

Although the Company has a variety of patents in Japan and other countries, and licenses from others, it believes that termination of any one of its patents or licenses or related group of patents or licenses would not materially adversely affect its business. Total income from its patents and licenses was ¥0.2 billion ($1.7 million) in fiscal 2003, ¥0.3 billion in fiscal 2002 and ¥0.4 billion in fiscal 2001. The Company paid ¥10.2 billion ($85.3 million) in fiscal 2003, ¥6.1 billion in fiscal 2002 and ¥6.4 billion in fiscal 2001 mainly for the royalties under the optical disk license. The Company does not believe that acquisition of new proprietary patents or other companies' patents would have a material effect on operating results in the future.

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.

Foreign Exchange Risk

The Company's international operations, foreign exchange indebtedness and intercompany loans expose the Company to the risk of changes in foreign currency exchange rates. In order to limit this exposure, the Company enters into currency swaps and foreign exchange contracts. Management expects that gains and losses on derivative financial instruments should offset most of the corresponding gains and losses on foreign exchange indebtedness 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.

Stock Price Risk

The Company's exposure to market risk involving changes in stock prices relates only to its equity securities categorized as available-for-sale securities. The Company purchases equity securities for the purpose of acquiring technological information and for other purposes, and not as a means of investing surplus funds. The aggregate cost and fair value of these equity securities were ¥3.4 billion ($28 million) and ¥3.6 billion ($30 million) as of March 31, 2003, and ¥4.4 billion and ¥5.0 billion as of March 31, 2002, respectively. As of March 31, 2003, the industries in which the issuers operate were mainly communications and electronic equipment, and the cost and fair value of the equity securities were ¥3.1 billion ($26 million) and ¥3.2 billion ($27 million), respectively. As of March 31, 2002, the industry in which the issuers operate was mainly communications equipment, and the cost and fair value of the equity securities were ¥3.7 billion and ¥3.9 billion, respectively.

Interest Rate Risk

The Company's exposure to market risk for changes in interest rates relates primarily to its debt securities. The Company has debt securities with fixed rates. The Company, to the extent possible, plans to limit debt securities to short-term debt securities. The Company believes that the fair values of interest rate sensitive instruments as of March 31, 2003 and 2002, and potential, near-term losses affecting future earnings, fair values, and/or cash flows from reasonable near-term changes in interest rates are immaterial.

Critical accounting policies

In December 2001, the Securities and Exchange Commission (SEC) of the United States of America issued disclosure guidance for "critical accounting policies", Financial Reporting Release No.60. The SEC defines "critical accounting policies" as those that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

The following is not intended to be a comprehensive list of all of the Company's accounting policies. The Company's significant accounting policies are more fully described in Note 1 to the Consolidated Financial Statements. In many cases, the accounting treatment of a particular transaction is specifically dictated by accounting principles generally accepted in the United States of America, with no need for management's judgment in their application. There are also areas in which management's judgment in selecting an available alternative would not produce a materially different result.

The Company has identified the following as critical accounting policies: impairment of long-lived assets, valuation of inventories, goodwill and other intangible assets, pension benefit costs, and deferred tax assets.

Impairment of Long-Lived Assets

The Company's long-lived assets and certain identifiable intangibles are reviewed for impairment whether events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. This review is performed using estimates of future cash flows. If the carrying amount of the asset is considered to be impaired, impairment charge is recorded for the amount by which the carrying value of asset exceeds its fair value. Management believes that the estimates of future cash flows and fair values are reasonable, however, changes in estimates resulting in lower future cash flows and fair value due to unforeseen changes in business assumptions could negatively affect the valuation of those long-lived assets and significantly affect the Company's financial position and results of operations. The Company makes investments with due prudence, taking sufficiently into consideration the future profitability of products and the recoverability of investments.

Valuation of Inventories
Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price less the estimated costs of completion and the estimated cost necessary to make a sale. The Company routinely reviews its inventories for their salability and for indications of obsolescence to determine if inventories should be written-down to net realizable value. In estimating the net realizable value of its inventories, the Company considers the age of the inventory and likelihood of spoilage on changes in market demand for its inventories. Management believes the judgments and estimates are reasonable, however, changes in actual future demand or market conditions could require additional inventory write-downs. The Company's policy is to mitigate the risk of write-downs, to the extent possible, by reducing the level of inventories through shorter production lead-times.

Goodwill and Other Intangible Assets
Goodwill and other intangible assets that are determined to have an indefinite life are not amortized and are tested for impairment on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of these assets below their carrying amount. Fair value for these assets is determined using a discounted cash flow analysis, which is based on an authorized business plan. Management believes that the estimates of future cash flows and fair value are reasonable, however, changes in estimates resulting in lower future cash flows and fair value due to unforeseen changes in business assumption could negatively affect the valuations.

Pension Benefit Costs
Employee pension benefit costs and obligations are dependent on assumptions used by actuaries in calculating such amounts. These assumptions include discount rates, retirement rates and mortality rates which are based upon current statistical data, as well as salary growth, long-term return on plan assets and other factors. Changes in assumptions will affect the Company's financial position and results of operations. A decrease in the discount rate leads to an increase in actuarial pension benefit obligations that could lead to an increase in net periodic pension cost through amortization of unrecognized actuarial gain or losses. An increase in the expected return on plan assets may decrease net periodic pension cost in the current year. However, the difference between the expected return and the actual return on those assets, could negatively affect net income in future years.

Deferred Tax Assets
The Company has significant deferred tax assets, which are subject to realizability assessment. 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 schedule 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 that it is more likely than not that all of the deferred tax assets less valuation allowance will be realized. However, in the event future projections for income are not realized or are realized in lesser amounts or in cases where management changes the assessment of realization of deferred tax assets based on other factors, deferred tax assets may be determined not to be realizable which then would result in additional income tax expense adversely affecting net income.

New accounting standards

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.

In January 2001, the Emerging Issues Task Force also reached a final consensus on a portion of Issue 00-22 ("EITF 00-22"), "Accounting for "Points" and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future". EITF 00-22 addresses accounting and reporting standards for sales incentives such as royalty programs or rebates that are offered to customers by vendors only if the customer completes a specified cumulative level of revenue transactions with the vendor or remains a customer of the vendor for a specified time period.

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 00-14 and EITF 00-25 were subsequently codified in and superseded by Issue 01-9 ("EITF 01-9"), "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)" on which the Emerging Issues Task Force reached a final consensus.

The Company adopted EITF 01-9 on April 1, 2002. However, consolidated financial statements for the prior periods have been reclassified to comply with the income statement display requirements. The adoption results in a reduction in net sales for the years ended March 31, 2002 and 2001 of ¥4,518 million and ¥10,825 million, respectively, and corresponding decrease in selling, general and administrative expenses, with no effect on net income.

In June 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146 ("SFAS 146"), "Accounting for Costs Associated with Exit or Disposal Activities". SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". The provisions of SFAS 146 are effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of SFAS 146 did not have a material effect on the Company's consolidated financial positions and results of operations.

In November 2002, the Financial Accounting Standards Board issued FASB Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". FIN 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of a guarantee. In addition, FIN 45 requires disclosures about the guarantees that an entity has issued. The Company adopted the recognition provisions of FIN 45 prospectively to guarantees issued after December 31, 2002. The disclosure provisions of FIN 45 are effective for consolidated financial statements as of March 31, 2003. The adoption of FIN 45 did not have a material effect on the Company's consolidated financial positions and results of operations.

In January 2003, the Financial Accounting Standards Board issued FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51". FIN 46 addresses the consolidation by business enterprises of variable interest entities as defined in the interpretation. FIN 46 applies immediately to variable interests in variable interest entities created after January 31, 2003, and to variable interests in variable interest entities obtained after January 31, 2003. The Company will apply FIN 46 to variable interest entities created before February 1, 2003 by September 30, 2003. The impact on the Company's consolidated financial statements is immaterial.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143 ("SFAS 143"), "Accounting for Asset Retirement Obligations", which addresses the financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and associated asset retirement costs. SFAS 143 applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived assets, except for certain obligations of lessees. SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and subsequently to expense over the asset's useful life. The Company is required to adopt the provisions of SFAS 143 on April 1, 2003. Currently, the effect on the Company's consolidated financial statements of adopting SFAS 143 has not been determined.

In January 2003, the Emerging Issues Task Force reached a final consensus on Issue 03-2 ("EITF 03-2"), "Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities". EITF 03-2 addresses accounting for a transfer to the Japanese government of a substitutional portion of an Employees' Pension Fund ("EPF") plan, which is a defined benefit pension plan established under the Welfare Pension Insurance Law. EITF 03-2 requires employers to account for the separation process of the substitutional portion from the entire EPF plan (which includes a corporation portion) upon completion of the transfer to the government of the substitutional portion of the benefit obligation and related plan assets. The separation process is considered the culmination of a series of steps in a single settlement transaction. Under this approach, the difference between the fair value of the obligation and the assets required to be transferred to the government should be accounted for and separately disclosed as a subsidy. The Company has not decided whether it will transfer the substitutional portion to the government. Accordingly, the impact on the Company's financial statements, if any, can not be determined until a decision is made and the substitutional portion of the benefit obligation and plan assets are transferred to the government.

Forward-Looking Statements

This report contains forward-looking statements, including projections, plans, policies, management strategies, targets, schedules, understandings and evaluations, about the Company and its group companies that are not historical facts. These forward-looking statements are based on current forecasts, estimates, assumptions, plans, beliefs and evaluations in light of information available to management on the date of this report.

In preparing forecasts and estimates, the Company and its group companies have used as their basis, certain assumptions as necessary, in addition to confirmed historical facts. However, due to their nature, there is no guarantee that these statements and assumptions will prove to be accurate in the future. The Company therefore wishes to caution readers that these statements, facts and certain assumptions contained in this report are subject to a number of risks and uncertainties and may prove to be inaccurate.

The electronics markets in which the Company and its group companies operate are highly susceptible to rapid changes. Furthermore, the Company and its group companies operate 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

	Yen (Millions)				U.S. Dollars (Thousands)		
Years ended March 31	**2003**		2002		**2003**		Change (%)
ELECTRONIC MATERIALS AND COMPONENTS							
Net sales							
Unaffiliated customers	**¥472,529**		432,886		**$3,937,742**		9.2
Intersegment	**–**		–		**–**		
Total revenue	**472,529**	**(100.0%)**	432,886	(100.0%)	**3,937,742**	**(100.0%)**	9.2
Operating expenses	**451,993**	**(95.7%)**	469,232	(108.4%)	**3,766,608**	**(95.7%)**	–3.7
Operating profit (loss)	**¥ 20,536**	**(4.3%)**	(36,346)	(–8.4%)	**$ 171,134**	**(4.3%)**	–
Identifiable assets	**495,144**		513,218		**4,126,200**		
Depreciation and amortization	**53,015**		56,031		**441,792**		
Capital expenditures	**38,882**		55,046		**324,017**		
RECORDING MEDIA AND SYSTEMS							
Net sales							
Unaffiliated customers	**¥136,351**		137,625		**$1,136,258**		–0.9
Intersegment	**–**		–		**–**		
Total revenue	**136,351**	**(100.0%)**	137,625	(100.0%)	**1,136,258**	**(100.0%)**	–0.9
Operating expenses	**134,807**	**(98.9%)**	145,001	(105.4%)	**1,123,392**	**(98.9%)**	–7.0
Operating profit (loss)	**¥ 1,544**	**(1.1%)**	(7,376)	(–5.4%)	**$ 12,866**	**(1.1%)**	–
Identifiable assets	**96,761**		109,055		**806,342**		
Depreciation and amortization	**4,774**		5,889		**39,783**		
Capital expenditures	**2,569**		3,731		**21,408**		
ELIMINATIONS AND CORPORATE							
Corporate assets	**¥155,432**		127,637		**$1,295,266**		
TOTAL							
Net sales							
Unaffiliated customers	**¥608,880**		570,511		**$5,074,000**		6.7
Intersegment	**–**		–		**–**		
Total revenue	**608,880**	**(100.0%)**	570,511	(100.0%)	**5,074,000**	**(100.0%)**	6.7
Operating expenses	**586,800**	**(96.4%)**	614,233	(107.7%)	**4,890,000**	**(96.4%)**	–4.5
Operating profit (loss)	**¥ 22,080**	**(3.6%)**	(43,722)	(–7.7%)	**$ 184,000**	**(3.6%)**	–
Identifiable and corporate assets	**747,337**		749,910		**6,227,808**		
Depreciation and amortization	**57,789**		61,920		**481,575**		
Capital expenditures	**41,451**		58,777		**345,425**		

Notes: 1. Operating profit (loss) is defined as net sales less cost of sales, selling, general and administrative expenses and restructuring costs.

2. TDK adopted the Emerging Issues Task Force Issue 01-9 ("EITF 01-9"), "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)" from the fiscal year beginning April 1, 2002 and certain amounts in the fiscal year 2002's segment information have been reclassified, with no effect on operating profit (loss), to conform to the fiscal year 2003 presentation.

Geographic Segment Information

Years ended March 31	Yen (Millions) 2003	2002	U.S. Dollars (Thousands) 2003	Change (%)
JAPAN				
Net sales	**¥334,882**	328,214	**$2,790,683**	2.0
Operating profit (loss)	**5,193**	(33,252)	**43,275**	–
Identifiable assets	**326,128**	341,815	**2,717,733**	–4.6
AMERICAS				
Net sales	**101,784**	101,910	**848,200**	–0.1
Operating profit (loss)	**(1,082)**	(12,712)	**(9,017)**	91.5
Identifiable assets	**73,845**	84,403	**615,375**	–12.5
EUROPE				
Net sales	**78,462**	78,941	**653,850**	–0.6
Operating profit (loss)	**(3,547)**	(3,184)	**(29,558)**	–11.4
Identifiable assets	**48,108**	52,188	**400,900**	–7.8
ASIA AND OTHERS				
Net sales	**314,918**	268,364	**2,624,317**	17.3
Operating profit	**20,640**	1,700	**172,000**	–
Identifiable assets	**193,637**	194,057	**1,613,642**	–0.2
ELIMINATIONS AND CORPORATE				
Net sales	**221,166**	206,918	**1,843,050**	
Operating profit (loss)	**(876)**	(3,726)	**(7,300)**	
Identifiable assets	**105,619**	77,447	**880,158**	
TOTAL				
Net sales	**¥608,880**	570,511	**$5,074,000**	6.7
Operating profit (loss)	**22,080**	(43,722)	**184,000**	–
Identifiable assets	**747,337**	749,910	**6,227,808**	–0.3

Overseas Sales	Yen 2003		2002		U.S. Dollars 2003		Change (%)
Americas	**¥106,060**	(17.4%)	109,452	(19.2%)	**$ 883,833**	(17.4%)	–3.1
Europe	**78,740**	(12.9%)	79,639	(13.9%)	**656,167**	(12.9%)	–1.1
Asia and others	**258,577**	(42.5%)	216,616	(38.0%)	**2,154,808**	(42.5%)	19.4
Overseas sales total	**¥443,377**	(72.8%)	405,707	(71.1%)	**$3,694,808**	(72.8%)	9.3

Notes: 1. Operating profit (loss) is defined as net sales less cost of sales, selling, general and administrative expenses and restructuring costs.

2. TDK adopted the Emerging Issues Task Force Issue 01-9 ("EITF 01-9"), "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)" from the fiscal year beginning April 1, 2002 and certain amounts in the fiscal year 2002's segment information have been reclassified, with no effect on operating profit (loss), to conform to the fiscal year 2003 presentation.

Ten-Years Financial Summary

Years ended March 31

	Yen (Millions)				
	2003	2002	2001	2000	1999
Net sales	**¥608,880**	570,511	679,086	664,713	676,250
Electronic materials and components	**472,529**	432,886	552,072	525,696	505,187
Recording media and systems	**136,351**	137,625	127,014	139,017	171,063
(Overseas sales)	**443,377**	405,707	457,807	433,667	442,908
Cost of sales	**459,616**	464,620	496,083	475,340	473,760
Selling, general and administrative expenses	**121,839**	123,741	131,074	114,766	126,174
Restructuring cost	**5,345**	25,872	–	–	–
Income (loss) before income taxes	**18,081**	(43,697)	64,516	73,414	75,425
Income taxes	**5,296**	(16,994)	19,792	22,245	28,745
Net income (loss)	**12,019**	(25,771)	43,983	50,730	46,345
Per common share (yen):					
Net income (loss)/Basic	**90.56**	(193.91)	330.54	380.89	347.96
Net income (loss)/Diluted	**90.56**	(193.91)	330.54	380.89	347.96
Cash dividends	**45.00**	60.00	60.00	65.00	60.00
Working capital	**315,948**	288,865	306,771	310,842	331,750
Stockholders' equity	**553,885**	583,927	637,749	571,013	535,398
Total assets	**747,337**	749,910	820,177	775,992	743,512
Capital expenditures	**41,451**	58,777	99,452	84,780	54,330
Depreciation and amortization	**57,789**	61,920	67,973	53,846	50,960
Research and development	**31,862**	38,630	36,970	26,948	26,333
Number of employees	**31,705**	32,249	37,251	34,321	31,305

	Yen (Millions)				
	1998	1997	1996	1995	1994
Net sales	696,677	620,695	541,416	485,121	457,373
Electronic materials and components	532,543	469,559	409,614	352,388	319,627
Recording media and systems	164,134	151,136	131,802	132,733	137,746
(Overseas sales)	432,362	374,076	315,934	275,520	240,575
Cost of sales	469,872	426,341	377,369	342,133	329,970
Selling, general and administrative expenses	128,501	117,106	109,989	104,668	107,211
Restructuring cost	–	–	–	–	–
Income (loss) before income taxes	99,620	103,304	51,933	30,767	17,798
Income taxes	40,205	42,553	24,018	17,634	12,355
Net income (loss)	59,053	60,299	27,693	13,017	5,484
Per common share (yen):					
Net income (loss)/Basic	443.38	454.51	210.59	98.99	41.70
Net income (loss)/Diluted	443.38	452.99	208.64	98.46	41.70
Cash dividends	60.00	55.00	50.00	50.00	50.00
Working capital	315,858	278,637	210,337	200,801	191,701
Stockholders' equity	530,791	484,994	415,984	381,093	374,785
Total assets	733,104	667,227	644,854	583,466	562,905
Capital expenditures	61,768	49,948	46,150	37,457	36,894
Depreciation and amortization	45,663	42,362	42,558	41,696	42,250
Research and development	25,547	23,305	27,147	25,353	26,142
Number of employees	29,747	28,055	29,070	27,276	26,830

Note: TDK adopted the Emerging Issues Task Force Issue 01-9 ("EITF 01-9"), "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)" from the fiscal year beginning April 1, 2002 and certain amounts from the fiscal year 2000 have been reclassified, with no effect on net income (loss), to conform to the fiscal year 2003 presentation.

Consolidated Statements of Operations

TDK Corporation and Subsidiaries years ended March 31, 2003, 2002 and 2001

	Yen (Millions)			U.S. Dollars (Thousands) (Note 2)
	2003	2002	2001	**2003**
Revenues:				
Net sales	**¥608,880**	570,511	679,086	**$5,074,000**
Interest and dividend income	**1,379**	2,033	5,089	**11,491**
Gain on securities (net of loss) (Note 4)	**–**	–	13,450	**–**
Other income	**2,017**	2,284	2,437	**16,809**
Total revenues	**612,276**	574,828	700,062	**5,102,300**
Costs and expenses:				
Cost of sales	**459,616**	464,620	496,083	**3,830,133**
Selling, general and administrative expenses	**121,839**	123,741	131,074	**1,015,325**
Restructuring cost (Note 16)	**5,345**	25,872	–	**44,542**
Interest expense	**577**	1,264	490	**4,808**
Loss on securities (net of gain) (Note 4)	**3,298**	207	–	**27,483**
Other deductions	**3,520**	2,821	7,899	**29,334**
Total costs and expenses	**594,195**	618,525	635,546	**4,951,625**
Income (loss) before income taxes	**18,081**	(43,697)	64,516	**150,675**
Income taxes (Note 7)	**5,296**	(16,994)	19,792	**44,133**
Income (loss) before minority interests	**12,785**	(26,703)	44,724	**106,542**
Minority interests	**(766)**	932	(741)	**(6,384)**
Net income (loss)	**¥ 12,019**	(25,771)	43,983	**$ 100,158**

	Yen (except number of common shares outstanding)			U.S. Dollars
Amounts per share:				
Basic net income (loss) per share	**¥ 90.56**	(193.91)	330.54	**$ 0.75**
Diluted net income (loss) per share	**90.56**	(193.91)	330.54	**0.75**
Weighted average basic and diluted common shares outstanding (in thousands)	**132,716**	132,900	133,064	
Cash dividends paid during the year (Note 9)	**¥ 45.00**	60.00	60.00	**$ 0.38**

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

TDK Corporation and Subsidiaries March 31, 2003 and 2002

ASSETS	Yen (Millions) 2003	Yen (Millions) 2002	U.S. Dollars (Thousands) (Note 2) 2003
Current assets:			
Cash and cash equivalents	¥170,551	125,761	$1,421,258
Trade receivables:			
Notes	7,750	8,219	64,584
Accounts	135,123	138,378	1,126,025
Allowance for doubtful receivables	(2,850)	(3,770)	(23,750)
Net trade receivables	140,023	142,827	1,166,859
Inventories (Note 5)	73,917	91,149	615,975
Income tax receivables (Note 7)	2,765	8,289	23,042
Prepaid expenses and other current assets (Note 7)	33,706	31,180	280,883
Total current assets	420,962	399,206	3,508,017
Investments and advances (Notes 4 and 12)	22,578	24,265	188,150
Property, plant and equipment, at cost:			
Land	21,284	23,739	177,367
Buildings	178,959	183,450	1,491,325
Machinery and equipment	489,131	507,589	4,076,091
Construction in progress	9,362	13,301	78,017
	698,736	728,079	5,822,800
Less accumulated depreciation	472,829	462,489	3,940,242
Net property, plant and equipment	225,907	265,590	1,882,558
Goodwill (Note 17)	14,131	11,500	117,758
Intangible assets (Note 17)	16,418	7,265	136,817
Deferred income taxes (Note 7)	43,948	37,021	366,233
Other assets	3,393	5,063	28,275
	¥747,337	749,910	$6,227,808

See accompanying notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	Yen (Millions) 2003	2002	U.S. Dollars (Thousands) (Note 2) 2003
Current liabilities:			
Short-term debt (Note 6)	¥ 1,431	1,655	$ 11,925
Current installments of long-term debt (Note 6)	488	657	4,067
Trade payables:			
Notes	824	849	6,867
Accounts	56,136	51,760	467,800
Accrued salaries and wages	11,483	11,247	95,692
Accrued expenses (Note 16)	28,088	35,665	234,066
Income taxes payables (Note 7)	1,057	2,546	8,808
Other current liabilities (Note 7)	5,507	5,962	45,892
Total current liabilities	105,014	110,341	875,117
Long-term debt, excluding current installments (Note 6)	94	459	783
Retirement and severance benefits (Note 8)	84,971	49,992	708,092
Deferred income taxes (Note 7)	13	598	108
Commitments and contingent liabilities (Note 13)	–	–	–
Total liabilities	190,092	161,390	1,584,100
Minority interests	3,360	4,593	28,000
Stockholders' equity:			
Common stock			
Authorized 480,000,000 shares;			
Issued 133,189,659 shares in 2003 and 2002	32,641	32,641	272,008
Additional paid-in capital	63,051	63,051	525,425
Legal reserve (Note 9)	15,953	15,683	132,942
Retained earnings (Note 9)	525,919	520,143	4,382,658
Accumulated other comprehensive income (loss) (Notes 7, 8 and 11)	(78,824)	(43,999)	(656,867)
Treasury stock at cost; 564,475 shares in 2003 and 330,083 shares in 2002 (Note 10)	(4,855)	(3,592)	(40,458)
Total stockholders' equity	553,885	583,927	4,615,708
	¥747,337	749,910	$6,227,808

Consolidated Statements of Stockholders' Equity

TDK Corporation and Subsidiaries years ended March 31, 2003, 2002, and 2001

	Yen (Millions)			U.S. Dollars (Thousands) (Note 2)
	2003	2002	2001	**2003**
Common stock:				
Balance at beginning of period	**¥ 32,641**	32,641	32,641	**$ 272,008**
Balance at end of period	**32,641**	32,641	32,641	**272,008**
Additional paid-in capital:				
Balance at beginning of period	**63,051**	63,051	63,051	**525,425**
Balance at end of period	**63,051**	63,051	63,051	**525,425**
Legal reserve (Note 9)**:**				
Balance at beginning of period	**15,683**	13,409	13,302	**130,692**
Transferred from retained earnings	**270**	2,274	107	**2,250**
Balance at end of period	**15,953**	15,683	13,409	**132,942**
Retained earnings (Note 9)**:**				
Balance at beginning of period	**520,143**	556,165	520,276	**4,334,525**
Net income (loss)	**12,019**	(25,771)	43,983	**100,158**
Cash dividends	**(5,973)**	(7,977)	(7,987)	**(49,775)**
Transferred to legal reserve	**(270)**	(2,274)	(107)	**(2,250)**
Balance at end of period	**525,919**	520,143	556,165	**4,382,658**
Accumulated other comprehensive income (loss) (Notes 7, 8 and 11)**:**				
Balance at beginning of period	**(43,999)**	(24,851)	(58,257)	**(366,659)**
Other comprehensive income (loss) for the period, net of tax	**(34,825)**	(19,148)	33,406	**(290,208)**
Balance at end of period	**(78,824)**	(43,999)	(24,851)	**(656,867)**
Treasury stock (Note 10)**:**				
Balance at beginning of period	**(3,592)**	(2,666)	–	**(29,933)**
Acquisition of treasury stock	**(1,263)**	(926)	(2,666)	**(10,525)**
Balance at end of period	**(4,855)**	(3,592)	(2,666)	**(40,458)**
Total stockholders' equity	**¥553,885**	583,927	637,749	**$4,615,708**
Disclosure of comprehensive income (loss):				
Net income (loss) for the period	**¥ 12,019**	(25,771)	43,983	**$ 100,158**
Other comprehensive income (loss) for the period, net of tax (Note 11)	**(34,825)**	(19,148)	33,406	**(290,208)**
Total comprehensive income (loss) for the period	**¥ (22,806)**	(44,919)	77,389	**$ (190,050)**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

TDK Corporation and Subsidiaries years ended March 31, 2003, 2002 and 2001

	Yen (Millions)			U.S. Dollars (Thousands) (Note 2)
	2003	2002	2001	**2003**
Cash flows from operating activities:				
Net income (loss)	**¥ 12,019**	(25,771)	43,983	**$ 100,158**
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization	**57,789**	61,920	67,973	**481,575**
Loss on disposal of property and equipment	**4,845**	6,436	5,144	**40,375**
Deferred income taxes	**4,301**	(13,797)	(10,986)	**35,842**
Loss (gain) on securities	**3,298**	207	(13,450)	**27,483**
Contribution of cash and cash equivalents to pension trust	**–**	–	(15,315)	**–**
Changes in assets and liabilities:				
Decrease (increase) in trade receivables	**(2,256)**	18,517	22,365	**(18,800)**
Decrease (increase) in inventories	**14,277**	28,776	(23,607)	**118,975**
Increase (decrease) in trade payables	**6,691**	(14,806)	(18,969)	**55,758**
Increase (decrease) in income taxes payables, net	**2,265**	(25,223)	4,642	**18,875**
Other – net	**1,129**	5,245	5,817	**9,409**
Net cash provided by operating activities	**104,358**	41,504	67,597	**869,650**
Cash flows from investing activities:				
Capital expenditures	**(41,451)**	(58,777)	(99,452)	**(345,425)**
Proceeds from sales and maturities of investments	**1,511**	323	6,253	**12,592**
Payment for purchase of investments	**(7,306)**	(3,116)	(692)	**(60,883)**
Other – net	**601**	3,667	1,353	**5,008**
Net cash used in investing activities	**(46,645)**	(57,903)	(92,538)	**(388,708)**
Cash flows from financing activities:				
Proceeds from long-term debt	**211**	46	614	**1,758**
Repayment of long-term debt	**(646)**	(777)	(1,536)	**(5,383)**
Increase (decrease) in short-term debt, net	**(254)**	(3,568)	2,761	**(2,117)**
Payment to acquire treasury stock	**(1,263)**	(926)	(2,666)	**(10,525)**
Dividends paid	**(5,973)**	(7,977)	(7,987)	**(49,775)**
Net cash used in financing activities	**(7,925)**	(13,202)	(8,814)	**(66,042)**
Effect of exchange rate changes on cash and cash equivalents	**(4,998)**	4,445	10,153	**(41,650)**
Net increase (decrease) in cash and cash equivalents	**44,790**	(25,156)	(23,602)	**373,250**
Cash and cash equivalents at beginning of period	**125,761**	150,917	174,519	**1,048,008**
Cash and cash equivalents at end of period	**¥170,551**	125,761	150,917	**$1,421,258**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

TDK Corporation and Subsidiaries

1. Nature of Operations and Summary of Significant Accounting Policies

(a) Nature of Operations

The Company is a multinational manufacturer of ferrite products and a producer of inductor, ceramic and other components and recording media and systems. The Company, a Tokyo-based company founded in 1935 to commercialize ferrite, now manufactures and sells a broad range of products. The Company's two business segments are electronic materials and components, and recording media and systems, which accounted for 78% and 22% of net sales, respectively, for the year ended March 31, 2003. The 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, Inductors, GMR heads, and Semiconductors

b) Recording media and systems products:

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

The Company 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 primary 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, retirement and severance benefits and impairment of long-lived assets including goodwill.

(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% and the Company exercises significant influence over their operating and financial policies are accounted for by the equity method.

All significant intercompany accounts and transactions have been eliminated in consolidation.

(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 classifies its debt and equity securities into one of three categories: trading, available-for-sale, or held-to-maturity. 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 accumulated other comprehensive income until realized.

(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) Stock Option Plan

Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation" 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 fair value method or to continue to measure compensation using the intrinsic value-based method prescribed under Accounting Principles Board Opinion No.25 ("APB 25"), "Accounting for Stock Issued to Employees", the former standard. As such, stock-based compensation cost is recognized by the Company only if the market price of the underlying common stock exceeds the exercise price on the date of grant. 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 2003, fiscal 2002 and fiscal 2001. The following table illustrates the effect on net income (loss) and net income (loss) per share if the fair-value-based method had been applied to all outstanding and unvested awards with such costs recognized ratably over the vesting period of the underlying instruments.

	Yen (Millions)			U.S. Dollars (Thousands)
	2003	2002	2001	**2003**
Net income (loss), as reported	**¥12,019**	(25,771)	43,983	**$100,158**
Deduct total stock-based employee compensation expense determined under fair-value-based method for all rewards, net of tax	**(241)**	(280)	(207)	**(2,008)**
Pro forma net income (loss)	**11,778**	(26,051)	43,776	**98,150**
Basic and diluted net income (loss) per share:				
As reported	**¥ 90.56**	(193.91)	330.54	**$ 0.75**
Pro forma	**88.74**	(196.02)	328.98	**0.74**

In December 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 148 ("SFAS 148"), "Accounting for Stock-Based Compensation - Transition and Disclosure", which amends FASB Statement No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation". SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. The transition guidance and annual disclosure provisions of SFAS 148 are effective for fiscal years ending after December 15, 2002. The adoption of SFAS 148 did not have a material effect on the Company's consolidated financial position and results of operations.

(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 ("SFAS 52"), "Foreign Currency Translation". 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 a component of accumulated other comprehensive income (loss).

(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. Significant items subject to such estimates and assumptions include the valuation of intangible assets, property, plant and equipment, trade receivables, inventories, and deferred income tax assets, and assumptions related to the estimation of actuarial determined employee benefit obligations. Actual results could differ from those estimates.

(m) Accounting for the Impairment or Disposal of Long-Lived Assets

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144 ("SFAS 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets" which supersedes both Statement of Financial Accounting Standards No.121 ("SFAS 121"), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and the accounting and reporting provisions of APB Opinion No.30 ("Opinion 30"), "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", for the disposal of a segment of a business (as previously defined in that Opinion). SFAS 144 retains the fundamental provisions in SFAS 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with SFAS 121. The Company adopted the provision of SFAS 144 on April 1, 2002. The adoption of SFAS 144 did not have a material effect on the Company's consolidated financial position or results of operations.

The Company's long-lived assets and certain identifiable intangibles with finite useful lives 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) Goodwill and Other Intangible Assets

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations", and Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets". SFAS 141 requires the use of the purchase method of accounting for business combinations. SFAS 141 also specifies the types of acquired intangible assets that are required to be recognized and reported separately from goodwill and those acquired intangible assets that are required to be included in goodwill. Under SFAS 142 goodwill is no longer amortized, but instead is tested for impairment at least annually. Intangible assets are amortized over their respective estimated useful lives and reviewed for impairment in accordance with Statement of Financial Accounting Standards No.144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Any recognized intangible asset determined to have an indefinite useful life will not be amortized, but instead is tested for impairment until its life is determined to no longer be indefinite.

The Company conducts its annual impairment test at the end of each fiscal year.

(o) Derivative Financial Instruments

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 accumulated other comprehensive income of approximately ¥90 million. This amount was reclassified from accumulated other comprehensive income to earnings during the year ended March 31, 2002. The Company has not elected to apply hedge accounting subsequent to the adoption of SFAS 133 and 138, and changes in the fair value of derivatives are recognized in earnings in the period of the changes.

Prior to the adoption of SFAS 133 and 138, the Company and certain of its subsidiaries used derivative financial instruments with off-balance-sheet risk, such as 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 qualified for hedge accounting treatment were recognized in the same period in which gains or losses from the transaction being hedged were recognized. The differential to be paid or received on interest rate swap agreements was recognized over the life of the agreement as an adjustment to interest expense. Derivative financial instruments that did not meet the criteria for hedge accounting were marked to market.

(p) 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. Stock options were not included in the calculation of diluted earnings per share for the years ended March 31, 2003, 2002 and 2001 as their effect would be antidilutive.

(q) Revenue Recognition

The Company recognizes revenue when (i) persuasive evidence of an arrangement exists which is generally in the form of a purchase order or a signed contract; (ii) delivery has occurred and title and risk of loss have transferred; (iii) the sales price is fixed and determinable, and (iv) collectibility is probable.

(r) New Accounting Standards

Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)

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.

In January 2001, the Emerging Issues Task Force also reached a final consensus on a portion of Issue 00-22 ("EITF 00-22"), "Accounting for "Points" and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future". EITF 00-22 addresses accounting and reporting standards for sales incentives such as royalty programs or rebates that are offered to customers by vendors only if the customer completes a specified cumulative level of revenue transactions with the vendor or remains a customer of the vendor for a specified time period.

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 00-14 and EITF 00-25 were subsequently codified in and superseded by Issue 01-9 ("EITF 01-9"), "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)" on which the Emerging Issues Task Force reached a final consensus.

The Company adopted EITF 01-9 on April 1, 2002. However, consolidated financial statements for the prior periods have been reclassified to comply with the income statement display requirements. The adoption results in a reduction in net sales for the years ended March 31, 2002 and 2001 of ¥4,518 million and ¥10,825 million, respectively, and corresponding decrease in selling, general and administrative expenses, with no effect on net income.

Accounting for Costs Associated with Exit or Disposal Activities

In June 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146 ("SFAS 146"), "Accounting for Costs Associated with Exit or Disposal Activities". SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". The provisions of SFAS 146 are effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of SFAS 146 did not have a material effect on the Company's consolidated financial positions and results of operations.

Guarantor's Accounting and Disclosure Requirements for Guarantees

In November 2002, the Financial Accounting Standards Board issued FASB Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". FIN 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of a guarantee. In addition, FIN 45 requires disclosures about the guarantees that an entity has issued. The Company adopted the recognition provisions of FIN 45 prospectively to guarantees issued after December 31, 2002. The disclosure provisions of FIN 45 are effective for consolidated financial statements as of March 31, 2003. The adoption of FIN 45 did not have a material effect on the Company's consolidated financial positions and results of operations.

Consolidation of Variable Interest Entities

In January 2003, the Financial Accounting Standards Board issued FASB Interpretation No.46 ("FIN 46"), "Consolidation of Variable Interest Entities, an interpretation of ARB No.51". FIN 46 addresses the consolidation by business enterprises of variable interest entities as defined in the interpretation. FIN 46 applies immediately to variable interests in variable interest entities created after January 31, 2003, and to variable interests in variable interest entities obtained after January 31, 2003. The Company will apply FIN 46 to variable interest entities created before February 1, 2003 by September 30, 2003. The impact on the Company's consolidated financial statements is immaterial.

New Accounting Standards Not Yet Adopted

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143 ("SFAS 143"), "Accounting for Asset Retirement Obligations", which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and associated asset retirement costs. SFAS 143 applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived assets, except for certain obligations of lessees. SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and subsequently allocated to expense over the asset's useful life. The Company is required to adopt the provisions of SFAS 143 on April 1, 2003. Currently, the effect on the Company's consolidated financial statements of adopting SFAS 143 has not been determined.

In January 2003, the Emerging Issues Task Force reached a final consensus on Issue 03-2 ("EITF 03-2"), "Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities". EITF 03-2 addresses accounting for a transfer to the Japanese government of a substitutional portion of an Employees' Pension Fund ("EPF") plan, which is a defined benefit pension plan established under the Welfare Pension Insurance Law. EITF 03-2 requires employers to account for the separation process of the substitutional portion from the entire EPF plan (which includes a corporation portion) upon completion of the transfer to the government of the substitutional portion of the benefit obligation and related plan assets. The separation process is considered the culmination of a series of steps in a single settlement transaction. Under this approach, the difference between the fair value of the obligation and the assets required to be transferred to the government should be accounted for and separately disclosed as a subsidy. The Company has not decided whether it will transfer the substitutional portion to the government. Accordingly, the impact on the Company's financial statements, if any, can not be determined until a decision is made and the substitutional portion of the benefit obligation and plan assets are transferred to the government.

(s) Reclassifications

Certain reclassifications have been made to the prior year's consolidated financial statements to conform to the presentation used for the year ended March 31, 2003.

2. Financial Statement Translation

The consolidated financial statements are expressed in yen, the functional currency of the Company. Supplementally, however, the Japanese yen amounts as of and for the year ended March 31, 2003, have also been translated into U.S. dollar amounts, solely for the convenience of the reader, at the rate of ¥120=U.S.$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 31, 2003. 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)
	2003	2002	2001	**2003**
Net assets	**¥304,645**	312,539	317,844	**$2,538,708**
Net sales	**436,062**	391,740	439,750	**3,633,850**
Net income (loss)	**9,101**	(20,519)	(5,239)	**75,842**

4. Investments and Advances

Investments and advances at March 31, 2003 and 2002, are as follows:

	Yen (Millions)		U.S. Dollars (Thousands)
	2003	2002	**2003**
Marketable securities	**¥ 6,064**	8,283	**$ 50,533**
Nonmarketable securities	**1,406**	4,864	**11,717**
Investments in affiliates	**11,861**	6,524	**98,842**
Other	**3,247**	4,594	**27,058**
	¥22,578	24,265	**$188,150**

Investments in affiliates accounted for by the equity method consist of 26.1% of the common stock of Semiconductor Energy Laboratory Co., Ltd., a research and development company, 50.0% of the common stock of Tokyo Magnetic Printing Co., Ltd., a magnetic products manufacturing company, and six other affiliated companies, collectively, which are not significant. The unamortized portion of the excess of cost over the Company's share of net assets of affiliated companies was ¥562 million ($4,683 thousand) at March 31, 2003. In accordance with SFAS 142, this equity-method goodwill is no longer amortized, but is being analyzed for impairment.

Investments and advances include available-for-sale securities. Information with respect to such securities at March 31, 2003 and 2002, is as follows:

	2003				2002			
	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Yen (Millions):								
Investments and advances:								
Equity securities	**¥3,384**	**193**	**11**	**3,566**	4,389	596	–	4,985
Debt securities	**2,495**	**3**	**–**	**2,498**	3,274	24	–	3,298
. . . .	**¥5,879**	**196**	**11**	**6,064**	7,663	620	–	8,283
US Dollars (Thousands):								
Investments and advances:								
Equity securities	**$28,200**	**1,608**	**92**	**29,716**				
Debt securities	**20,792**	**25**	**–**	**20,817**				
	$48,992	**1,633**	**92**	**50,533**				

Debt securities classified as available-for-sale at March 31, 2003 mature in fiscal 2004 through 2006 (weighted average remaining term of 1.3 years).

The proceeds from sale and settlement of available-for-sale securities are ¥1,511 million ($12,592 thousand), ¥323 million and ¥6,253 million for the years ended March 31, 2003, 2002 and 2001, respectively. The gross realized gains on the sale and settlement of available-for-sale securities are ¥4 million ($33 thousand), ¥120 million and ¥999 million for the years ended March 31, 2003, 2002 and 2001, respectively. The gross realized loss on the sale and settlement of available-for-sale securities is ¥74 million for the year ended March 31, 2001. The Company recorded a write-down of ¥3,302 million ($27,517 thousand) and ¥327 million on certain available-for-sale securities representing other-than-temporary declines in the fair value of the available-for-sale securities for the years ended March 31, 2003 and 2002, respectively. During 2001, the Company contributed equity securities of ¥34,573 million to a pension trust. The gross realized gains and losses on this contribution were ¥13,329 million and ¥811 million, respectively.

5. Inventories

Inventories at March 31, 2003 and 2002, are summarized as follows:

	Yen (Millions)		U.S. Dollars (Thousands)
	2003	2002	**2003**
Finished goods	**¥33,151**	38,671	**$276,258**
Work in process	**21,681**	25,348	**180,675**
Raw materials	**19,085**	27,130	**159,042**
	¥73,917	91,149	**$615,975**

6. Short-Term and Long-Term Debt

Short-term debt and weighted average interest rates at March 31, 2003 and 2002, are as follows:

	Yen (Millions)		U.S. Dollars (Thousands)	Weighted average interest rate	
	2003	2002	**2003**	**2003**	2002
Short-term bank loans	**¥1,431**	1,655	**$11,925**	**2.54%**	4.35%

At March 31, 2003, unused short-term credit facilities for issuance of commercial paper amounted to ¥36,060 million ($300,500 thousand).

Long-term debt at March 31, 2003 and 2002, is set forth below:

	Yen (Millions)		U.S. Dollars (Thousands)
	2003	2002	**2003**
Loans from banks, unsecured, due fiscal 2003 (weighted average: 2002–13.79%)	**¥ –**	140	**$ –**
Other (weighted average: 2003–9.98%, 2002–10.19%)	**582**	976	**4,850**
	582	1,116	**4,850**
Less current installments	**488**	657	**4,067**
	¥ 94	459	**$ 783**

The aggregate annual maturities of long-term debt outstanding at March 31, 2003, are as follows:

	Yen (Millions)	U.S. Dollars (Thousands)
Year ending March 31,		
2004	¥488	$4,067
2005	87	725
2006	7	58
	¥582	$4,850

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 national corporate tax of 30%, an inhabitants tax of between 5.2% and 6.2% and a deductible enterprise tax of between 9.6% and 10.1%, which in the aggregate resulted in a statutory rate of approximately 41% in the years ended March 31, 2003, 2002 and 2001.

Amendments to Japanese tax regulations were enacted into law on March 24,2003. As a result of this amendment, the statutory income tax rate was reduced from approximately 41% to 40% effective from April 1, 2004. Current income taxes were calculated at the rate of 41%, in effect for the years ended March 31, 2003, 2002 and 2001, respectively.

Deferred tax assets and liabilities expected to be settled or realized by March 31, 2004 were calculated at the rate of 41%, and those expected to be settled or realized after April 1, 2004 were calculated at the rate of 40%.

The effects of the income tax rate reduction on deferred income tax balances as of March 31, 2003 reduced the net deferred tax asset by approximately ¥1,044 million ($8,700 thousand).

The effective tax rate of the companies for the years ended March 31, 2003, 2002 and 2001, are reconciled with the Japanese statutory tax rate in the following table:

	2003	2002	2001
Japanese statutory tax rate	**41.0%**	(41.0)%	41.0%
Expenses not deductible for tax purposes	**0.5**	0.2	0.3
Non taxable income	**(2.4)**	(1.0)	(0.0)
Amortization of goodwill	**–**	–	1.4
Difference in statutory tax rates of foreign subsidiaries	**(22.6)**	(3.0)	(14.1)
Change in the valuation allowance	**14.8**	4.8	(0.3)
Change in enacted tax laws and rates	**5.8**	–	–
Currency translation adjustment	**(3.3)**	–	–
Special tax deduction	**(4.7)**	(2.0)	(3.2)
Other	**0.2**	3.1	5.6
Effective tax rate	**29.3%**	(38.9)%	30.7%

Total income taxes for the years ended March 31, 2003, 2002 and 2001 are allocated as follows:

	Yen (Millions)			U.S. Dollars (Thousands)
	2003	2002	2001	**2003**
Income (loss) before income taxes	**¥ 5,296**	(16,994)	19,792	**$ 44,133**
Stockholders' equity:				
Foreign currency translation adjustments	**(242)**	642	(1,893)	**(2,017)**
Net unrealized gains (losses) on securities	**(166)**	436	(6,404)	**(1,383)**
Minimum pension liability adjustments	**(10,950)**	(24,901)	9,587	**(91,250)**
Total income taxes	**¥ (6,062)**	(40,817)	21,082	**$(50,517)**

Income (loss) before income taxes and income taxes for the years ended March 31, 2003, 2002 and 2001, are summarized as follows:

		Income (loss) Before Income Taxes	Income Taxes		
			Current	Deferred	Total
Yen (Millions):	2003				
	Japanese	**¥ 6,932**	**(1,929)**	**5,977**	**4,048**
	Foreign	**11,149**	**2,924**	**(1,676)**	**1,248**
		¥ 18,081	**995**	**4,301**	**5,296**
	2002				
	Japanese	¥ (20,395)	(660)	(14,483)	(15,143)
	Foreign	(23,302)	(2,537)	686	(1,851)
		¥ (43,697)	(3,197)	(13,797)	(16,994)
	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
U.S. Dollars (Thousands):	2003				
	Japanese	**$ 57,767**	**(16,076)**	**49,809**	**33,733**
	Foreign	**92,908**	**24,367**	**(13,967)**	**10,400**
		$150,675	**8,291**	**35,842**	**44,133**

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2003 and 2002, are as follows:

	Yen (Millions)		U.S. Dollars (Thousands)
	2003	2002	**2003**
Deferred tax assets:			
Trade accounts receivable, principally due to allowance for doubtful debt	**¥ 486**	609	**$ 4,050**
Inventories	**625**	552	**5,208**
Accrued business tax	**31**	–	**258**
Accrued expenses	**3,215**	3,042	**26,792**
Retirement and severance benefits	**9,465**	5,374	**78,875**
Net operating loss carryforwards	**13,215**	16,494	**110,125**
Tax credit carryforwards	**1,429**	2,294	**11,908**
Minimum pension liability adjustments	**38,613**	28,615	**321,775**
Other	**2,218**	3,764	**18,484**
Total gross deferred tax assets	**69,297**	60,744	**577,475**
Less valuation allowance	**(9,690)**	(7,444)	**(80,750)**
Net deferred tax assets	**¥59,607**	53,300	**$496,725**
Deferred tax liabilities:			
Investments, principally due to differences in valuation	**(6,420)**	(6,156)	**(53,500)**
Undistributed earnings of foreign subsidiaries	**(738)**	(714)	**(6,150)**
Property, plant, and equipment, principally due to differences in depreciation	**(515)**	(1,334)	**(4,292)**
Net unrealized gains on securities	**(77)**	(241)	**(642)**
Other	**(514)**	(1,025)	**(4,283)**
Total gross deferred tax liabilities	**(8,264)**	(9,470)	**(68,867)**
Net deferred tax assets	**¥51,343**	43,830	**$427,858**

The net changes in the total valuation allowance for the years ended March 31, 2003, 2002 and 2001, are an increase of ¥2,246 million ($18,717 thousand), ¥1,798 million and ¥4,687 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, 2003.

At March 31, 2003, the Company and certain subsidiaries have net operating loss carryforwards for income tax purposes of ¥36,023 million ($300,192 thousand) which are available to offset future taxable income, if any.

Periods available to offset future taxable income vary in each tax jurisdiction and range from one year to an indefinite period as follows:

	Yen (Millions)	U.S. Dollars (Thousands)
Within 1 year	¥ 68	$ 567
1 to 5 years	14,076	117,300
5 to 20 years	11,400	95,000
Indefinite periods	10,479	87,325
	¥36,023	$300,192

Certain subsidiaries have tax credit carryforwards for income tax purposes of ¥1,429 million ($11,908 thousand) which are available to reduce future income taxes, if any. Approximately ¥455 million ($3,792 thousand) of the tax credit carryforwards expire in fiscal 2018, while the remainder have an indefinite carryforward period.

Net deferred income tax assets and liabilities at March 31, 2003 and 2002, are reflected in the accompanying consolidated balance sheets under the following captions:

	Yen (Millions)		U.S. Dollars (Thousands)
	2003	2002	**2003**
Prepaid expenses and other current assets	**¥ 7,555**	7,961	**$ 62,958**
Deferred income taxes (noncurrent assets)	**43,948**	37,021	**366,233**
Other current liabilities	**(147)**	(554)	**(1,225)**
Deferred income taxes (noncurrent liabilities)	**(13)**	(598)	**(108)**
	¥51,343	43,830	**$427,858**

As of March 31, 2003, the Company did not recognize deferred tax liabilities of approximately ¥43,083 million ($359,025 thousand) for certain portions of undistributed earnings of foreign subsidiaries 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, 2003, the undistributed earnings of these subsidiaries are approximately ¥178,373 million ($1,486,442 thousand).

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 and cash of ¥15,315 million to the pension trust. The Company also has an unfunded retirement plan for 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)
	2003	2002	**2003**
Change in benefit obligations:			
Benefit obligations at beginning of period	**¥238,838**	230,733	**$1,990,317**
Service cost	**9,383**	8,924	**78,192**
Interest cost	**5,985**	6,359	**49,875**
Plan participants' contributions	**621**	660	**5,175**
Plan amendments	**(4,838)**	(16,816)	**(40,317)**
Actuarial loss (gain)	**11,594**	21,359	**96,617**
Benefits paid	**(10,346)**	(12,752)	**(86,217)**
Translation adjustment	**(612)**	371	**(5,100)**
Benefit obligations at end of period	**250,625**	238,838	**2,088,542**
Change in plan assets:			
Fair value of plan assets at beginning of period	**166,253**	179,558	**1,385,442**
Actual return on plan assets	**(17,914)**	(15,584)	**(149,283)**
Employer contributions	**7,293**	9,564	**60,775**
Plan participants' contributions	**621**	660	**5,175**
Benefits paid	**(9,400)**	(8,154)	**(78,333)**
Translation adjustment	**(280)**	209	**(2,333)**
Fair value of plan assets at end of period	**146,573**	166,253	**1,221,443**
Funded status	**(104,052)**	(72,585)	**(867,099)**
Unrecognized net transition obligation being recognized over 18 years	**(6,377)**	(7,708)	**(53,142)**
Unrecognized net actuarial loss	**142,621**	117,092	**1,188,508**
Unrecognized prior service benefit	**(20,312)**	(16,816)	**(169,267)**
Net amount recognized	**¥ 11,880**	19,983	**$ 99,000**
Amounts recognized in consolidated balance sheets consist of:			
Retirement and severance benefits	**(84,971)**	(49,992)	**(708,092)**
Intangible assets	**251**	134	**2,092**
Accumulated other comprehensive income	**96,600**	69,841	**805,000**
Net amount recognized	**¥ 11,880**	19,983	**$ 99,000**
Actuarial present value of accumulated benefit obligations at end of period	**¥229,466**	215,808	**$1,912,217**

Net periodic benefit cost for the years ended March 31, 2003, 2002 and 2001, consisted of the following:

	Yen (Millions)			U.S. Dollars (Thousands)
	2003	2002	2001	**2003**
Components of net periodic benefit cost:				
Service cost	**¥ 9,383**	8,924	10,923	**$ 78,192**
Interest cost	**5,985**	6,359	6,390	**49,875**
Expected return on plan assets	**(3,678)**	(4,321)	(4,417)	**(30,650)**
Amortization of transition assets	**(1,331)**	(1,331)	(1,331)	**(11,092)**
Recognized actuarial loss	**5,963**	3,461	2,598	**49,691**
Amortization of unrecognized prior service benefit	**(1,342)**	–	–	**(11,183)**
Net periodic benefit cost	**¥14,980**	13,092	14,163	**$124,833**

The weighted-average discount rates used in determining the present value of benefit obligations and expected long-term rate of return on assets were 2.1% and 2.6% for 2003 and 2002, respectively. The rates of increase in future compensation levels were 3.0% for 2003 and 2002.

Plan assets comprise primarily listed stock, bonds and other interest-bearing securities.

9. Legal Reserve and Dividends

The Japanese Commercial Code, amended effective on October 1, 2001, provides that an amount equal to at least 10% of cash dividends and of certain other items be appropriated as a legal reserve until an aggregated amount of additional paid-in capital and the legal reserve equals 25% of common stock. The portion of such aggregated amount in excess of 25% of common stock may become available for dividends subsequent to release to retained earnings. 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 ¥25 ($0.21) per share aggregating ¥3,316 million ($27,633 thousand) in respect of the year ended March 31, 2003, 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

The Company obtained approval of the ordinary general meeting of shareholders held on June 27,2002 regarding the issue of stock acquisition rights as stock options (the Stock Acquisition Rights) for Board members and select senior executives, pursuant to Articles 280-20 and 280-21 of the Japanese Commercial Code, as amended. Upon approval, the Board of Directors has adopted resolutions to issue at no charge an aggregate of 2,236 Stock Acquisition Rights, each representing a stock option to purchase 100 shares of common stock of the Company, to the current 7 Directors on the Board and 190 select senior executives. The Stock Acquisition Rights issued on August 9, 2002 are exercisable during the period from August 1, 2004 to July 31, 2008. The amount to be paid by qualified persons upon the exercise of each Stock Acquisition Rights is set at ¥5,909 ($49.24) per share of common stock, 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 a price less than the current market price of the shares of the Company. The exercise price of each Stock Acquisition Right was equal to or greater than the fair market value of the Company's common stock on the date of grant. To cover these options the Company purchased on the Tokyo Stock Exchange a total of 223,600 common shares with an aggregate purchase price of ¥1,209 million ($10,075 thousand) from August 12,2002 through August 19,2002.

The Ordinary General Meeting of Shareholders held on June 28, 2001 approved to implement the Company's 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. Stock options (rights to purchase common shares) were provided to the then 12 Directors on the Board and 184 associate directors and officials in amounts ranging from 500 to 10,000 common shares each, exercisable from August 1, 2003 to April 30, 2007, at an exercise price of ¥6,114 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. The exercise price of each Stock Acquisition Right was equal to or greater than the fair market value of the Company's common stock on the date of grant. To cover these options the Company purchased on the Tokyo Stock Exchange a total of 158,000 common shares with an aggregate purchase price of ¥917 million from July 2, 2001 through July 23, 2001.

The Ordinary General Meeting of Shareholders held on June 29, 2000 approved to implement the Company's 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. 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 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. The exercise price of each Stock Acquisition Right was equal to or greater than the fair market value of the Company's common stock on the date of grant. 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 from July 3, 2000 through August 2, 2000.

A summary of the status of the Company's three stock option plans as of March 31, 2003, 2002 and 2001, and of the activity during the years ending on those dates is as follows:

	2003		2002		2001		2003
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price	Weighted average exercise price
		Yen		Yen			U.S. Dollars
Outstanding at beginning of year	**328,400**	**11,057**	170,400	15,640	–	–	**92.14**
Granted	**223,600**	**5,909**	158,000	6,114	170,400	15,640	**49.24**
Exercised	**–**	**–**	–	–	–	–	**–**
Forfeited or Expired	**1,000**	**5,909**	–	–	–	–	**49.24**
Outstanding at end of year	**551,000**	**8,977**	328,400	11,057	170,400	15,640	**74.81**
Exercisable at end of year	**170,400**	**15,640**	–	–	–	–	**130.33**

Information about stock options outstanding at March 31, 2003 is as follows:

	Options Outstanding			
Range of exercise prices	Number outstanding at March 31, 2003	Weighted average remaining contractual life	Weighted average exercise price	
Yen			Yen	U.S. Dollars
5,909	**222,600**	5.3	5,909	49.24
6,114	**158,000**	4.1	6,114	50.95
15,640	**170,400**	3.1	15,640	130.33
5,909 to 15,640	**551,000**	4.3	8,977	74.81

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:

	2003	2002	2001
Grant-date fair value	**¥1,569 ($13.08)**	¥1,567	¥4,127
Expected life	**4.0 years**	3.9 years	3.9 years
Risk-free interest rate	**0.35%**	0.34%	0.89%
Expected volatility	**39.96%**	39.86%	37.92%
Expected dividend yield	**0.80%**	1.03%	0.40%

11. Other Comprehensive Income (Loss)

Change in accumulated other comprehensive income (loss) for the years ended March 31, 2003, 2002 and 2001, are as follows:

	Yen (Millions)			U.S. Dollars (Thousands)
	2003	2002	2001	**2003**
Foreign currency translation adjustments:				
Balance at beginning of period	**¥ (7,773)**	(23,798)	(50,237)	**$ (64,775)**
Adjustments for period	**(18,747)**	16,025	26,439	**(156,225)**
Balance at end of period	**(26,520)**	(7,773)	(23,798)	**(221,000)**
Net unrealized gains (losses) on securities:				
Balance at beginning of period	**379**	(329)	6,499	**3,158**
Adjustments for period	**(269)**	708	(6,828)	**(2,242)**
Balance at end of period	**110**	379	(329)	**916**
Minimum pension liability adjustments:				
Balance at beginning of period	**(36,605)**	(724)	(14,519)	**(305,042)**
Adjustments for period	**(15,809)**	(35,881)	13,795	**(131,741)**
Balance at end of period	**(52,414)**	(36,605)	(724)	**(436,783)**
Total accumulated other comprehensive income (loss):				
Balance at beginning of period	**(43,999)**	(24,851)	(58,257)	**(366,659)**
Adjustments for period	**(34,825)**	(19,148)	33,406	**(290,208)**
Balance at end of period	**¥(78,824)**	(43,999)	(24,851)	**$(656,867)**

Tax effects allocated to each component of other comprehensive income (loss) and reclassification adjustments for the years ended March 31, 2003, 2002 and 2001, are as follows:

	Yen (Millions)		
	Before tax amount	Tax (expense) or benefit	Net-of-tax amount
2003			
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities held at end of period	**¥(19,751)**	**242**	**(19,509)**
Reclassification adjustments for the portion of gains and losses realized upon liquidation of investments in foreign entities	**762**	**–**	**762**
Net foreign currency translation adjustments	**(18,989)**	**242**	**(18,747)**
Unrealized gains (losses) on securities:			
Unrealized holding gains arising for period	**104**	**(41)**	**63**
Reclassification adjustments for (gains) losses realized in net income	**(539)**	**207**	**(332)**
Net unrealized gains (losses)	**(435)**	**166**	**(269)**
Minimum pension liability adjustments	**(26,759)**	**10,950**	**(15,809)**
Other comprehensive income (loss)	**¥(46,183)**	**11,358**	**(34,825)**
2002			
Foreign currency translation adjustments	¥ 16,667	(642)	16,025
Unrealized gains (losses) on securities:			
Unrealized holding gains arising for period	1,144	(436)	708
Minimum pension liability adjustments	(60,782)	24,901	(35,881)
Other comprehensive income (loss)	¥(42,971)	23,823	(19,148)
2001			
Foreign currency translation adjustments	¥ 24,546	1,893	26,439
Unrealized gains (losses) 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

	U.S. Dollars (Thousands)		
	Before tax amount	Tax (expense) or benefit	Net-of-tax amount
2003			
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities held at end of period	**$(164,592)**	**2,017**	**(162,575)**
Reclassification adjustments for the portion of gains and losses realized upon liquidation of investments in foreign entities	**6,350**	**–**	**6,350**
Net foreign currency translation adjustments	**(158,242)**	**2,017**	**(156,225)**
Unrealized gains (losses) on securities:			
Unrealized holding gains arising for period	**867**	**(342)**	**525**
Reclassification adjustments for (gains) losses realized in net income	**(4,492)**	**1,725**	**(2,767)**
Net unrealized gains (losses)	**(3,625)**	**1,383**	**(2,242)**
Minimum pension liability adjustments	**(222,991)**	**91,250**	**(131,741)**
Other comprehensive income (loss)	**$(384,858)**	**94,650**	**(290,208)**

12. Leases

The companies occupy offices and other facilities under various cancellable lease agreements expiring in fiscal 2004 through 2005. Lease deposits made under such agreements, aggregating ¥1,838 million ($15,317 thousand) and ¥1,896 million, at March 31, 2003 and 2002, 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, 2003:

	Yen (Millions)	U.S. Dollars (Thousands)
Year ending March 31,		
2004	¥ 4,245	$ 35,375
2005	2,861	23,842
2006	2,087	17,392
2007	1,673	13,941
2008	1,170	9,750
Later years	1,072	8,933
	¥13,108	$109,233

13. Commitments and Contingent Liabilities

At March 31, 2003, commitments outstanding for the purchase of property, plant and equipment approximated ¥5,925 million ($49,375 thousand).

The Company and certain of its subsidiaries provide guarantees to third parties of bank loans of its employees. The guarantees for the employees are principally made for their housing loans. For each guarantees issued, if the employees default on a payment, the Company would be required to make payments under its guarantees. The maximum amount of undiscounted payments the Company would have to make in the event of default is ¥7,247 million ($60,392 thousand) at March 31, 2003. As of March 31, 2003, the Company's guarantees that were issued or amended after December 31, 2002 are not material.

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 and 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 and forward foreign exchange 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 and interest rates involved mainly in loans made by the Company to its subsidiaries in a total amount of ¥13,794 million ($114,950 thousand) and ¥13,269 million at March 31, 2003 and 2002, 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 two months to 2.5 years as of March 31, 2003. Gains or losses on currency swaps are included in interest expense, other income or other deductions in the consolidated statements of income. The Swap contracts are measured at fair value and are included in prepaid expenses and other current assets or other current liabilities, as the case may be, in the consolidated balance sheets.

Forward exchange 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, 2003 and 2002, the Company and certain of its subsidiaries had forward exchange contracts to sell and buy foreign currencies (principally U.S. dollars, Euro and Malaysian ringgit) for a contract amount of ¥19,016 million ($158,467 thousand) and ¥7,577 million, respectively.

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, Accrued expenses, and Other current liabilities.

The carrying amount approximates fair value because of the short maturity of these instruments.

(b) Investments and advances

The fair values of 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 and Forward Foreign Exchange Contracts

The fair values of currency swaps, currency and interest rate swaps, interest rate swaps and forward foreign exchange contracts are estimated by obtaining quotes from financial institutions.

The carrying amounts and estimated fair values of the Company's financial instruments at March 31, 2003 and 2002, are summarized as follows:

	Yen (Millions)				U.S. Dollars (Thousands)	
	2003		2002		**2003**	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Nonderivatives:						
Assets:						
Investments and advances for which it is:						
Practicable to estimate fair value	**¥7,089**	**7,089**	10,507	10,507	**$59,075**	**59,075**
Not practicable to estimate fair value	**1,406**	**–**	4,864	–	**11,717**	**–**
Liability:						
Long-term debt, including current portion	**(582)**	**(582)**	(1,116)	(1,116)	**(4,850)**	**(4,850)**
Derivatives:						
Currency and interest rate swaps in a:						
Gain position	**6**	**6**	64	64	**50**	**50**
Loss position	**(293)**	**(293)**	(379)	(379)	**(2,442)**	**(2,442)**
Forward foreign exchange contracts in a:						
Gain position	**42**	**42**	1	1	**350**	**350**
Loss position	**(3)**	**(3)**	(60)	(60)	**(25)**	**(25)**

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 and forward foreign exchange contracts in a gain position are included in prepaid expenses and other current assets, while those in a loss position are included in other current liabilities.

It is not practicable to estimate the fair value of investments in untraded companies. Management believes that the carrying amounts approximate fair value.

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. Restructuring Charges

During the year ended March 31, 2003, the Company recorded a restructuring charge of ¥5,345 million ($44,542 thousand). As a result of the restructuring, a total of 1,302 regular employees were terminated through March 31,2003. The Company and domestic subsidiaries released 237 employees in Japan and overseas subsidiaries released 1,065 employees mainly in the Americas and Europe. The Company recorded a workforce reduction charge of approximately ¥2,346 million ($19,550 thousand) relating primarily to severances. The Company recorded a restructuring charge of ¥2,999 million ($24,992 thousand) mainly relating to losses in the disposal of property, plant and equipment in Japan, in the Americas and in Europe.

The downturn in the U.S. economy from the fourth quarter ended March 31, 2001 and the recent reduction in IT investment volume on a world-wide basis had an adverse effect on the Company. Under the circumstances, the Company believes offering competitive pricing is essential to maintaining its advantageous position in the market of electronic components. Additionally, many of the Company's customers who manufacture consumer products have transferred their manufacturing facilities to Asian countries, in particular China. As a result, the Company, as a supplier of electronic components to these customers, will be required to transfer certain of its factories to these Asian countries in order to meet the customer's logistical needs. Given the global economic conditions, the Company decided to restructure its organization to improve its competitive and financial position on a world-wide basis. The structural reforms implemented over the past two years, including manufacturing plant integration and closure, reduction of headcount and other rationalization plans, have almost been accomplished on schedule through March 31, 2003.

During the year ended March 31, 2002, the Company recorded a restructuring charge of ¥25,872 million. As a result of the restructuring, a total of 5,066 regular employees were terminated across all business functions, operating units and geographic regions through March 31, 2002. The Company recorded a workforce reduction charge of approximately ¥19,884 million relating primarily to severances. In Japan, the Company released 853 employees and domestic subsidiaries released 1,709 employees. Overseas subsidiaries released 2,504 employees mainly in the Americas and Asia (excluding Japan). The Company recorded a restructuring charge of ¥5,988 million mainly relating to losses in the disposal of property, plant and equipment in Japan and in the Americas. The Company reorganized several production lines to strengthen the competitive power of the existing plant in Asia.

Changes of the restructuring liabilities for the years ended March 31,2003 and 2002, are outlined as follows:

	Yen (Millions)					
	2003			2002		
	Workforce reduction	Loss on disposal of property, plant and equipment	Total	Workforce reduction	Loss on disposal of property, plant and equipment	Total
Beginning balance	¥11,272	–	11,272	–	–	–
Costs and expenses	2,346	2,999	5,345	19,884	5,988	25,872
Payments	13,392	2,999	16,391	8,612	5,988	14,600
Ending balance	¥ 226	–	226	11,272	–	11,272

	U.S.Dollars (Thousands)		
Beginning balance	$ 93,933	–	93,933
Costs and expenses	19,550	24,992	44,542
Payments	111,600	24,992	136,592
Ending balance	$ 1,883	–	1,883

Restructuring liabilities are included in Accrued expenses in the consolidated balance sheets.

Through March 31,2003, the Company has paid ¥5,119 million ($42,659 thousand) of the ¥5,345 million ($44,542 thousand) restructuring charges. The Company anticipates that substantially all of the remaining restructuring costs will be paid by the end of first quarter of fiscal 2004.

Through March 31,2002, the Company had paid ¥14,600 million of the ¥25,872 million restructuring charges. The Company had paid all of the remaining restructuring costs by the end of first quarter of fiscal 2003.

17. Goodwill and Other Intangible Assets

The Company adopted Statement of Financial Accounting Standards No.142 ("SFAS 142"), "Goodwill and Other Intangible Assets", effective April 1, 2001. Under SFAS 142, goodwill is no longer amortized but is reviewed for impairment annually, or more frequently if certain indicators arise. In addition, the statement requires reassessment of the useful lives of previously recognized intangible assets. With the adoption of SFAS 142, the Company ceased amortization of goodwill as of April 1, 2001. As of March 31, 2003, the Company completed a goodwill impairment test. No impairment was indicated at that time.

The components of acquired intangible assets excluding goodwill at March 31, 2003 and 2002, are as follows:

	Yen (Millions)						U.S. Dollars (Thousands)		
	2003			2002			**2003**		
	Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount
Amortized intangible assets:									
Patent	**¥11,213**	**1,122**	**10,091**	1,339	897	442	**$ 93,442**	**9,350**	**84,092**
Software	**6,985**	**3,471**	**3,514**	6,401	2,672	3,729	**58,208**	**28,925**	**29,283**
Other	**2,235**	**692**	**1,543**	2,430	479	1,951	**18,625**	**5,766**	**12,859**
Total	**20,433**	**5,285**	**15,148**	10,170	4,048	6,122	**170,275**	**44,041**	**126,234**
Unamortized intangible assets	**¥ 1,270**		**1,270**	1,143		1,143	**$ 10,583**		**10,583**

The patent addition during the year ended March 31, 2003 principally represents an acquisition to accelerate the Company's position at the leading edge of refining materials and process technologies in electronics materials and components.

Aggregate amortization expense for the years ended March 31, 2003, 2002 and 2001 are ¥1,762 million ($14,683 thousand), ¥1,394 million and ¥1,027 million, respectively. Estimated amortization expense for the next five years is: ¥2,358 million in 2004, ¥1,999 million in 2005, ¥1,791 million in 2006, ¥1,399 million in 2007, and ¥1,090 million in 2008.

The changes in the carrying amount of goodwill by segment for the year ended March 31, 2003 is as follows:

	Yen (Millions)			U.S. Dollars (Thousands)		
	Electronic materials and components	Recording media and systems	Total	Electronic materials and components	Recording media and systems	Total
April 1, 2001	¥11,002	497	11,499			
Additions	106	–	106			
Translation adjustment	(105)	–	(105)			
March 31, 2002	11,003	497	11,500	$ 91,691	4,142	95,833
Additions	3,553	–	3,553	29,608	–	29,608
Translation adjustment	(922)	–	(922)	(7,683)	–	(7,683)
March 31, 2003	¥13,634	497	14,131	$113,616	4,142	117,758

The goodwill addition during the year ended March 31, 2003 principally represents the excess of purchase price over the fair value of assets acquired and liabilities assumed for several immaterial acquisitions made during the year.

Reconciliation of reported net income (loss) and net income (loss) per share to the amounts adjusted for the exclusion of goodwill amortization for the years ended March 31, 2003, 2002 and 2001, are as follows:

	Yen (Millions except per share amounts)			U.S. Dollars (Thousands except per share amounts)
	2003	2002	2001	**2003**
Net income (loss):				
Reported net income (loss)	**¥12,019**	(25,771)	43,983	**$100,158**
Goodwill amortization (net of tax)	**–**	–	2,149	**–**
Adjusted net income (loss)	**¥12,019**	(25,771)	46,132	**$100,158**
Basic and diluted net income (loss) per share:				
Reported net income (loss)	**¥ 90.56**	(193.91)	330.54	**$ 0.75**
Goodwill amortization (net of tax)	**–**	–	16.15	**–**
Adjusted net income (loss)	**¥ 90.56**	(193.91)	346.69	**$ 0.75**

18. Supplementary Information

	Yen (Millions)			U.S. Dollars (Thousands)
	2003	2002	2001	**2003**
(a) Statement of Operations				
Research and development	**¥31,862**	38,630	36,970	**$265,517**
Rent	**9,410**	11,538	9,616	**78,417**
Maintenance and repairs	**11,534**	11,437	14,649	**96,117**
Advertising costs	**5,546**	10,489	12,398	**46,217**
(b) Statement of Cash Flows				
Cash paid during year for:				
Interest	**¥ 646**	1,162	555	**$ 5,383**
Income taxes	**¥(1,270)**	22,026	26,163	**$(10,583)**

Noncash activities

In 2003 and 2002, there were no material noncash investing and financing activities.

In 2001, the Company contributed equity securities of ¥34,573 million to a pension trust.

Independent Auditors' Report

The Board of Directors and Stockholders
TDK Corporation:

We have audited the accompanying consolidated balance sheets of TDK Corporation and subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended March 31, 2003, 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 Securities and Exchange Commission of the United States of America.

In our opinion, except for the omission of the segment information referred to in the preceeding paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of TDK Corporation and subsidiaries as of March 31, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements as of and for the year ended March 31, 2003, 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 7, 2003

Investor Information

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, London
ADRs: New York Stock Exchange
DRs: Brussels Stock Exchange (Euro next)

NUMBER OF SHAREHOLDERS
34,230

INDEPENDENT AUDITORS
KPMG

TRANSFER AGENT
The Chuo Mitsui Trust & Banking Co., Ltd.
3-33-1, Shiba, Minato-ku, Tokyo 105-8574, Japan

(As of March 31, 2003)

QUARTERLY RESULTS AND STOCK PRICE DATA

Yen in millions, except per share amounts and stock price data

Fiscal 2002	I	II	III	IV
Net sales	¥140,244	¥130,542	¥148,036	¥151,689
Net income (loss)	1,207	625	(9,759)	(17,844)
Net income (loss) per share (basic and diluted)	9.07	4.71	(73.45)	(134.24)
Stock price (Tokyo Stock Exchange):				
High	8,670	6,950	7,000	7,810
Low	5,740	5,000	4,800	5,320
Fiscal 2003	**I**	**II**	**III**	**IV**
Net sales	¥148,708	¥147,672	¥161,678	¥150,822
Net income	2,161	2,484	4,575	2,799
Net income per share (basic and diluted)	16.27	18.71	34.49	21.09
Stock price (Tokyo Stock Exchange):				
High	7,380	5,970	5,500	5,310
Low	5,340	4,700	4,060	4,300

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
>> Company Profile

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

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