# Financial Review

## Operating results

### SEGMENT SALES

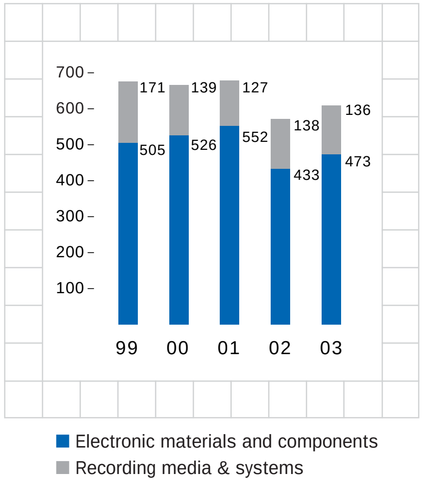
Consolidated net sales increased 6.7 percent to ¥608.9 billion ($5,074 million) in fiscal 2003, the year ended March 31, 2003, from ¥570.5 billion in fiscal 2002, the year ended March 31, 2002. The Company's operating environment in fiscal 2003 remained as very severe as it was the previous fiscal year. 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.

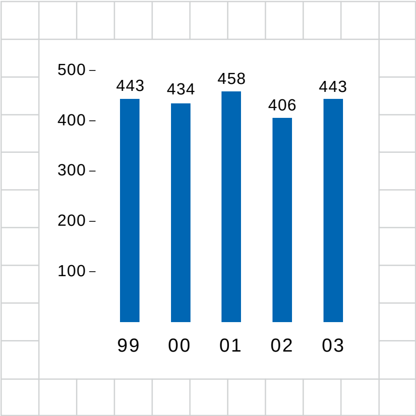
In Asia (excluding Japan) and Oceania, sales increased due to higher sales in recording devices, as the Company regained market share, and higher sales in electronic materials and electronic devices.

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.

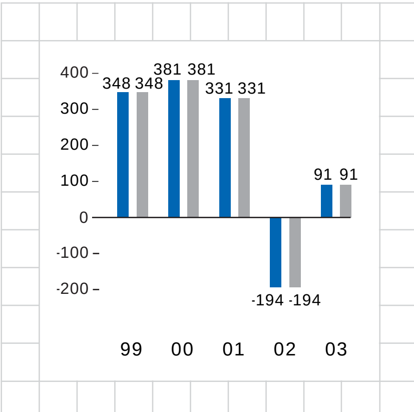
Other expenses increased ¥4.0 billion from the previous fiscal year, mainly on account of a ¥3.1 billion increase in loss on securities (net of gain) and a ¥2.1 billion rise in foreign exchange losses included in other deductions, offset by a ¥1.3 billion increase in equity in earnings of affiliates.

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**

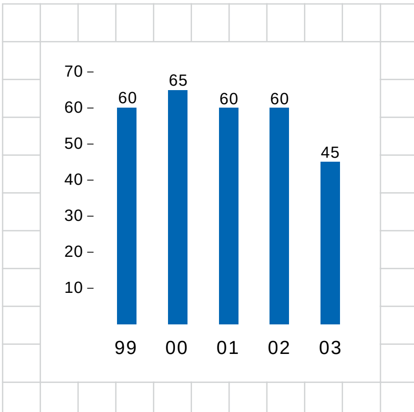
(Yen)




Basic
Diluted

**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.

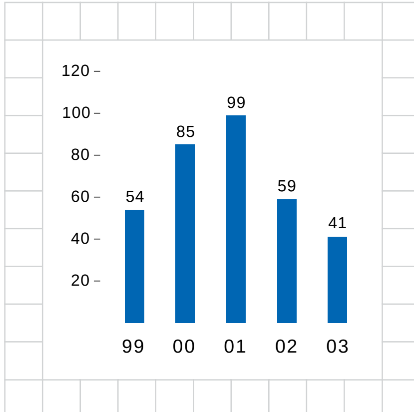
The Company has various employees pension plans covering their employees. The unfunded amount as of March 31, 2003 was ¥104.1 billion ($867 million). The unfunded amount increased significantly by ¥31.5 billion as compared with last year due to a decrease in the discount rate and a low return on plan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

| Years ended March 31 | 2003 | 2002 | 2001 |
|---|---|---|---|
| | | | Yen in millions |
| 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.

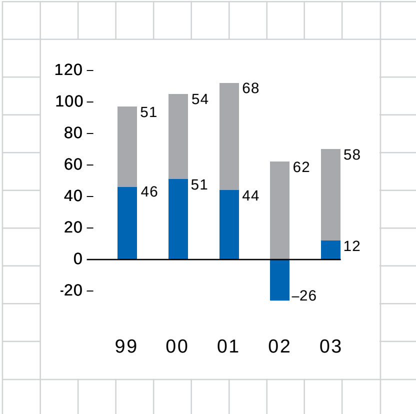
Regarding fund procurement costs, the Company has long-term corporate credit ratings of AA- and A1 from Standard & Poor's and Moody's, respectively. Furthermore, Standard & Poor's gives the Company their highest short-term credit rating, A-1+, and the Company's U.S. subsidiaries have been given the highest 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)




Net income (loss)
Depreciation

## 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) |

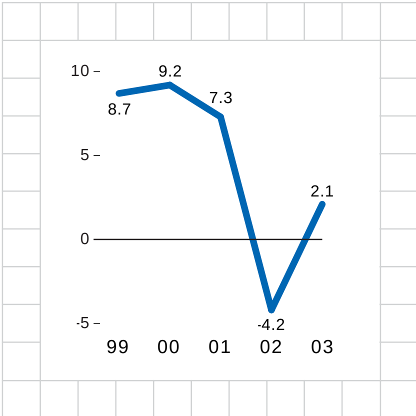
Total assets amounted to ¥747.3 billion ($6,228 million) at March 31, 2003, down ¥2.6 billion from ¥749.9 billion at the previous fiscal year-end. Among current assets, cash and cash equivalents increased ¥44.8 billion, from ¥125.8 billion to ¥170.6 billion ($1,421 million), while net trade receivables 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.

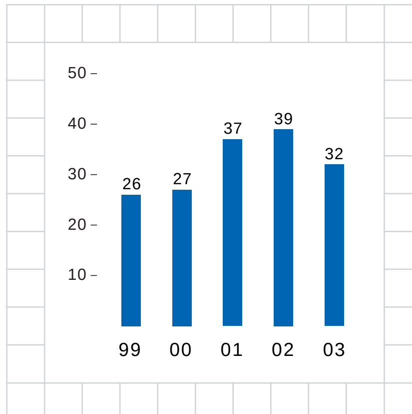
## Research and development, patents and licenses, etc.

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**

| | Yen (Millions) | | U.S. Dollars (Thousands) | |
|---|---|---|---|---|
| Years ended March 31 | **2003** | 2002 | **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 | **2003** | | 2002 | | **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.*