Financial Review

Operating Results

SEGMENT SALES

Consolidated net sales increased 8.2% to ¥658.9 billion ($6,216 million) in fiscal 2004, the year ended March 31, 2004, from ¥608.9 billion in fiscal 2003, the year ended March 31, 2003.

The Japanese economy in fiscal 2004 tended toward recovery, led by IT-related production and exports. However, with no upturn evident in household incomes, consumer spending failed to rebound. Meanwhile, the U.S. economy, the driving force for the world economy, expanded compared with the previous year, with consumer spending, housing investment and capital expenditures all rising, as the government eased fiscal and monetary policy.

In the electronics industry, the year was characterized by the rising popularity of LCD and plasma flat-screen TVs, digital cameras and DVD recorders, as well as by the increasing sophistication of mobile phones and replacement demand for PCs, and the growing use of electronics in automobiles. However, deflationary trends in world markets affected these finished products, placing unrelenting pricing pressure on electronic materials and components and recording media and systems, TDK's main products.

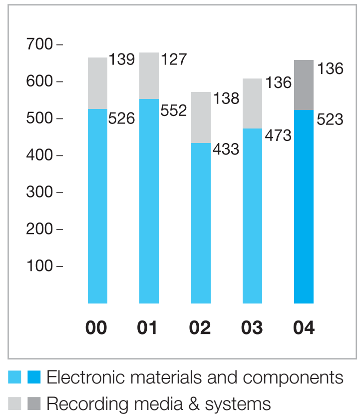
TDK saw orders drop in the first quarter (April-June 2003) of fiscal 2004 due to one-off factors such as the SARS outbreak and fallout from the Iraq war. Nevertheless, TDK remained focused on implementing profit structure reforms, carrying on initiatives from fiscal 2003 to improve asset productivity and concentrate resources on strategic businesses.

In the electronic materials and components segment, net sales increased 10.7% from ¥472.5 billion in fiscal 2003 to ¥522.9 billion ($4,933 million) in fiscal 2004.

Sales in the electronic materials sector decreased 1.3% from ¥168.9 billion to ¥166.8 billion ($1,574 million). Sales of multilayer chip capacitors, a mainstay of capacitor products, increased. Higher orders for capacitors, which reflected growing demand for communications products, offset falling sales prices and the negative effect of exchange rate movements. In ferrite cores, deflection yoke cores and flyback transformer cores saw sales drop due to falling demand and sales prices. The drop in orders is a reflection of a rapid shift in consumer demand from CRT TVs to LCD, plasma and other flat-panel models. Higher sales of small coils and transformer cores, a category where demand is increasing, failed to offset this decrease, resulting in a decline in overall sales of ferrite cores. Magnet sales declined as the effect of falling sales prices outweighed higher sales volumes. In the electronic devices sector, sales decreased 4.2% from ¥112.7 billion to ¥108.0 billion ($1,019 million). Inductive devices, the largest product category in this sector, posted higher sales as demand for communications applications increased in line with advances in the performance of mobile phones. However, sales growth was held back by lower sales prices and foreign currency movements. Sales of high-frequency components decreased despite an upswing in shipment volumes that resulted from strong demand for components used in mobile phones, the main market for these components, and successful activities to win new orders. The decrease reflects the continuing glut in the supply of high-frequency components in the market as a whole, which prompted customers to demand price reductions that were greater than in other electronic component categories. Sensors and actuators recorded higher sales due to growth in demand for communications applications and PCs and peripherals. However, sales of power systems declined due to lackluster demand associated with the amusement field, a sector where demand was strong in the previous fiscal year. Recording devices sales climbed 30.8% from ¥176.0 billion to ¥230.1 billion ($2,171 million). Sales of HDD heads, the main product in this sector, were up sharply. This was primarily because of continuing expansion in the HDD market and the resulting robust HDD sales by major TDK customers. Sales of other heads also increased. Sales in the semiconductors & others sector climbed 20.7% from ¥14.9 billion to ¥17.9 billion ($169 million), despite sluggish sales of semiconductors for communications applications. Growth reflected higher sales of anechoic chambers for noise control and equipment used in these chambers.

In the recording media & systems segment, sales edged down 0.3%, to ¥136.0 billion ($1,283 million) in fiscal 2004 from ¥136.4 billion in fiscal 2003. While TDK continues to command a high share of the audiotape and videotape markets, sales in these two categories decreased as demand continues to shrink due to structural changes. Optical media products posted increased sales, with higher sales volumes

Net Sales
(Yen in billions)



of CD-Rs and DVDs in an expanding market offsetting lower sales prices. Sales of other products decreased. Higher sales of LTO-standard* (Linear Tape-Open) tape-based data storage media for computers failed to offset lower sales of PC software, recording equipment and other products.

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

SALES BY REGION

Yen in millions (%)

Years ended March 31	2004		2003		2002	
Japan	**¥168,656**	**(25.6)**	165,503	(27.2)	164,804	(28.9)
Americas	**89,657**	**(13.6)**	106,060	(17.4)	109,452	(19.2)
Europe	**81,950**	**(12.4)**	78,740	(12.9)	79,639	(13.9)
Asia (excluding Japan) and Oceania	**315,691**	**(47.9)**	255,901	(42.0)	214,377	(37.6)
Middle East and Africa	**2,908**	**(0.5)**	2,676	(0.5)	2,239	(0.4)
Net sales	**¥658,862**	**(100.0)**	608,880	(100.0)	570,511	(100.0)

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

By region, sales in Japan increased 1.9% to ¥168.7 billion ($1,591 million) in fiscal 2004 from ¥165.5 billion in fiscal 2003. There was a 10.6% rise in overseas sales year on year to ¥490.2 billion ($4,625 million) from ¥443.4 billion in fiscal 2003. Overseas sales accounted for 74.4% of consolidated net sales.

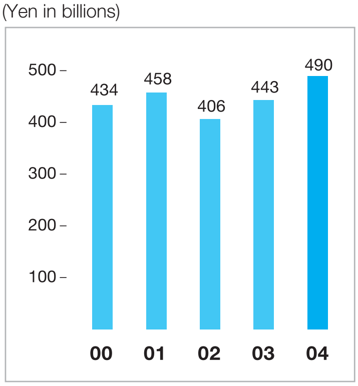
In Japan, sales edged up from the previous fiscal year as higher sales in the recording devices sector offset sales decreases caused by lower orders for DC-DC converters for the amusement field and falling demand for audiotapes.

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

In the Americas, sales decreased due to the effect of foreign exchange translations resulting from the appreciation of the yen. Other factors were lower sales in the recording media & systems segment despite higher sales of optical media products, including DVDs, due to lower sales of other products; and lower sales in the electronic materials and components segment.

In Europe, sales increased. Sales were sluggish in the electronic materials and components segment, but rose in the recording media & systems segment as sharply higher sales of DVDs and other optical media products countered falling demand for audiotapes.

Overseas Sales
(Yen in billions)



EFFECT OF FOREIGN EXCHANGE MOVEMENTS

In fiscal 2004, overseas sales accounted for 74.4% of consolidated net sales, up 1.6 percentage point. As a result, fluctuations in foreign exchange rates have a significant effect on the Company's consolidated sales and income. During fiscal 2004, the yen appreciated 7.2% in relation to the U.S. dollar and depreciated 9.7% in relation to the euro, based on the Company's average internal exchange rates. Overall, the Company estimates that each ¥1 movement in exchange rates during fiscal 2004 had the net effect of reducing net sales by about ¥4.0 billion and operating income by about ¥1.5 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 2004 represented 111.3% of sales in Asia (excluding Japan) and Oceania, 26.1% in the Americas, and 23.4% in Europe. Overseas production accounted for 58.9% of total sales in fiscal 2004, compared with 56.0% one year earlier, and for 79.1% of overseas sales, compared with 76.9% one year earlier. The rise in the percentage of overseas production in fiscal 2004 is mainly due to higher production in Asia in the electronic materials and components segment primarily as a result of an increase in overseas production, which rose 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% 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	2004		2003		2002	
Net sales	**¥658,862**	**(100.0)**	608,880	(100.0)	570,511	(100.0)
Cost of sales	**474,106**	**(72.0)**	459,616	(75.5)	464,620	(81.4)
Selling, general and administrative expenses	**130,434**	**(19.8)**	121,839	(20.0)	123,741	(21.7)
Restructuring cost	**–**	**–**	5,345	(0.9)	25,872	(4.6)
Other income (deductions)	**1,281**	**(0.2)**	(3,999)	(–0.6)	25	(0.0)
Income taxes and minority interests	**13,502**	**(2.0)**	6,062	(1.0)	(17,926)	(–3.2)
Net income (loss)	**¥ 42,101**	**(6.4)**	12,019	(2.0)	(25,771)	(–4.5)

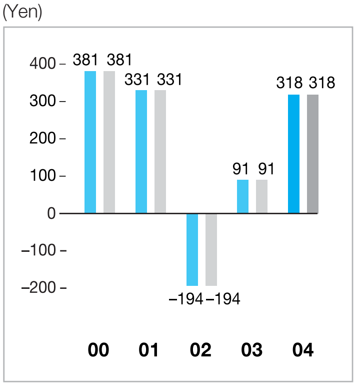
The cost of sales increased 3.2% from ¥459.6 billion in fiscal 2003 to ¥474.1 billion ($4,473 million) in fiscal 2004 due to higher sales. Cost of sales decreased from 75.5% to 72.0% of net sales, respectively. This reflected both an improvement in the capacity utilization rate accompanying higher sales, and cutbacks in expenses and improvements in various cost categories 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 23.8%.

Selling, general and administrative expenses increased ¥8.6 billion from ¥121.8 billion in fiscal 2003 to ¥130.4 billion ($1,231 million) in fiscal 2004, and decreased from 20.0% to 19.8% of net sales, respectively. Selling, general and administrative expenses rose in line with the 8.2% rise in net sales as the Company prevented further growth in these expenses by strictly managing fixed expenses. Research and development expenses represented 5.2% of net sales, the same as in the previous fiscal year.

Other income (deductions) improved ¥5.3 billion from the previous fiscal year. While there was a ¥1.6 billion increase in foreign exchange losses, there was a ¥2.2 billion decrease in loss on securities, net and increases of ¥1.9 billion in patent infringement settlement and ¥1.3 billion in equity in earnings of affiliates.

Net Income Per Share

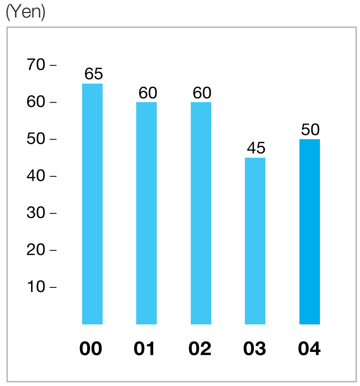
(Yen)



Basic
Diluted

Dividend Per Share

(Yen)



The ratio of income taxes to income before income taxes (the effective tax rate) decreased from 29.3% in fiscal 2003 to 23.6% in fiscal 2004. The decrease reflects decrease in additional valuation allowance provided during the year and the higher amounts of income earned in China, etc. during fiscal 2004, which were taxed at rates lower than the Company's effective rate for all other jurisdictions in which it pays income taxes.

The Company posted a net income of ¥42.1 billion ($397 million), resulting in net income per diluted share of ¥317.69 ($3.00), compared with ¥90.56 in the previous fiscal year. The return on equity increased from 2.1% to 7.5%. Cash dividends paid during the fiscal year totaled ¥50 ($0.47). This dividend is the sum of the June 2003 year-end dividend of ¥25 and the December 2003 interim dividend of ¥25. Shareholders of record on March 31, 2004 received a cash dividend of ¥30 per share at the end of June 2004.

FISCAL 2003 VS. FISCAL 2002

SEGMENT SALES

Consolidated net sales increased 6.7% to ¥608.9 billion 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 severe as it was in 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 reflected a recovery in the Company's share of the HDD head market and rising demand for electronic components, which was 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% to ¥472.5 billion in fiscal 2003 from ¥432.9 billion in fiscal 2002. In the electronic materials sector, sales rose 4.4% from ¥161.8 billion in fiscal 2002 to ¥168.9 billion. 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% from ¥105.9 billion to ¥112.7 billion. 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 due to severe demands for price reductions from customers because of the continuing supply glut. Recording devices sales climbed 19.7% from ¥147.0 billion in fiscal 2002 to ¥176.0 billion 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% from ¥18.1 billion to ¥14.9 billion. Sales of semiconductors for communications applications dropped sharply due to the continuing low levels of investment in communications infrastructure equipment.

In the recording media & systems segment, sales edged down slightly by 0.9% to ¥136.4 billion 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 Certance LLC in the U.S., other countries or both.

In Japan, sales increased 0.4% to ¥165.5 billion in fiscal 2003 from ¥164.8 billion in fiscal 2002. There was a 9.3% increase in overseas sales year on year to ¥443.4 billion in fiscal 2003 from ¥405.7 billion in fiscal 2002. Overseas sales accounted for 72.8% 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 outweighed 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.

EFFECT OF FOREIGN EXCHANGE MOVEMENTS

In fiscal 2003, overseas sales accounted for 72.8% 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% in relation to the U.S. dollar and depreciated 9.5% 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% of sales in Asia (excluding Japan) and Oceania, 28.6% in the Americas, and 33.0% in Europe. Overseas production accounted for 56.0% of total sales in fiscal 2003, compared with 53.8% one year earlier, and for 76.9% of overseas sales, compared with 75.7% 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 currency 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% 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)

The cost of sales decreased 1.1% from ¥464.6 billion in fiscal 2002 to ¥459.6 billion in fiscal 2003 despite an increase in net sales, and fell from 81.4% to 75.5% 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%.

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

Other income (deductions) decreased ¥4.0 billion from the previous fiscal year, mainly on account of a ¥3.1 billion increase in loss on securities, net and a ¥2.1 billion rise in foreign exchange losses, 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% in fiscal 2002 to 29.3% 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% 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, resulting in net income per diluted share of ¥90.56 for fiscal 2003 as compared to minus ¥193.91 in fiscal 2002. The return on equity was 2.1%, compared to minus 4.2% in fiscal 2002. Cash dividends paid during the fiscal year totaled ¥45. 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.

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 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, depreciation and amortization, the reduction of trade receivables and inventories, and other sources.

CAPITAL EXPENDITURES

In fiscal 2004, capital expenditures on a cash basis were ¥44.9 billion ($423 million), compared with ¥41.5 billion in fiscal 2003. Amid lingering doubts about the sustainability of the economic recovery, 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 and the expansion of production facilities for electronic materials and components in China. In Japan, production and research facilities for multilayer chip capacitors and other electronic materials and components, 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 amortization 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, 2004, commitments outstanding for the purchase of property, plant and equipment approximated ¥8.8 billion ($83 million). The Company has entered into several purchase agreements with certain suppliers whereby the Company committed to purchase minimum amount of raw materials to be used in the manufacture of its products. Future minimum purchase remaining under the agreements approximated ¥1.4 billion ($13 million) at March 31, 2004. Contingent liabilities for guarantees of loans of the Company's employees and affiliates amounted to approximately ¥6.6 billion ($62 million). The Company is planning capital expenditures of ¥55.0 billion in fiscal 2005, 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.

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

The Company has various employee pension plans covering its employees. The unfunded amount as of March 31, 2004 was ¥90.1 billion ($850 million). The unfunded amount decreased by ¥14.0 billion as compared with last year due to the appreciation of plan assets. However, out of this amount, ¥73.5 billion ($694 million) was accrued on the consolidated balance sheets as of March 31, 2004. The Company contributes to the Employees' Pension Fund (EPF) in conformity with governmental regulations which require an employer to contribute systematically in accordance with cost allocation methods and to contribute to special pension premiums in order to fund the unfunded portion over 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 interest rates, return on assets, and governmental regulations on a long-term basis.

On September 25, 2003, the Company received governmental permission with regard to its application to be exempted from the obligation to pay benefits for future employee service related to the substitutional portion of an EPF plan. The Company expects to complete the transfer of the minimum funding requirement to the government in February 2005. While the transfer of this substitutional portion is not expected to have a material adverse effect on the Company's consolidated financial statements, however, the final amount of the impact could be significantly different depending on any change in the amounts of pension obligation or plan assets to be transferred.

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.

Contractual obligations on March 31, 2004 are summarized as follows:

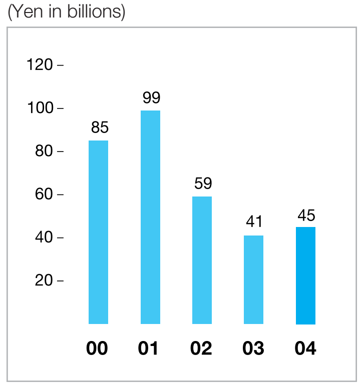
	Payments Due by Period (Yen in millions)			
	Total	Less than 1 year	1 to 5 years	After 5 years
Contractual obligations:				
Long-term debt	128	101	27	–
Operating leases	10,909	3,347	6,333	1,229
Purchase commitment of raw materials	1,411	536	666	209
Purchase commitment of property, plant and equipment	8,846	8,846	–	–

FINANCIAL MANAGEMENT

Operating capital and capital expenditures are, in principle, funded by cash generated through operating activities. To improve capital efficiency, to the extent possible, the Company centralizes financial management in the Head Office, having introduced 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.

Capital Expenditures

(Yen in billions)



CASH FLOWS

Years ended March 31	2004	2003	Yen in millions 2002
Net income (loss)	**¥ 42,101**	12,019	(25,771)
Adjustments to reconcile net income (loss) to net cash provided by operating activities	**72,603**	92,339	67,275
Net cash provided by operating activities	**114,704**	104,358	41,504
Net cash used in investing activities	**(37,770)**	(46,645)	(57,903)
Net cash used in financing activities	**(9,661)**	(7,925)	(13,202)
Effect of exchange rate changes on cash and cash equivalents	**(10,669)**	(4,998)	4,445
Net change in cash and cash equivalents	**¥ 56,604**	44,790	(25,156)

Cash and cash equivalents increased ¥56.6 billion to ¥227.2 billion ($2,143 million) from ¥170.6 billion in the previous fiscal year. Operating activities provided net cash of ¥114.7 billion ($1,082 million), a year-on-year increase of ¥10.3 billion. This reflected mainly a ¥30.1 billion increase in net income to ¥42.1 billion ($397 million) and a ¥6.6 billion decrease in depreciation and amortization to ¥51.2 billion ($483 million), as well as increases in trade receivables and inventories of ¥7.6 billion and ¥7.8 billion, respectively. Regarding the shortfall in pension assets, the Company plans to take actions in response to certain recent reforms to the pension system, including transferring the substitutional portion of Employees' Pension Fund (EPF) liabilities.

Investing activities used net cash of ¥37.8 billion ($356 million), a decrease of ¥8.8 billion from ¥46.6 billion in the previous fiscal year. The main factor was a ¥6.2 billion decrease in payment for purchase of other investments to ¥0.4 billion ($4 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 ¥9.7 billion ($91 million), ¥1.8 billion more than the ¥7.9 billion in cash used in the previous fiscal year. This mainly represented an increase of ¥0.8 billion in repayments of short-term debt and a ¥0.7 billion increase in dividends paid.

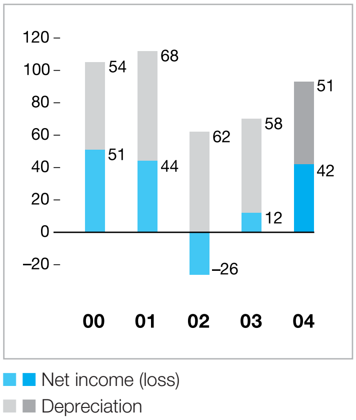
Regarding fund procurement costs, the Company has long-term corporate credit ratings of AA- and A1 from Standard & Poor's and Moody's, respectively. Furthermore, Standard & Poor's gives the Company their highest short-term credit rating, A-1+, and the Company's U.S. subsidiaries have been given the highest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

The Company estimates that operating cash flows and other internal resources will provide adequate liquidity in fiscal 2005. Regarding cash flows for the fiscal year ending March 31, 2005 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

Years ended March 31	2004		2003		2002	Yen in millions (%)
Short-term debt	¥ 315	(0.1)	1,431	(0.3)	1,655	(0.3)
Current installments of long-term debt	101	(0.0)	488	(0.1)	657	(0.1)
Trade notes payable	635	(0.1)	824	(0.1)	849	(0.1)
Long-term debt, excluding current installments	27	(0.0)	94	(0.0)	459	(0.1)
Stockholders' equity	576,219	(99.8)	553,885	(99.5)	583,927	(99.4)
Total capital	¥577,297	(100.0)	556,722	(100.0)	587,547	(100.0)

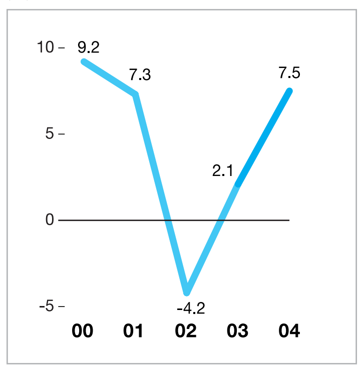
Total assets amounted to ¥770.3 billion ($7,267 million), up ¥23.0 billion from ¥747.3 billion at the previous fiscal year-end. As of March 31, 2004, cash and cash equivalents were ¥227.2 billion ($2,143 million), ¥56.6 billion higher than ¥170.6 billion a year ago. However, property, plant and equipment decreased ¥17.0 billion to ¥208.9 billion ($1,971 million) from ¥225.9 billion, and noncurrent deferred income taxes decreased ¥9.8 billion to ¥34.1 billion ($322 million) from ¥43.9 billion.

Total liabilities increased ¥0.7 billion, from ¥190.1 billion to ¥190.8 billion ($1,800 million). Trade payables increased ¥2.9 billion, from ¥57.0 billion to ¥59.9 billion ($565 million), accrued expenses increased ¥5.3 billion, from ¥28.1 billion to ¥33.4 billion ($316 million), and income taxes payables increased ¥3.6 billion, from ¥1.1 billion to ¥4.7 billion ($44 million). Retirement and severance benefits decreased ¥11.5 billion, from ¥85.0 billion to ¥73.5 billion ($694 million).

Total stockholders' equity increased ¥22.3 billion, from ¥553.9 billion to ¥576.2 billion ($5,436 million). Retained earnings rose ¥34.9 billion, from ¥525.9 billion to ¥560.8 billion ($5,290 million), while accumulated other comprehensive loss rose ¥11.6 billion, from ¥78.8 billion to ¥90.4 billion ($853 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 short-term 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. 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 relating primarily to severances. The Company recorded a restructuring charge of ¥3.0 billion 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 had paid ¥5.1 billion of the ¥5.3 billion restructuring charges. The Company paid all of the remaining restructuring costs by the end of first quarter of fiscal 2004.

Research and development, patents and licenses, etc.

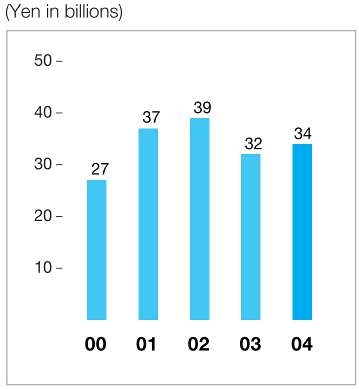
R&D expenditures amounted to ¥34.5 billion ($325 million), 5.2% of net sales in fiscal 2004; ¥31.9 billion, 5.2% of net sales in fiscal 2003; and ¥38.6 billion, 6.8% of net sales in fiscal 2002.

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.

In the recording media & systems field, the Company is pushing ahead with research on next-generation DVD-related products, including Blu-ray discs, 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 the Materials R&D Center, Advanced Process Technology Center, Devices Development Center, HMS (Hybrid Material Solutions) Research Center, Production Engineering Development Center, Materials Analysis Center, Application Center, Silicon System Development Dept., New Business Development Dept. and the R&D functions of each operating group. Each facility is developing new products and technologies in its area of responsibility. The Application Center devises the necessary application technologies with the aim of keeping the Company in step with market trends and customer needs. The Materials R&D Center is responsible for research in magnetic and dielectric materials that use powder metallurgy. The Advanced Process Technology Center facilitates the use of cutting-edge process technologies. The Devices Development Center conducts research in next-generation recording and communications technologies as well as new

Research and Development
(Yen in billions)



devices. 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 other companies, 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 patents and licenses was ¥0.1 billion ($0.9 million) in fiscal 2004, ¥0.2 billion in fiscal 2003 and ¥0.3 billion in fiscal 2002. The Company paid ¥12.4 billion ($117 million) in fiscal 2004, ¥10.2 billion in fiscal 2003 and ¥6.1 billion in fiscal 2002 for patents and licenses, mainly royalties for the use of optical disk technologies. 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, foreign exchange and currency options 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 ¥2.8 billion ($26 million) and ¥3.8 billion ($36 million) as of March 31, 2004, and ¥1.6 billion and ¥1.7 billion as of March 31, 2003, respectively. As of March 31, 2004, these securities mainly represented investments in companies in the communications and electronic equipment industries, and the cost and fair value of these equity securities were ¥2.4 billion ($23 million) and ¥3.3 billion ($31 million), respectively. As of March 31, 2003, these securities mainly represented investments in companies in the communications and electronic equipment industries, and both the cost and fair value of the equity securities were ¥1.3 billion.

INTEREST RATE RISK

The Company's exposure to market risk a 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, 2004 and 2003, 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

Critical accounting policies are 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, an impairment charge is recorded for the amount by which the carrying value of an 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 assumptions 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 considers 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 in 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 revises its assessment of the potential for 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 expenses that would adversely affect net income.

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

Years ended March 31	Yen (Millions) 2004		2003		U.S. Dollars (Thousands) 2004		Change (%)
ELECTRONIC MATERIALS AND COMPONENTS							
Net sales							
Unaffiliated customers	¥522,862		472,529		$4,932,660		10.7
Intersegment	–		–		–		
Total revenue	522,862	(100.0%)	472,529	(100.0%)	4,932,660	(100.0%)	10.7
Operating expenses	466,335	(89.2%)	451,993	(95.7%)	4,399,387	(89.2%)	3.2
Operating income	¥ 56,527	(10.8%)	20,536	(4.3%)	$ 533,273	(10.8%)	175.3
Identifiable assets	505,178		495,144		4,765,830		
Depreciation and amortization	46,800		53,015		441,509		
Capital expenditures	40,479		38,882		381,877		
RECORDING MEDIA AND SYSTEMS							
Net sales							
Unaffiliated customers	¥136,000		136,351		$1,283,019		–0.3
Intersegment	–		–		–		
Total revenue	136,000	(100.0%)	136,351	(100.0%)	1,283,019	(100.0%)	–0.3
Operating expenses	138,205	(101.6%)	134,807	(98.9%)	1,303,820	(101.6%)	2.5
Operating income (loss)	¥ (2,205)	(–1.6%)	1,544	(1.1%)	$ (20,801)	(–1.6%)	–
Identifiable assets	97,186		96,761		916,849		
Depreciation and amortization	4,433		4,774		41,821		
Capital expenditures	4,387		2,569		41,387		
ELIMINATIONS AND CORPORATE							
Corporate assets	¥167,955		155,432		$1,584,481		
TOTAL							
Net sales							
Unaffiliated customers	¥658,862		608,880		$6,215,679		8.2
Intersegment	–		–		–		
Total revenue	658,862	(100.0%)	608,880	(100.0%)	6,215,679	(100.0%)	8.2
Operating expenses	604,540	(91.8%)	586,800	(96.4%)	5,703,207	(91.8%)	3.0
Operating income	¥ 54,322	(8.2%)	22,080	(3.6%)	$ 512,472	(8.2%)	146.0
Identifiable and corporate assets	770,319		747,337		7,267,160		
Depreciation and amortization	51,233		57,789		483,330		
Capital expenditures	44,866		41,451		423,264		

Geographic Segment Information

Years ended March 31	Yen (Millions) 2004	2003	U.S. Dollars (Thousands) 2004	Change (%)
JAPAN				
Net sales	¥329,782	334,882	$3,111,151	–1.5
Operating income	8,538	5,193	80,547	64.4
Identifiable assets	316,695	326,128	2,987,689	–2.9
AMERICAS				
Net sales	104,400	101,784	984,906	2.6
Operating income (loss)	2,797	(1,082)	26,387	–
Identifiable assets	65,584	73,845	618,717	–11.2
EUROPE				
Net sales	80,641	78,462	760,764	2.8
Operating income (loss)	(115)	(3,547)	(1,085)	96.8
Identifiable assets	51,797	48,108	488,651	7.7
ASIA AND OTHERS				
Net sales	380,781	314,918	3,592,273	20.9
Operating income	42,912	20,640	404,830	107.9
Identifiable assets	228,058	193,637	2,151,490	17.8
ELIMINATIONS AND CORPORATE				
Net sales	236,742	221,166	2,233,415	
Operating income (loss)	(190)	(876)	(1,793)	
Identifiable assets	108,185	105,619	1,020,613	
TOTAL				
Net sales	¥658,862	608,880	$6,215,679	8.2
Operating income	54,322	22,080	512,472	146.0
Identifiable assets	770,319	747,337	7,267,160	3.1

Overseas Sales							
Americas	¥ 89,657	(13.6%)	106,060	(17.4%)	$ 845,821	(13.6%)	–15.5
Europe	81,950	(12.4%)	78,740	(12.9%)	773,113	(12.4%)	4.1
Asia and others	318,599	(48.4%)	258,577	(42.5%)	3,005,651	(48.4%)	23.2
Overseas sales total	¥490,206	(74.4%)	443,377	(72.8%)	$4,624,585	(74.4%)	10.6