

### **3) Business Results**

Consolidated results for fiscal 2001, the year ended March 31, 2001, are as follows:

Net sales increased 2.3% year on year to ¥689,911 million (US\$5,563,798 thousand), while operating profit fell 24.5% to ¥56,323 million (US\$454,218 thousand). Income before income taxes decreased 12.1% to ¥64,516 million (US\$520,290 thousand) and net income declined 13.3% to ¥43,983 million (US\$354,702 thousand). Net income per common share was ¥330.54 (US\$2.67). Selling, general and administrative expenses for fiscal 2001 included restructuring charges of ¥3,106 million related to the downsizing and transfer of production facilities. The charges consist of ¥824 million and ¥2,282 million in the electronic materials and components segment and recording media & systems segment, respectively.

During the fiscal year, the average rate of the yen was ¥111 for the U.S. dollar and ¥100 for the euro, representing increases in the yen's value of 1% and 13%, respectively. Overall, the yen's appreciation had the effect of reducing net sales by approximately ¥12.7 billion and operating profit by approximately ¥4.4 billion.

Effective from fiscal 2001, TDK has revised its presentation for sector information and renamed some product categories.

In the electronic materials and components segment, net sales increased 5.0% to ¥552,195 million (US\$4,453,185 thousand).

Within this segment, sales in the electronic materials sector jumped 21.3% to ¥212,133 million (US\$1,710,750 thousand). Sales of multilayer chip capacitors, which account for the majority of sector sales, grew sharply on the back of brisk demand from manufacturers of PCs and peripherals and mobile phones. Demand triggered by the digitalization of audio and visual equipment also spurred growth. A slowing U.S. economy in the fiscal year's fourth quarter, however, hampered sector sales, as customers in a broad range of sectors reduced their inventories. In ferrite cores and magnets, sales decreased slightly, despite strong orders for ferrite cores for use in data-communications devices, notably ADSL (Asymmetric Digital Subscriber Lines) devices. Intensifying competition in deflection yoke cores and flyback transformer cores, both key components in TVs and computer monitors, led to lower sales. Another factor weighing on sales was declining unit prices for ferrite magnets and metal magnets.

In the electronic devices sector, sales increased 12.5% to ¥145,216 million (US\$1,171,097 thousand). Rising demand for inductive devices in the audio and visual products, office equipment and communications markets fueled higher orders for coils. Furthermore, EMC (Electromagnetic Compatibility) components, another category of inductive device, enjoyed top-line growth, buoyed by

expansion in output of audio and visual products and communications equipment. Moreover, two main factors led to an upswing in sales of high-frequency components. One was efforts to ramp up production to respond to explosive demand in the mobile phone market. The other was development targeted mainly at components used in GSM-format mobile phones, which represent a significant market segment. From fall 2000 through the end of the year, however, mobile phone demand began to taper off and fell away dramatically in the fourth quarter. In other products, demand increased for chip NTCs and chip varistors for use in PC peripherals and mobile phones. Robust demand for DC-DC converters and DC-AC inverters for PC peripherals and mobile phones also contributed to the higher sales in the electronic devices sector.

In the recording devices sector, sales declined 15.7% year on year to ¥169,140 million (US\$1,364,032 thousand) and profitability deteriorated markedly. TDK lost market share in the HDD head market, which is being defined by rapid technological change. One reason for this was TDK's failure to develop products demanded by customers in a suitable timeframe, as it misjudged the direction the market was heading. Furthermore, deterioration in production yields during the volume production of new high-areal-recording-density GMR heads, shipments of which started in the latter half of the second quarter, and a six-day suspension in production due to torrential rains in mid-September 2000 held back sales. Sales were also stunted by dramatic inventory reductions by customers in response to the slowdown in the U.S. economy. This unfortunately came just as production yields were improving around December 2000.

Sales in the semiconductors & others sector surged 21.6% to ¥25,706 million (US\$207,306 thousand) on account of brisk sales of semiconductors for LAN products and set-top box modems. Also driving top-line growth was steadily increasing sales of noise-reduction anechoic chambers and measurement systems. This demand was fueled by product digitalization and the use of higher frequencies.

In the recording media & systems segment, sales declined 7.4% over the previous year to ¥137,716 million (US\$1,110,613 thousand). In audiotapes, the long-term decline continued due to the rising popularity of optical media. CD-Rs, which are the mainstay of optical media sales, saw demand increase dramatically due to their application in a broader range of areas. On the other hand, a supply glut was caused by the simultaneous efforts of CD-R manufacturers to bolster production. Pricing offensives by some industry players triggered a sharp drop in prices, which dragged down sales. In videotapes, sales volumes were almost the same as a year ago, but sales in monetary terms decreased on account of falling prices. TDK believes that CD-Rs have a central role to play as demand shifts from analog to digital. However, in fiscal 2001 earnings were severely impacted by a difficult operating environment, causing the segment to post an operating loss.

By region, sales in Japan decreased 4.2% to ¥222,090 million (US\$1,791,048 thousand), as strong sales of electronic materials, particularly multilayer chip capacitors, and electronic devices were outweighed by lower sales in the

recording media & systems segment and of recording devices. In Europe, sales increased 11.5% to ¥101,018 million (US\$814,661 thousand) on the back of strong demand for multilayer chip capacitors and high-frequency components for GSM and other mobile phone formats. In Asia (excluding Japan) and Others, sales decreased 3.3% to ¥235,584 million (US\$1,899,871 thousand). Here, as with Japan, strong sales in the electronic materials and electronic devices sectors could not fully offset lower sales in recording devices. In the Americas, sales climbed 21.2% to ¥131,219 million (US\$1,058,218 thousand). This figure reflected the effects of the acquisition of Headway Technologies, Inc. at the end of March 2000 in the recording devices sector, as well as strong performances from electronic materials and electronic devices. The overall result was a 5.7% year-on-year increase in overseas sales to ¥467,821 million (US\$3,772,750 thousand). Overseas sales accounted for 67.8% of consolidated net sales, up 2.2 percentage points from 65.6%.

On a parent-company basis, net sales increased 5.3% to ¥457,676 million (US\$3,690,935 thousand) and current income rose 14.6% to ¥50,081 million (US\$403,879 thousand). Net income, however, fell 64.1% to ¥8,739 million (US\$70,475 thousand). Net income per share was ¥65.62 (US\$0.52). In fiscal 2001, TDK posted an expense of ¥34,644 million (US\$279,387 thousand) due to the adoption of a new accounting method for retirement liabilities. This expense is net of a gain of ¥15,245 million (US\$122,943 million) resulting from the establishment of a trust to fund these liabilities.

As with consolidated results, sales in the electronic materials and components segment increased 10.2% year on year to ¥398,145 million (US\$3,210,846 thousand), primarily due to higher demand from mobile phone manufacturers. Sales in the recording media & systems segment also mirrored consolidated results, falling 18.9% over the previous year to ¥59,531 million (US\$480,088 thousand). This was attributable to lower sales of all products, notably optical products, on account of plummeting prices, despite increasing demand for CD-Rs.

In line with its policy regarding the allocation of earnings, TDK plans to pay a year-end dividend of ¥30 per share, resulting in a dividend per share applicable to the year of ¥60. This will result in a dividend payout ratio of 91.3% on a parent-company basis. The fiscal 2001 return on equity (ROE) was 2.0% and dividend payments were 1.8% of year-end shareholders' equity. While the dividend payout ratio was high, this resulted from the booking of a one-time charge of approximately ¥50.0 billion in line with a change in retirement benefit accounting standards. On a consolidated basis, the dividend payout ratio was 18.1%, ROE was 7.3% and DOE was 1.3%.