

3) Business Results and Financial Position

1. Summary

Consolidated results for the first half of fiscal 2004, the six-month period from April 1, 2003 through September 30, 2003, are as follows:

TDK posted net sales of ¥316,279 million (US\$2,849,360 thousand), up 6.7% from ¥296,380 million. Operating income rose 139.7%, from ¥10,019 million, to ¥24,020 million (US\$216,396 thousand). Income before income taxes was ¥25,014 million (US\$225,351 thousand), up 227.6% from ¥7,636 million, and net income was ¥19,257 million (US\$173,486 thousand), an increase of 314.6% from ¥4,645 million. Net income per common share was ¥145.27 (US\$1.31), compared with ¥34.98 in the first half of the previous fiscal year.

Average first-half yen exchange rates for the U.S. dollar and euro were ¥118 (previous year ¥123) and ¥134 (previous year ¥117), respectively, as the yen appreciated 4.1% versus the dollar and depreciated 14.5% against the euro. This had the effect of lowering net sales by approximately ¥4.9 billion and operating income by approximately ¥2.8 billion.

(Sales by Segment)

The following is an explanation of sales by segment.

Electronic materials and components segment

In the electronic materials and components segment, net sales increased 8.6%, from ¥234,272 million, to ¥254,352 million (US\$2,291,459 thousand). Sales in the electronic materials and electronic devices sectors fell compared with one year earlier when demand was buoyant. Strong demand was seen in some areas, such as for digital audio and visual products. The main factor behind the higher sales in this segment was a sharp increase in sales in the recording devices sector, where robust demand for HDD heads carried over from the previous fiscal year. Sector results were as follows.

Electronic materials

Sales in the electronic materials sector decreased 7.4%, from ¥88,918 million, to ¥82,302 million (US\$741,459 thousand).

(Capacitors) Sales of multilayer chip capacitors, which account for the majority of capacitor sector sales, decreased in spite of a steady upturn in demand that began in the fourth quarter of fiscal 2003, particularly in respect of audio and visual equipment and communications products. There were two main reasons for the year-on-year decrease: prices continued to fall due to calls for discounts from customers, and orders weakened following an increase during the first half of fiscal 2003 that followed a period of inventory reductions by customers.

(Ferrite cores and magnets) In ferrite cores and magnets, overall sales of ferrite cores declined year on year due to continuing calls for discounts on flyback transformers and deflection yoke cores in a soft TV and computer monitor market, the key applications for these products. The decline also reflected stiff price-based competition in general-purpose power supply cores despite brisk demand. Magnet sales also declined, despite solid growth in demand from the automobile industry, driven by the increasing use of electronics in vehicles. Inventory reductions by customers in other industries and price discounting in all markets were to blame for the lower overall magnet sales. As a result, sales for ferrite cores and magnets as a

whole fell year on year.

Electronic devices

In the electronic devices sector, sales decreased 11.5%, from ¥59,293 million, to ¥52,451 million (US\$472,531 thousand).

(Inductive devices) Inductive devices, the largest product category in this sector, saw sales decline year on year due to inventory cutbacks by customers and price discounting pressure in the video game systems sector. Another factor was the strong demand in the same period of the previous fiscal year from TV manufacturers related to the 2002 FIFA World Cup™. On the other hand, an expanding digital audio and visual products market, including products like DVD players, plasma display panels and LCDs, and the increasing use of electronics in vehicles resulted in higher demand in these areas.

(High-frequency components) Sales of high-frequency components decreased, despite an upswing in sales volume for use in mobile phones, the main market for these components. The continuing glut in the supply of high-frequency components of all types prompted customers to demand price reductions that were greater than in other electronic components sectors. Another reason for the overall drop in sales was lower demand for components in fields other than mobile phones.

(Other products) Overall, sales of other products decreased. Solid growth continued to be recorded by sensors and actuators used in PCs and peripherals and in communications products. However, this could not offset the negative effect of scaled-back production by customers, which dented demand for DC-DC converters for video game systems.

Recording devices

Recording devices sales jumped 42.5%, from ¥78,173 million, to ¥111,423 million (US\$1,003,811 thousand). HDD heads, the main product in this sector, saw a dramatic increase in sales on the back of brisk demand in the HDD market, the main market for these heads. The strong sales growth also reflected robust HDD sales at major TDK customers. Sales of other heads also increased on buoyant demand.

Semiconductors & others

Sales in the semiconductors & others sector increased 3.7%, from ¥7,888 million, to ¥8,176 million (US\$73,658 thousand) thanks to higher sales of other products. Holding back further growth was lower sales of semiconductors for LAN/WAN applications and set-top box modems due to sluggish levels of investment in communications infrastructure equipment and curbs on capital expenditures at customers. Sales of anechoic chambers for noise control also fell.

Recording media & systems segment

In the recording media & systems segment, sales edged down 0.3%, from ¥62,108 million, to ¥61,927 million (US\$557,901 thousand). Audiotape sales shrank as the long-term decline in demand continued due to the shift to optical media. Videotape sales also declined, as demand shifted from VHS tapes to DVDs, which are rapidly gaining acceptance by consumers. On the other hand, optical media products CD-Rs and DVDs both saw sales increase as this market continues to expand. Growth in the DVD market is particularly noteworthy. These sales increases offset falling sales of MDs resulting from lower demand and of CD-Rs due to declining sales prices. While sales of LTO-standard* (Linear Tape-Open) tape-based data storage media for computers increased, the other products sector saw overall sales fall due to factors

such as lower software sales.

*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)

By region, sales in Japan decreased 3.3%, from ¥84,289 million, to ¥81,536 million (US\$734,558 thousand). While sales increased in the recording devices sector, sales fell in the electronic materials and electronic devices sectors as well as the recording media & systems segment.

In the Americas, sales dropped 23.0%, from ¥56,294 million, to ¥43,328 million (US\$390,343 thousand). Sales in all sectors, with the exception of semiconductors & others, fell due to a weak recovery in demand and the appreciation of the yen against the U.S. dollar.

In Europe, sales increased 7.6%, from ¥34,368 million, to ¥36,987 million (US\$333,216 thousand). The main reasons were strong demand for optical media (CD-Rs and DVDs) and the yen's depreciation against the euro.

In Asia and Others, sales increased 27.2%, from ¥121,429 million, to ¥154,428 million (US\$1,391,243 thousand), mainly due to higher sales of recording devices.

The overall result was a 10.7% rise in overseas sales year on year, from ¥212,091 million, to ¥234,743 million (US\$2,114,802 thousand). Overseas sales accounted for 74.2% of consolidated net sales, a 2.6 percentage point increase from 71.6%.

On a parent-company basis, net sales decreased 8.8%, from ¥167,260 million, to ¥152,474 million (US\$1,373,639 thousand) and current income decreased 30.5%, from ¥6,937 million, to ¥4,819 million (US\$43,414 thousand). Net income increased 6.7%, from ¥1,056 million, to ¥1,127 million (US\$10,153 thousand) and net income per common share was ¥8.51 (US\$0.07).

At today's meeting of TDK's Board of Directors, an interim dividend of ¥25 per share of common stock was approved.

2. Financial Position

(2-1) The following table summarizes TDK's balance sheet at September 30, 2003, compared with March 31, 2003.

• Total assets	¥750,715 million	0.5% increase
• Total stockholders' equity	¥561,662 million	1.4% increase
• Equity ratio	74.8%	0.7 percentage point increase

At the end of the interim period, cash and cash equivalents were ¥22,855 million higher than on March 31, 2003, but net property, plant and equipment and other assets decreased ¥9,237 million and ¥10,816 million, respectively. As a result of the above items and other changes, total assets increased ¥3,378 million from March 31, 2003.

Total liabilities decreased ¥4,267 million. Trade payables increased ¥3,494 million, but

retirement and severance benefits decreased ¥9,160 million.

Total stockholders' equity increased ¥7,777 million. Retained earnings increased ¥15,376 million and accumulated other comprehensive loss increased ¥6,380 million.

(2-2) Cash Flows

	(¥ millions)		
	Fiscal 2004 Interim	Fiscal 2003 Interim	Change
Net cash provided by operating activities	52,031	44,070	7,961
Net cash used in investing activities	(18,535)	(13,345)	(5,190)
Net cash used in financing activities	(5,292)	(4,340)	(952)
Effect of exchange rate changes on cash and cash equivalents	(5,349)	(4,324)	(1,025)
Net increase in cash and cash equivalents	22,855	22,061	794
Cash and cash equivalents at beginning of period	170,551	125,761	44,790
Cash and cash equivalents at end of period	193,406	147,822	45,584

Operating activities provided net cash of ¥52,031 million (US\$468,748 thousand), a year-on-year increase of ¥7,961 million. This mainly reflected an increase of ¥14,612 million in net income to ¥19,257 million (US\$173,486 thousand), and a decrease of ¥4,861 million in depreciation and amortization to ¥23,642 million (US\$212,991 thousand).

Investing activities used net cash of ¥18,535 million (US\$166,982 thousand), an increase of ¥5,190 million. A ¥6,354 million increase in capital expenditures to ¥20,826 million (US\$187,622 thousand) was the main reason.

Financing activities used net cash of ¥5,292 million (US\$47,676 thousand), ¥952 million more year on year. This primarily reflected a ¥565 million increase in sale (purchase) of treasury stock, net and a ¥659 million increase in dividends paid.

3. Fiscal 2004 Projections

TDK's consolidated and non-consolidated projections for fiscal 2004, as announced in July and May 2003, respectively, have been revised, as detailed below, based on the following considerations.

- TDK had assumed an average yen-U.S. dollar exchange rate for the fiscal year of ¥120. But given that the actual average rate in the first half of fiscal 2004 was ¥118, TDK is now assuming an average rate of ¥110 for the second half of the year.
- There were signs of an upturn in some markets in the first half of the year, highlighted by growth in demand for products used in digital home electronic appliances and a recovery in demand for those used in notebook computers and mobile phones. On the other hand, the downside of the growth in digital products is lower demand for existing products, leading to disparity between sectors in the electronics market.
- There was some divergence between the assumptions and premises used by TDK at the start of the fiscal year and actual results for the first half, prompting the need for revisions.

Both electronic materials and electronic devices have seen orders pick up in respect of some products while other categories continue to face stiff competition. TDK has thus revised its projected results for the second half of the year based on new assumptions.

- In HDD heads, the mainstay product in the recording devices sector, first-half results were strong on the back of rising demand for HDDs. Given the order backlog in the third quarter, TDK believes that net sales for fiscal 2004 may exceed initial estimates.
- TDK also believes that consolidated earnings may marginally exceed previous projections, with the benefits of cost cutting and higher production volumes outstripping the negative effects of exchange rates and pressure to discount prices. On a non-consolidated basis, TDK forecasts that it will have difficulty fully absorbing the effect of exchange rate fluctuations.

Consolidated Projections for Fiscal 2004

	Revised projection	% change from FY03	As of July 2003
	¥ millions		¥ millions
Net sales	¥636,000	4.5	¥ 635,000
Operating income	45,000	103.8	41,000
Income before income taxes	46,000	154.4	42,000
Net income	33,500	178.7	30,000

Non-Consolidated Projections for Fiscal 2004

	Revised projection	% change from FY03	As of May 2003
	¥ millions		¥ millions
Net sales	¥307,800	-4.0	¥ 321,000
Operating income	2,100	-34.0	8,000
Current income	7,500	-17.4	13,000
Net income	2,400	-	7,000

Cautionary Statement About Projections

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

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

The electronics markets in which TDK and its group companies operate are highly susceptible to rapid changes. Furthermore, TDK and its group companies operate not only in Japan, but in many other countries. As such, factors that can have significant effects on its results include, but are not limited to, shifts in technology, demand, prices, competition, economic environments and foreign exchange rates.

The premises and assumptions used in computing the projections in this earnings release include, but are not limited to, those explained above.