

2) Business Results and Financial Position

1. Summary

Consolidated results for the 1st quarter of fiscal 2003, the three months period from April 1, 2002 through June 30, 2002 are as follows;

Net sales increased 6.0% to ¥148,708 million (US\$1,239,233 thousand), operating income soared 131.2% to ¥5,986 million (US\$49,883 thousand) and income before income taxes rose 28.8% to ¥3,303 million (US\$27,525 thousand). Net income climbed 79.0% to ¥2,161 million (US\$18,008 thousand) and net income per common share was ¥16.27 (US\$0.14).

Average 1st quarter yen exchange rates for the U.S. dollar and the euro were ¥127 and ¥117, respectively, as the yen depreciated 4% versus the dollar and 9% versus the euro, compared with the previous year's 1st quarter. This had the effect of increasing net sales by approximately ¥4.2 billion and operating income by approximately ¥0.8 billion.

(Sales by Segment)

The following is an explanation of results by segment.

Electronic materials and components segment

In the electronic materials and components segment, net sales rose 7.1% to ¥118,170 million (US\$984,750 thousand) as orders began to rebound early in 2002, ending a prolonged period of inventory reductions at customers that lasted throughout 2001.

Electronic materials

Within this segment, sales in the electronic materials sector increased 4.5% to ¥45,860 million (US\$382,167 thousand).

(Capacitors) Sales of capacitors rose on the back of continuing strong demand for use in audio and visual products, such as DVD players and video game consoles, and in automobiles and PCs and peripherals.

(Ferrite cores and magnets) In ferrite cores and magnets, overall sales of ferrite cores dropped year on year. Demand failed to recover for cores used in information and communications applications, and for deflection yoke cores, a key component of TVs and computer monitors. This negated firm demand for cores used in LCD backlights and power supplies for audio and visual products. Magnet sales, meanwhile, were largely the same year on year thanks to a continuation of solid demand from the previous fiscal year from the automobile and parts fields.

Electronic devices

In the electronic devices sector, sales rose 4.5% to ¥29,844 million (US\$248,700 thousand).

(Inductive devices) Inductive devices saw sales remain stable as a whole because sales to the communications market fell short of those in the corresponding quarter of the previous year. This result came despite a slight increase in demand for devices used in PCs and peripherals and in automotive applications due to the increasing use of electronics in automobiles.

(High-Frequency components) Sales of high-frequency components also dropped due to stronger calls than last year for discounts from customers. The effect of these discounts outweighed a quarter-on-quarter recovery in demand for use in communications applications, particularly mobile phones. A high proportion of TDK's high-frequency components are used in this market.

(Other products) In other products, sales rose, buoyed by strong demand for DC-DC converters for video game systems.

Recording devices

Recording devices sales rose 16.8% to ¥38,341 million (US\$319,508 thousand) as TDK increased sales of HDD heads, regaining market share. Behind this growth were TDK's well-received 40 gigabyte/disk HDD heads, which have become the company's mainstay product in this sector. Sales of other heads fell due to inventory cutbacks by customers and other factors.

Semiconductors & others

Sales in the semiconductors and others sector dropped 18.1% to ¥4,125 million (US\$34,375 thousand), reflecting a sharp drop in sales of semiconductors for WAN/LAN and set-top box modems due to the continuing low levels of investment in communications infrastructure equipment.

Recording media & systems segment

In the recording media & systems segment, sales edged up 2.1% to ¥30,538 million (US\$254,483 thousand). Audiotape sales fell as overall demand softened, but videotapes sales rose slightly, boosted by demand stemming from the 2002 FIFA World Cup™. Optical disc sales increased on rising volumes of mainstay CD-Rs, which offset falling sales prices, and increasing sales of DVDs. Tape-based data storage media sales rose, contributing to the overall sales growth.

(Sales by Region)

By region, sales in Japan declined 2.3% to ¥42,517 million (US\$354,308 thousand), reflecting weakness in many product categories compared with other regions. One bright note was higher demand for DC-DC converters for video game systems. In the Americas, sales rose 8.3% to ¥29,197 million (US\$243,308 thousand), despite lower demand in electronic materials and electronic devices. This increase reflected two factors: higher sales in recording devices, as TDK regained market share, and higher sales in the recording media & systems segment. In Europe, sales dropped 15.8% to ¥16,634 million (US\$138,617 million) due to waning demand for electronic materials for mobile phones, particularly GSM-format phones, and electronic devices. In Asia (excluding Japan) and Others, sales climbed 20.7% to ¥60,360 million (US\$503,000 thousand) on higher sales in recording devices, as TDK regained market share, and an upturn in orders for electronic materials and electronic devices.

The overall result was a 9.8% rise in overseas sales year on year to ¥106,191 million (US\$884,925 thousand). Overseas sales accounted for 71.4% of consolidated net sales, a 2.4 percentage point increase from 69.0% in the previous year's 1st quarter.

2. Cash Flows

Cash Flows From Operating Activities

Operating activities provided net cash of ¥9,755 million, ¥1,037 million higher year on year. This reflected level depreciation and amortization, decreases in trade receivables and inventories, and increases in trade payables. On the other hand, accrued salaries and wages, retirement pay decreased substantially due to the payment of early retirement expenses accompanying structural reforms implemented in the previous fiscal year.

Cash Flows From Investing Activities

Investing activities used net cash of ¥6,168 million, ¥17,209 million less than in the previous year's 1st quarter. This was attributable to a ¥16,282 million fall to ¥6,342 million in capital expenditures.

Cash Flows From Financing Activities

Financing activities used net cash of ¥2,967 million, ¥3,220 million less than in the previous year's 1st quarter. Repayments of short-term debt were lower and only ¥2,657 million was used for the payment of dividends as TDK reduced its dividend beginning with the payment applicable to the second half of the previous fiscal year.

3. Fiscal 2003 Projections

TDK's consolidated projections for fiscal 2003, the year ending March 31, 2003, which were announced in May this year, have been revised as follows. The consolidated projections are based principally on the following assumptions:

- # The average yen-U.S. dollar exchange rate for the fiscal year was initially estimated at ¥120. TDK is also assuming a rate of ¥120 for the second quarter onward.
- # As explained in May, TDK expects any economic recovery, particularly in the U.S., to be tenuous and any upturn in demand to be mild at best. Consequently, TDK is predicting a continuation of difficult market conditions for the electronic components industry.
- # Regarding earnings' forecasts for the second quarter onward, TDK does not expect any significant change from the projections announced in May. TDK thus projects the following results for the full year.

Consolidated Projections for Fiscal 2003

	Revised Projection ¥ millions	Change (¥ millions or %) from FY02	As of May 2002 ¥ millions
Net sales	¥580,000	1.7%	¥580,000
Operating income (loss)	20,000	-43,722	20,000
Income (loss) before income taxes	17,000	-43,697	17,000
Net income (loss)	13,000	-25,771	13,000

Note:

TDK adopted the Emerging Issues Task Force Issue 01-9 ("EITF 01-9"), "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)" from the fiscal year beginning April 1, 2002 and has applied EITF 01-9 retroactively, restating net sales for fiscal 2002.

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.