

### 3) Business Results and Financial Position

#### (1) Summary

Consolidated results for fiscal 2003, the year ended March 31, 2003, are as follows:

TDK's operating environment in fiscal 2003 remained as very severe as it was the previous year. The U.S. economy, key to world economic fortunes, seemed to gradually move back onto a recovery footing after taking a step backwards at the start of 2002. But Japanese and European economies, which are highly reliant on external demand, were sluggish. They began to languish in the closing months of 2002 as consumer and corporate sentiment nosedived due to stagnant demand, tumbling share prices and reverberations from the soft U.S. economy. Asia, including China, fared relatively well, but this region is nowhere near becoming a leading force in the world economy just yet.

In this difficult operating environment, TDK recorded higher sales on the back of a recovery in the company's share of the HDD-head market and an upturn in demand for electronic components, which is being fueled by the digitalization of audio and visual equipment and the increasing use of electronics in automotive applications. The benefits of structural reforms implemented over the past two years also contributed to TDK's overall performance. TDK's consolidated net sales rose 6.7% year on year to ¥608,880 million (US\$5,074,000 thousand) and the company recorded operating income of ¥22,080 million (US\$184,000 thousand), reversing an earlier-year loss of ¥43,722 million. Income before income taxes was also positive at ¥18,081 million (US\$150,675 thousand), after TDK posted a loss before income taxes of ¥43,697 million a year earlier. On the bottom line, net income was ¥12,019 million (US\$100,158 thousand), a turnaround from the loss of ¥25,771 million in fiscal 2002. Consequently, net income per common share was ¥90.56 (US\$0.75), compared with a net loss per common share of ¥193.91 a year earlier.

During the year, the average exchange rate was ¥122 for the U.S. dollar and ¥121 for the euro, representing a 2.4% appreciation in the yen's value against the dollar and a 9.5% depreciation against the euro. Overall, exchange rate movements had the effect of decreasing net sales by approximately ¥2.8 billion and operating income by approximately ¥3.0 billion. Due to an operating loss in Europe, which was caused by actions associated with the structural reforms (refer to "Geographic segment information" on page 18), foreign exchange movements reduced operating income more than sales as the stronger euro increased the loss when translated into yen.

#### (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 9.2% to ¥472,529 million (US\$3,937,742 thousand). This reflected higher sales in recording devices, where growth was spurred by a recovery in the market share of TDK's HDD heads, and higher demand for capacitors and inductive devices, which is being fueled by the digitalization of audio and visual equipment and the increasing use of electronics in automotive applications.

##### **Electronic materials**

Sales in the electronic materials sector rose 4.4% to ¥168,949 million (US\$1,407,909 thousand).

**(Capacitors)** Sales of multilayer chip capacitors, which account for the majority of capacitor sector sales, increased on the strength of the digitalization of audio and visual equipment and increasing use of electronics in automotive applications mentioned above. Hampering further growth were calls for discounts from customers.

**(Ferrite cores and magnets)** In ferrite cores and magnets, overall sales of ferrite cores slipped year on year, despite strong demand for cores used in LCD backlights and power

supplies for audio and visual products. The drop in sales was the result of the failure of demand to recover for cores used in IT-related information and communications applications, and lower sales of deflection yoke cores, a key component of TVs and computer monitors, as well as other products due to stiff competition. Magnet sales increased as firm demand from the automobile and parts fields carried over from the previous fiscal year. Overall, sales of ferrite cores and magnets edged down slightly year on year.

### **Electronic devices**

In the electronic devices sector, sales increased 6.4% to ¥112,729 million (US\$939,408 thousand).

**(Inductive devices)** Inductive devices, the largest product category in this sector, recorded higher sales, reflecting the growing use of automotive electronics as well as growth in demand for digital audio and visual products such as DVD players and digital still cameras. These are the same factors that are driving growth in the capacitor sector. This allowed TDK to absorb the effects of price discounts and production cutbacks, mainly by manufacturers of audio and visual products, in the fourth quarter.

**(High-frequency components)** Sales of high-frequency components, a large proportion of which are used in communications applications, particularly mobile phones, were hamstrung by a soft mobile phone market. While sales volumes have been trending upward since the summer of 2002, following a period of parts inventory reductions by customers, demands for price reductions from customers have been more severe than in other electronic components sectors due to the continuing supply glut. Overall, sales increased, but they did not increase to the same extent as volumes.

**(Other products)** Overall, sales in this sector increased. Sales of DC-DC converters for video game systems were higher for the year despite cutbacks to production levels beginning in the latter half of the third quarter. Power supplies for LCD projectors and other PCs and peripherals also benefited from strong demand. The sector was further boosted by brisk sales of actuators and chip varistors used in PCs and peripherals and in communications products.

### **Recording devices**

Recording devices sales climbed 19.7% to ¥175,986 million (US\$1,466,550 thousand). One factor was a recovery in TDK's share of the HDD head market as 40 gigabyte/disk HDD heads won back customers. Additionally, the average number of heads used per HDD did not decline as rapidly as had been expected. Total demand remained high as a result, and sales climbed. Sales of other heads fell due to a drop-off in demand and other factors.

### **Semiconductors & others**

Sales in the semiconductors & others sector declined 17.9% to ¥14,865 million (US\$123,875 thousand), reflecting a sharp drop in sales of semiconductors for LAN/WAN applications and set-top box modems due to the continuing low levels of investment in communications infrastructure equipment. Another factor was lower sales of anechoic chambers for noise control due to a string of project cancellations and postponements prompted by the global economic downturn and uncertain economic outlook.

### **Recording media & systems segment**

In the recording media & systems segment, sales edged down slightly by 0.9% to ¥136,351 million (US\$1,136,258 thousand). There were several reasons. Audiotape sales shrank further 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. This segment moved back into the black for the first time in three fiscal years as the results of

major structural reforms began to show through. Looking ahead, TDK will build on this momentum by gaining certification for new tape-based data storage media standards and working on the commercialization of Blu-ray discs, which are widely expected to be the next generation in optical discs.

Linear Tape-Open, LTO, the LTO logo, Ultrium and the Ultrium logo are registered trademarks of Hewlett-Packard Company, IBM Corporation and Seagate Removable Storage Solutions in the United States and other countries.

### **(Sales by Region)**

By region, sales in Japan increased 0.4% to ¥165,503 million (US\$1,379,192 thousand). 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 the Americas, sales decreased 3.1% to ¥106,060 million (US\$883,833 thousand). This reflects lower sales in the electronic materials and components segment, which outweighed higher sales in other areas, particularly for tape-based data storage media for computers. In Europe, sales declined 1.1% to ¥78,740 million (US\$656,167 thousand). Sales were strong of automotive components in the electronics materials and components segment. 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. In Asia (excluding Japan) and Others, sales jumped 19.4% to ¥258,577 million (US\$2,154,808 thousand) thanks to higher sales in recording devices, as TDK regained market share, and higher sales in electronic materials and electronic devices.

The overall result was a 9.3% increase in overseas sales year on year to ¥443,377 million (US\$3,694,808 thousand). Overseas sales accounted for 72.8% of consolidated net sales, a 1.7 percentage point increase from 71.1% in fiscal 2002.

On a parent-company basis, net sales increased 0.9% to ¥320,697 million (US\$2,672,475 thousand) and current income rose 19.8% to ¥9,078 million (US\$75,650 thousand). Net income was ¥133 million (US\$1,108 thousand), compared with a net loss of ¥3,794 million in fiscal 2002. Net income per share was ¥0.53 (US\$0.00).

Sales in the electronic materials and components segment increased 2.3% to ¥278,006 million (US\$2,316,716 thousand) mainly on higher sales of capacitors and inductive devices, product areas that are benefiting from rising demand fueled by the digitalization of audio and visual product and the increasing use of electronics in automotive applications. In the recording media & systems segment, sales declined 7.3% to ¥42,690 million (US\$355,750 thousand), owing to falling demand for audiotapes and MDs and other factors.

In line with its Fundamental Policy for Distribution of Earnings, TDK plans to pay a year-end dividend of ¥25 per common share. Together with the interim dividend of ¥25 per common share paid in December 2002, the dividend per common share applicable to the year is ¥50. On a parent-company basis, fiscal 2003 ROE was 0.0% and DOE was 1.6%. On a consolidated basis, ROE was 2.1% and DOE was 1.0%.

## (2) Financial Position

(2-1) The following table shows key items from TDK's balance sheet at March 31, 2003:

Total assets	¥747,337 million	0.3% decrease
Total stockholders' equity	¥553,885 million	5.1% decrease
Equity ratio	74.1%	3.8 percentage point decrease

At the end of the year, cash and cash equivalents were ¥44,790 million higher than on March 31, 2002, net trade receivables were down ¥2,804 million and inventories decreased ¥17,232 million. Furthermore, net property, plant and equipment decreased ¥39,683 million due to a review of capital expenditures. As a result of the above items and other changes, total assets decreased ¥2,573 million from March 31, 2002.

Total liabilities increased ¥28,702 million from the previous fiscal year-end. Other current liabilities decreased ¥9,891 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 profit structure reforms implemented in fiscal 2002. Meanwhile, trade payables increased ¥4,351 million and retirement and severance benefits increased ¥34,979 million.

Total stockholders' equity decreased ¥30,042 million in comparison with the end of fiscal 2002. This partly reflected an increase of ¥34,825 million in accumulated other comprehensive loss due to foreign currency translation adjustments of ¥18,747 million and minimum pension liability adjustments of ¥15,809 million. Offsetting this to some extent was a ¥5,776 million increase in retained earnings.

## (2-2) Cash Flows

	Fiscal 2003	Fiscal 2002	Change
Net cash provided by operating activities	104,358	41,504	62,854
Net cash used in investing activities	(46,645)	(57,903)	11,258
Net cash used in financing activities	(7,925)	(13,202)	5,277
Effect of exchange rate changes on cash and cash equivalents	(4,998)	4,445	(9,443)
Net increase (decrease) in cash and cash equivalents	44,790	(25,156)	69,946
Cash and cash equivalents at beginning of period	125,761	150,917	(25,156)
Cash and cash equivalents at end of period	170,551	125,761	44,790

Operating activities provided net cash of ¥104,358 million (US\$869,650 thousand), a year-on-year increase of ¥62,854 million. This reflected a ¥37,790 million increase in net income to ¥12,019 million (US\$100,158 thousand); a decrease of ¥4,131 million in depreciation and amortization to ¥57,789 million (US\$481,575 thousand); a decrease in inventories of ¥14,277 million (US\$118,975 thousand); and an increase in trade payables of ¥6,691 million (US\$55,758 thousand).

Investing activities used net cash of ¥46,645 million (US\$388,708 thousand), a decrease of ¥11,258 million. A ¥17,326 million decrease in capital expenditures to ¥41,451 million (US\$345,425 thousand) was the main reason.

Financing activities used net cash of ¥7,925 million (US\$66,042 thousand), ¥5,277 million less year on year. Repayments of short-term debt decreased ¥3,314 million and dividends paid were down ¥2,004 million year on year.

### (2-3) Trends in Cash Flow Indicators

	Fiscal 1999	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003
Capital adequacy ratio on a market value basis (%)	171.8	239.9	133.8	121.7	80.4
Interest coverage ratio	107.3	165.3	138.0	32.8	180.9
No. of years to redeem debt	0.04	0.02	0.10	0.07	0.02
Stockholders' equity ratio (%)	72.0	73.6	77.8	77.9	74.1

#### [Notes]

Capital adequacy ratio on a market value basis = Market capitalization\* / Total assets

\*Market capitalization = Closing price of TDK's common shares on the Tokyo Stock Exchange on March 31, 2003 x Shares issued and outstanding at year-end after deducting treasury stock.

Interest coverage ratio = Cash flows from operating activities / Interest payments

No. of years to redeem debt = Interest-bearing liabilities / Cash flows from operating activities

Stockholders' equity ratio = Total stockholders' equity / Total assets

### (3) Fiscal 2004 Projections

TDK's consolidated and non-consolidated projections for fiscal 2004, the year ending March 31, 2004, are as follows. The projections are based principally on the following assumptions:

- An average exchange rate of ¥120=US\$1 for the fiscal 2004.
- Demand for electronic components for DVD players, digital still cameras and products in electronic materials and components for the automotive field due to the growing use of electronics in automobiles, is expected to remain firm in fiscal 2004. However, with the exception of these fields, TDK does not expect to see sharp growth in demand for electronic components generally.
- In HDD heads, the mainstay product in the recording devices sector, TDK expects to see a continuation of brisk sales on steady demand in fiscal 2004, with demand appearing to have bottomed out and its products having won high marks from customers.
- In the recording media & systems segment, TDK is forecasting sales largely on a par with fiscal 2003. This forecast is premised on lower sales of audiotapes and videotapes due to falling demand, which should be offset by higher demand for optical discs, including CD-Rs and DVDs, and increased sales of tape-based data storage media for computers, a field on which TDK is placing special emphasis at present.

### Consolidated Projections for Fiscal 2004

	Year ending March 2004	% change from FY03	Year ended March 2003
	¥ millions		¥ millions
Net sales	¥635,000	4.3%	¥ 608,880
Operating income	41,000	85.7	22,080
Income before income taxes	42,000	132.3	18,081
Net income	30,000	149.6	12,019

## Non-Consolidated Projections for Fiscal 2004

	Year ending March 2004	% change from FY03	Year ended March 2003
	¥ millions		¥ millions
Net sales	¥321,000	0.1%	¥ 320,697
Operating income	8,000	151.4	3,182
Current income	13,000	43.2	9,078
Net income	7,000	-	133

### 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.