

2) Business Results and Financial Position

1. Summary

Consolidated results for the first quarter of fiscal 2004, the three-month period from April 1, 2003 through June 30, 2003, were as follows:

Net sales were ¥153,216 million (US\$1,276,800 thousand), 3.0% higher than the ¥148,708 million recorded in the corresponding period of the previous fiscal year. Operating income climbed 70.1%, from ¥5,986 million, to ¥10,180 million (US\$84,833 thousand) and income before income taxes surged 238.0%, from ¥3,303 million, to ¥11,164 million (US\$93,033 thousand). Net income was ¥8,025 million (US\$66,875 thousand), 271.4% higher than the ¥2,161 million in fiscal 2003. Consequently, net income per common share rose from ¥16.27 to ¥60.51 (US\$0.50).

Average first quarter yen exchange rates for the U.S. dollar and euro were ¥119 and ¥135, respectively, as the yen appreciated 6.3% from ¥127 versus the U.S. dollar and depreciated 15.4% from ¥117 against the euro, compared with the previous fiscal year's first quarter. This had the effect of lowering net sales by approximately ¥4.9 billion and operating income by approximately ¥2.1 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 4.8%, from ¥118,170 million, to ¥123,789 million (US\$1,031,575 thousand). Sales in the electronic materials and electronic devices sectors fell due to a weak recovery in overall demand for finished products, although demand was strong in some areas, such as for digital audio and visual products. Supporting the higher sales in this segment was an 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 11.9%, from ¥45,860 million, to ¥40,420 million (US\$336,833 thousand).

(Capacitors) Sales of multilayer chip capacitors, which account for the majority of capacitor sector sales, decreased in spite of an upturn in demand in a wide range of fields, particularly audio and visual equipment and communications products, compared with the fourth quarter of fiscal 2003. The year-on-year decrease reflected continuing calls for discounts from customers, as well as the sharp increase in sales in the first quarter of fiscal 2003 on expectations by finished product manufacturers of a recovery in demand.

(Ferrite cores and magnets) In ferrite cores and magnets, overall sales of ferrite cores declined year on year due to lower demand for deflection yoke cores and for general-purpose power supply cores in a soft TV and computer monitor market, the key applications for the former cores. A weak recovery in demand for other ferrite core products also held down ferrite core sales. Magnet sales also declined, despite solid growth from the automobile industry, driven by the increasing use of electronics in vehicles. Inventory reductions by customers in other industries and price discounts 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 13.5%, from ¥29,844 million, to ¥25,817 million (US\$215,142 thousand).

(Inductive devices) Inductive devices, the largest product category in this sector, saw sales decline due to inventory cutbacks by customers in the video game systems sector and a sharp drop-off in orders from TV manufacturers compared with the previous fiscal year, when the 2002 FIFA World Cup™ was held. On the other hand, an expanding digital audio and visual products market, including products like DVD players and digital still cameras, 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 continuing supply glut 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 in fields other than mobile phones.

(Other products) Overall, sales of other products decreased. Solid growth continued to be recorded by actuators and chip varistors used in PCs and peripherals and in communications products. However, there was a precipitous fall in sales of DC-DC converters for video game systems, a category that had been strong in the previous fiscal year, due to inventory reductions by customers.

Recording devices

Recording devices sales climbed 40.4%, from ¥38,341 million, to ¥53,840 million (US\$448,667 thousand). HDD heads saw a dramatic increase in sales on the back of a continuation of strong demand from the fourth quarter of fiscal 2003 and brisk HDD sales at major customers. This result also reflected a higher market share for TDK in the HDD head market, compared with the corresponding quarter of the previous fiscal year. Sales of other heads also increased on buoyant demand.

Semiconductors & others

Sales in the semiconductors & others sector declined 10.0%, from ¥4,125 million, to ¥3,712 million (US\$30,933 thousand). There was 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, as customers curbed capital expenditures due to uncertainty about the global economy.

Recording media & systems segment

In the recording media & systems segment, sales declined 3.6%, from ¥30,538 million, to ¥29,427 million (US\$245,225 thousand). There were several main reasons. 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. In optical media, both CD-Rs and DVDs benefited from higher demand. The rapid growth of the DVD market, in particular, resulted in higher sales of optical media, offsetting falling MD demand and lower sales prices of CD-Rs. While sales of LTO-standard (Linear Tape-Open) tape-based data storage media for computers continued to grow steadily, the other products sector saw overall sales decline 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 4.9%, from ¥42,517 million, to ¥40,433 million (US\$336,942 thousand). While sales increased in the recording devices sector, mainly on HDD head demand, sales fell in all other product sectors.

In the Americas, sales dropped 22.9%, from ¥29,197 million, to ¥22,498 million (US\$187,483 thousand), reflecting a weak recovery in demand as well as the yen's appreciation, both of which caused sales in all product sectors to decrease in this region.

In Europe, sales increased 8.4%, from ¥16,634 million, to ¥18,025 million (US\$150,208 thousand). This was mainly the result of the yen's depreciation against the euro. But the higher sales also reflected stronger demand for magnets, particularly in the automobile industry, and CD-Rs and DVDs, compared with other regions.

In Asia (excluding Japan) and Others, sales increased 19.7%, from ¥60,360 million, to ¥72,260 million (US\$602,167 thousand). While sales of electronic materials and electronic devices declined, this was outweighed by higher sales of recording devices.

The overall result was a 6.2% increase in overseas sales year on year, from ¥106,191 million, to ¥112,783 million (US\$939,858 thousand). Overseas sales accounted for 73.6% of consolidated net sales, a 2.2 percentage point increase from 71.4% in fiscal 2003.

2. Cash Flows

Cash Flows From Operating Activities

Operating activities provided net cash of ¥25,685 million (US\$214,042 thousand), a large year-on-year increase of ¥15,930 million. The main components of this change were the ¥5,864 million increase in net income, a ¥2,752 million decrease in depreciation and amortization to ¥11,717 million (US\$97,642 thousand), and a ¥12,236 million decrease in accrued salaries, wages and retirement pay, among changes in assets and liabilities.

Cash Flows From Investing Activities

Investing activities used net cash of ¥8,238 million (US\$68,650 thousand), ¥2,070 million more than in the previous fiscal year. The main component of this was an outflow of ¥8,555 million (US\$71,292 thousand) for capital expenditures, which was ¥2,213 million higher than in the first quarter of fiscal 2003.

Cash Flows From Financing Activities

Financing activities used net cash of ¥3,378 million (US\$28,150 thousand), a year-on-year increase of ¥411 million. The increase in cash dividends per common share compared with the previous fiscal year resulted in an outflow for dividends paid of ¥3,316 million (US\$27,633 thousand).

3. Fiscal 2004 Projections

TDK's consolidated projections for fiscal 2004, the year ending March 31, 2004, as announced in May 2003, are unchanged for the following reasons.

- Looking at the first-quarter results for fiscal 2004, some products exceeded expectations while others fell short. TDK believes that the many uncertainties in its operating environment at present, including macroeconomic trends, preclude it from revising its May forecasts.
- The average yen-U.S. dollar exchange rate for the fiscal year was initially estimated at ¥120. Given that the actual average rate in the first quarter was ¥119, TDK is also assuming a rate of ¥120 for the second quarter onward.
- 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 for the rest of fiscal 2004. However, with the exception of these markets, growth in demand for electronic products may fall short of initial expectations.
- In HDD heads, the mainstay product in the recording devices sector, net sales for fiscal 2004 may exceed initial estimates. This outlook is based on an apparent bottoming out in demand and on first-quarter sales, which were just as strong as in the fourth quarter of fiscal 2003.
- In the recording media & systems segment, TDK believes that sales may fall below those of fiscal 2003. This outlook is premised on lower sales of audiotapes and videotapes due to falling demand accompanying the shift to optical media. Higher demand for optical media, 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 the moment, and other products are unlikely to offset the falling demand in audiotapes and videotapes.

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

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.