

# **Consolidated Results for First Half of FY March 2016**

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Corporate Officer**

My name is Yamanishi. Thank you for taking the time to join our performance briefing for the first half of the fiscal year ending March 2016. I would like to start with the consolidated financial results.

- ◆ **587.6 billion yen, first half sales, was the highest ever.  
Operating income was 45.6 billion yen, increased by 63% year on year.**
- ◆ **Both sales and operating income of passive components achieved record first-half earnings. (Operating income increased by 88% year on year.)  
There were strong sales to the automobile market and smartphone customers.**
- ◆ **Both sales and operating income from magnetic application products declined year on year, reflecting sluggish HDD head and magnet sales.**
- ◆ **Film application products saw strong sales of rechargeable batteries for smartphones, and both sales and operating income increased significantly year on year.**

Firstly and most importantly, sales in the first half of the year were 587.6 billion yen, the highest half-year sales figure on record. Operating income grew 63% year on year to 45.6 billion yen.

The passive components segment successfully captured robust demand in the ICT market, mainly for smartphones, and the automotive market. As a result, both sales and operating income of this segment reached record-high levels. The segment's operating income was about 1.9 times that of the same period in the previous year and contributed greatly to the company's earnings growth. Although the smartphone market has slowed down somewhat, the segment continues to receive a substantial volume of orders, mainly for high-frequency components, due in part to an increase in the number of components installed per device, reflecting the ongoing sophistication of devices.

The film application products segment increased its production capacity in line with the release of a new smartphone model by a major customer in North America, and met the associated demand by operating at full capacity. Additionally, the segment benefited from the positive effects of marketing activities to increase sales to main customers in South Korea and China. Consequently, the film application products segment posted half-year sales in excess of 100 billion yen for the first time. Both segment sales and operating income showed strong growth, at about 1.8 times and 3 times that of the same period in the previous year. The film application products segment, together with the passive components segment, has contributed strongly to the company's sales and earnings growth.

On the other hand, both sales and operating income of the magnetic application products segment declined year on year. This reflects sizable adjustments in inventory and production due to the slowdown in the PC market in the first quarter, which was only partially offset by a weaker-than-expected recovery of shipment volume of HDD heads in the second quarter. The decline in sales and operating income in this segment also reflects the weaker sales of magnets for hard disk drives due to the adverse impact of the slowdown in the PC market.

The company has successfully established a flexible earnings structure, whereby adverse effects of the weak demand in the PC market on earnings of the magnet application products segment were offset by the strong growth in passive components and film application products segments. Consequently, the company's overall earnings grew further and operating income for the period amounted to 45.6 billion yen.

# Consolidated Results for First Half of FY March 2016



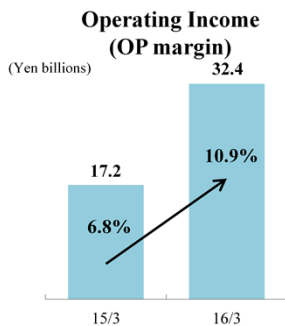
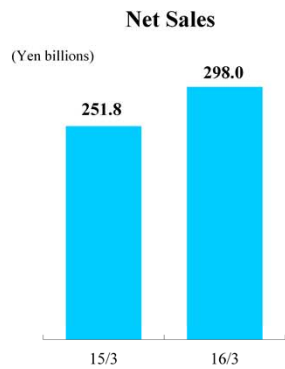
(Yen billions)	FY March 2015 Results through 2Q (2014.4.1-2014.9.30)	FY March 2016 Results through 2Q (2015.4.1-2015.9.30)	Change	
			Yen billions	%
<b>Net Sales</b>	502.3	<b>587.6</b>	85.3	17.0
<b>Operating Income</b>	27.9	<b>45.6</b>	17.7	63.4
<b>Operating Income Margin</b>	5.6%	<b>7.8%</b>	+2.2pt	-
<b>Income before Income Taxes</b>	27.4	<b>44.1</b>	16.7	60.9
<b>Net Income</b>	18.1	<b>31.5</b>	13.4	74.0
<b>Earning Per Share (JPY)</b>	144.17	<b>249.69</b>	-	-
US\$ (JPY)	103.02	<b>121.80</b>	Depreciated by 18.2%	
EURO (JPY)	138.96	<b>135.11</b>	Appreciated by 2.8%	
<b>Ex-rate impact to Net sales &amp; Operating Income</b>	Net sales : Increased by about 78.8 billion Yen Operating income : Increased by about 14.2 billion Yen			

Next, I would like to outline the results for the first half of the fiscal year ending March 2016.

For the first half year, the company's sales grew by 85.3 billion or 17% year on year to 587.6 billion yen. Operating income was 45.6 billion yen, marking year-on-year growth of 17.7 billion yen or 63.4%. The operating margin increased by 2.2 percentage points to 7.8%. Income before income tax grew by 16.7 billion yen or 60.9% year on year to 44.1 billion yen. Net income amounted to 31.5 billion yen with a year-on-year growth of 74.0%.

As a result, earnings per share amounted to 249.69 yen. Average exchange rates for the six-month period were 121.80 yen to the U.S. dollar and 135.11 yen to the Euro, which meant that the yen depreciated by 18.2% against the dollar and appreciated by 2.8% against the Euro.

Exchange rate fluctuations contributed to increased sales and operating income by about 78.8 billion yen and 14.2 billion yen, respectively. The company's sensitivity to exchange rate fluctuations is calculated to be an increase or decrease in operating income of approximately 1.4 billion yen for every one yen change in the exchange rate of the yen to the U.S. dollar.



**Net Sales 298.0 billion yen** (up 18.3% year on year)

**Operating Income 32.4 billion yen** (up 88.4% year on year)

### ◆Ceramic Capacitors

- Sales increased year on year, particularly to the steady automobile market.
- Profit margins also improved due to increased productivity.

### ◆Inductive Devices

- Sales to a brisk ICT market (particularly for communications equipment) and a steady automotive market increased year on year.
- Earnings increased due to an improved product portfolio.

### ◆High-frequency Components

- Sales of discrete products were strong, mainly due to buoyant demand from the Chinese and the North American smartphone markets.
- Profit margins also improved significantly year on year due to increased productivity and improved product portfolio.

### ◆Piezoelectric Material Products

- Both net sales and operating income increased year on year due to strong sales of OIS for camera modules.

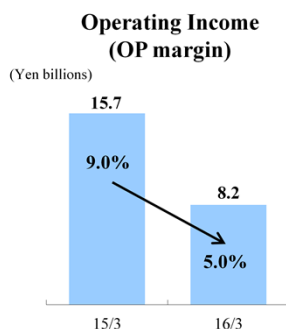
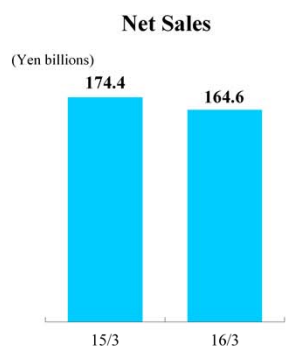
Next, I would like to explain each segment's performance for the first half year. Firstly, the passive components segment posted sales of 298.0 billion yen, up 18.3% year on year. Operating income grew 88.4% year on year to 32.4 billion yen. The segment has shown steady double-digit operating margins, achieving 10.9% for this six-month period. The segment also achieved year-on-year growth in sales and operating income for all products, backed by strong performances in ICT, automotive and industrial equipment markets, which are the core areas of this segment.

Sales and operating income of ceramic capacitors increased, driven by strong sales to the automotive market, which represents approximately 50% of total sales of ceramic capacitors. Profitability has also increased thanks to improved productivity.

Sales of inductive devices increased by 5% year on year, driven by strong sales to the automotive market, which accounts for about 40% of the total sales of inductive devices, coupled with an increase in sales to the smartphone market. Reflecting this, as well as a better product mix, the segment saw an increase in operating income.

The high-frequency components business benefited greatly from investments to increase production capacity in anticipation of growing demand for smartphones. Sales of high-frequency components, mainly discrete products, grew substantially by capturing the demand for smartphones in China and North America. Reflecting this sales growth, as well as improved productivity and product mix, operating income from high-frequency components increased and led the company's overall earnings growth.

Both sales and operating income of piezoelectric material products increased year on year, backed by strong sales of OIS for camera modules to Chinese smartphone makers.



**Net Sales 164.6 billion yen** (down 5.6% year on year)

**Operating income 8.2 billion yen** (down 47.8% year on year)

◆ **Recording Devices (HDD Heads)**

- The HDD market slowed due to a globally lackluster demand for PCs.
- Shipment volume of HDD heads also declined year on year.

◆ **Magnets**

- Sales for use in HDDs were sluggish. Profits declined year on year as a consequence of capacity utilization falling and one-time expenses.

◆ **Power Supplies**

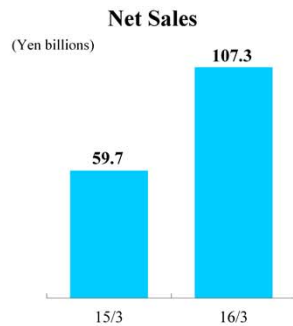
- Sales to the industrial equipment market of products such as FA equipment and measuring equipment remained strong.

Moving on to the magnetic application products segment, sales declined by 5.6% year on year to 164.6 billion yen. Operating income for the segment declined roughly by 50% year on year to 8.2 billion yen. The segment's operating margin declined substantially to 5.0%.

The recording devices business faced a huge decline in demand for PCs as compared to the previous year's surge due to the end of support for Windows XP, which triggered sizable adjustments of inventory and production in the first quarter. In the second quarter, the HDD shipment volume bounced back somewhat, but fell below our expectation. As a result, the HDD shipment volume dropped by approximately 20%, causing a 6.1% decline in sales. Although demand from data centers remains strong, we are making efforts to ensure that solid profits are generated by accelerating the development of value-added products and optimizing productivity, assuming a gradual reduction of HDD production over the medium term along with the weakening demand for PCs.

As with HDDs, sales of magnets also declined substantially, due to weak sales of magnets for HDDs resulting from weaker demand for PCs. The magnets business also saw a sizable decline in operating income, reflecting the lower capacity utilization rate resulting from the reduced production volume, as well as non-recurring expenses such as inventory valuation losses due to a drop in market prices of reserve-required rare earth materials and losses on disposal due to model termination of finished products held as inventory at the time of consolidation of factories in China in the previous year. Amidst the downward trend of HDD production volume, we plan to accelerate our efforts to improve the profitability of this business, by increasing sales volume through promoting sales to the automotive and industry equipment markets.

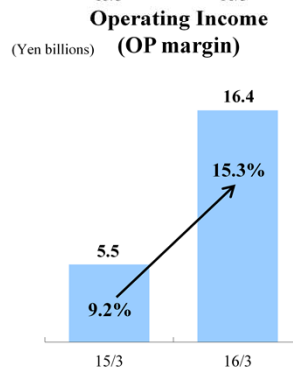
Both sales and operating income increased for power supplies, backed by strong sales to the industrial equipment market, including FA equipment and measuring equipment.



**Net sales 107.3 billion yen** (up 79.7% year on year)  
**Operating income 16.4 billion yen** (up 198.2% year on year)

◆ **Energy Devices (Rechargeable Batteries)**

- Sales to major customers in China, South Korea and North America increased.
- Both sales and profits increased substantially year on year.



For the film application products segment, sales surged by 79.7% year on year, amounting to 107.3 billion yen for the first half year. This was the first time for the segment to post half-year sales exceeding 100 billion. Operating income amounted to 16.4 billion, 3 times that of the same period in the previous year. The segment's operating margin was 15.3%.

Earnings from the rechargeable batteries business continued to grow, as a result of our efforts to develop unique products, reform production processes, and increase production capacity as necessary in view of the shift to polymerization of rechargeable batteries in the smartphone market. We responded to sizable demand from a major customer in North America for its new model release by operating at full capacity. This, together with the increasing usage of lithium polymer batteries by other smartphone makers, has expanded both the earnings base and profitability of the business.

# Breakdown of Operating Income Changes

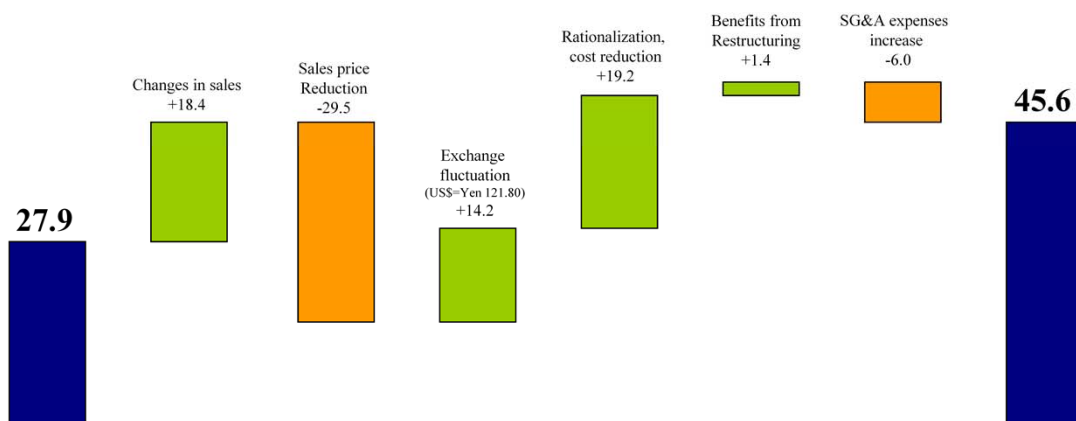


First Half of  
FY March 2015  
27.9 billion yen

**Operating Income + 17.7 billion yen**

First Half of  
FY March 2016  
45.6 billion yen

(Yen billions)



Next, I will talk about year-on-year changes in operating income. The main factors contributing to the 17.7 billion yen growth in operating income included about 18.4 billion yen in sales growth including the effects of capacity utilization and changes in product mix. Adverse effects of the lower sales volume of HDD heads and magnets that pushed the operating income downward were more than offset by the solid performance of the passive components segment, mainly high-frequency components and inductive devices, increased sales of rechargeable batteries to the smartphone market, as well as the better product mix with a larger share of higher-margin products.

Lower selling prices reduced the operating income by approximately 29.5 billion yen.

Exchange rate fluctuations due to the yen depreciation pushed up the operating income by 14.2 billion yen. Our efforts to cut costs by rationalization, such as reforming production processes for high-frequency components and rechargeable batteries to enhance efficiency and yield ratio, as well as discounts on raw materials, helped to increase the operating income by 19.2 billion yen, and the benefit of structural reform is calculated as 1.4 billion yen.

The 6.0 billion yen decrease in operating income is attributed to an increase in sales, general and administration expenses as a result of increased costs to support new product development, process development, and research and development to overhaul manufacturing.



# Consolidated Results for 2Q of FY March 2016



	(Yen billions)	FY March 2015 2Q Results	FY March 2016 2Q Results	Change	
				Yen billions	%
Net Sales		264.8	<b>308.1</b>	43.3	16.4
Operating Income		18.3	<b>27.4</b>	9.1	49.7
Operating Income Margin		6.9%	<b>8.9%</b>	+2.0pt	-
Income before Income Taxes		17.0	<b>25.1</b>	8.1	47.6
Net Income		12.4	<b>18.4</b>	6.0	48.4
Earning Per Share (JPY)		98.43	<b>145.72</b>	-	-
Ex-rate	US\$ /JPY	103.86	<b>122.31</b>	Depreciated by 17.8%	
	EURO /JPY	137.77	<b>136.06</b>	Appreciated by 1.2%	
Ex-rate impact to Net sales & Operating Income		Net sales : Increased by about 39.5 billion Yen Operating income : Increased by about 8.1 billion Yen			

Next, I will outline the consolidated results for the second quarter.

Sales increased by 16.4% year on year to 308.1 billion yen, a record-high figure for quarterly sales.

Operating income increased by 49.7% year on year to 27.4 billion. Net income amounted to 18.4 billion yen, with 48.4% year-on-year growth.



# Quarterly Results by Segment



(Yen billions)		2Q of FY March 2015 (A)	1Q of FY March 2016 (B)	2Q of FY March 2016 (C)	YoY Change (C)-(A)		QoQ Change (C)-(B)	
					Yen billions	%	Yen billions	%
Net Sales	Capacitors	37.3	39.1	<b>39.5</b>	2.2	5.9	0.4	1.0
	Inductive Devices	37.1	37.9	<b>38.6</b>	1.5	4.0	0.7	1.8
	Other Passive Components	55.5	70.8	<b>72.1</b>	16.6	29.9	1.3	1.8
	<b>Passive Components</b>	<b>129.9</b>	<b>147.8</b>	<b>150.2</b>	20.3	15.6	2.4	1.6
	Recording Devices	63.7	54.6	<b>60.7</b>	(3.0)	-4.7	6.1	11.2
	Other Magnetic Application Products	25.5	24.8	<b>24.6</b>	(0.9)	-3.5	(0.2)	-0.8
	<b>Magnetic Application Products</b>	<b>89.2</b>	<b>79.4</b>	<b>85.3</b>	(3.9)	-4.4	5.9	7.4
	<b>Film Application Products</b>	<b>37.2</b>	<b>43.2</b>	<b>64.1</b>	26.9	72.3	20.9	48.4
	<b>Other</b>	<b>8.5</b>	<b>9.2</b>	<b>8.6</b>	0.1	1.2	(0.6)	-6.5
	<b>Total</b>	<b>264.8</b>	<b>279.6</b>	<b>308.1</b>	43.3	16.4	28.5	10.2
Operating Income	<b>Passive Components</b>	9.4	15.0	<b>17.4</b>	8.0	85.1	2.4	16.0
	<b>Magnetic Application Products</b>	8.5	3.8	<b>4.5</b>	(4.0)	-47.1	0.7	18.4
	<b>Film Application Products</b>	5.2	4.7	<b>11.6</b>	6.4	123.1	6.9	146.8
	<b>Other</b>	0.2	0.4	<b>0.2</b>	0.0	0.0	(0.2)	-50.0
	<b>Sub total</b>	23.3	23.9	<b>33.7</b>	10.4	44.6	9.8	41.0
	<b>Corporate and Eliminations</b>	(5.0)	(5.8)	<b>(6.3)</b>	(1.3)	-	(0.5)	-
<b>Total</b>	<b>18.3</b>	<b>18.1</b>	<b>27.4</b>	9.1	49.7	9.3	51.4	
Operating Income margin		6.9%	6.5%	<b>8.9%</b>	+2.0pt	-	+2.4pt	-
Ex- rate	US\$/JPY	103.86	121.29	<b>122.31</b>				
	EURO/JPY	137.77	134.15	<b>136.06</b>				

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First Half of Fiscal Year March, 2016

October 30, 2015

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Next, I would like to explain changes in segment sales and operating income for the first and second quarters. First of all, as I noted in the briefing for the first quarter, starting this fiscal year, some of the products in the passive components and magnet application products businesses are reclassified into the category of "Other". Because of this reclassification, sales under "Other" for the second quarter for the fiscal year ending March 2015 increased 1.9 billion. The impact of this change on the operating income was negligible.

Let me summarize the results for each segment. Firstly, for the passive components segment, sales increased by 2.4 billion yen or 1.6% in the second quarter compared to the first quarter. The capacitors business saw solid sales of multi-layer ceramic capacitors for automobiles, as well as aluminum film capacitors for industrial equipment in the renewable energy market. Sales of inductive devices in the second quarter increased by 0.7 billion yen or 1.8%. This was led by strong sales to the ICT market such as smartphones and the automotive market. Sales of other passive components in the second quarter increased by 1.3 billion or 1.8% from the first quarter. For high-frequency components, we fully utilized available capacity to produce discrete products in order to meet the steady demand for smartphones in China, as well as a surge in demand from a major customer in North America which is releasing a new model. As a result, sales of high-frequency components increased substantially. For piezoelectric material products, sales of OIS to Chinese smartphone makers increased.

Operating income of the passive components segment increased by 2.4 billion to 17.4 billion yen in the second quarter from 15.0 billion in the first quarter. The segment's operating margin also improved to 11.6% in the second quarter from 10.1% in the first quarter, which is attributed to a larger sales volume for smartphone use, better product mix, and cost reduction efforts through rationalization, including better productivity. Especially, high-frequency components performed well in terms of sales volume and productivity improvement, and contributed significantly to the stronger earnings of the overall passive components business.

For the magnetic application products segment, sales in the second quarter increased by 5.9 billion yen or 7.4% from the first quarter. Sales of recording devices in the second quarter increased by 6.1 billion yen or 11.2% from the first quarter, but failed to recover as expected in the second quarter to fully offset the unfavorable effects of inventory and production adjustments triggered by a slowdown in demand for PCs in the first quarter. On the other hand, the shipment volume of HDD heads for near-line use at data centers remains strong. Consequently, the shipment index for HDD heads was 86 in the second quarter against 76 in the first quarter, whereas we had forecast approximately 90 for the second quarter. For the third quarter, we expect the index to remain flat from the second quarter. Sales of other magnetic application products in the second quarter declined by 0.2 billion or 0.8% from the first quarter. Sales of magnets for HDD use declined due to the weaker demand for PCs. Within the magnetic application products segment, operating income from the recording device business increased, backed by the increased shipment volume of HDD heads. However, the magnets business saw a substantial deterioration in earnings due to idle capacity losses as a result of the decline in sales volume and non-recurring expenses mentioned earlier.

For the film application products segment, sales in the second quarter increased by 20.9 billion yen or about 50% higher than in the first quarter. The huge growth in sales is attributed to demand from a major customer in North America which started producing new devices in full scale in the second quarter, to which we responded by fully utilizing the existing production capacity, and increased the use of lithium polymer batteries by Chinese and South Korean smartphone makers. Operating income for the second quarter increased by 6.9 billion yen to 11.6 billion yen from 4.7 billion yen in the first quarter. The segment has strengthened its earnings capability through volume growth and the effects of cost reduction by reforming processes, which absorbed the adverse effects of reduced unit prices.

That's all for my presentation. Thank you for listening.

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