

The Year in Review

In fiscal 2001, ended March 31, 2001, consolidated net sales increased 2.3 percent to ¥689,911 million. Net income, however, decreased 13.3 percent to ¥43,983 million.

The recording devices sector hampered both the top and bottom lines. Sales declined 15.7 percent and profitability worsened dramatically on account of several factors. First was our failure to develop in a timely fashion the new HDD heads demanded by customers. We misjudged the direction the market was heading technologically. Another reason was a deterioration in production yields of new high-areal-recording-density GMR heads as we moved into volume production in the latter half of the second quarter. Also affecting this sector's results was a six-day suspension in production of these heads due to torrential rains in mid-September 2000. As a result, TDK's share of the HDD head market fell. Exacerbating the situation were rapid inventory cuts by customers as the U.S. economy slowed. This unfortunately occurred just as our production yields were improving around December 2000.

The recording media & systems segment was the second major area to drag down results. Sales declined 7.4 percent and the segment recorded an operating loss. A sharp drop in CD-R prices, despite higher sales volumes, was primarily responsible. TDK believes that CD-Rs will be a key growth driver in the optical disc arena as optical media rise in popularity. However, in fiscal 2001 higher production by all manufacturers created a supply glut, triggering a pricing offensive by some industry players.

Excluding the recording devices sector, sales in the electronic materials and components segment were driven markedly higher by the explosive popularity of mobile phones, expanding demand in IT-related areas and product digitalization. But sales in the fourth quarter fell dramatically as the U.S. economy began to lose momentum as 2000 drew to a close. TDK's customers in the mobile



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phone, PC and PC peripheral, AV and other fields responded by trimming inventories.

The operating profit ratio suffered from these difficulties, declining from 11.1% in the previous fiscal year to 8.2%. TDK derived benefits from higher production volumes of electronic components and efforts to trim costs. These improvements, however, were outweighed by the effects of deteriorating production yields of HDD heads and an operating loss in the recording media & systems segment, resulting from a virtual freefall in CD-R prices. ROE declined from 9.2% to 7.3%.

In the current fiscal year, we will focus on improving earnings by revamping our system for the development of HDD head technologies, and by amalgamating production bases for recording media products.

Progress Report on Medium-Term Plan – Exciting 108

In the first year of Exciting 108, which was launched in April 2000, we failed to achieve our goals as results fell short of year-ago levels. Despite this less-than-stellar performance, we remain focused on our overall objective – to improve TDK and create more corporate value for all stakeholders by fulfilling the goals of Exciting 108.

□ Greater Specialization in Fields Where We Excel

Fiscal 2001 saw other companies erase the lead we had in HDD heads in spite of efforts to expand market share by building on our technological edge. We were thus unable to set TDK's heads apart from the competition. We were also unable to reap the benefits we expected from our acquisition of Headway Technologies, Inc. at the end of March 2000. In response, we will quickly overhaul our system for developing technologies that can meet the demands of customers and win their trust.

□ e-material solution provider – Responding to Customer Demands in a Timely Manner

In April 2001, TDK established the Production Engineering and Development Center. This move was aimed squarely at developing process technologies to take full advantage of TDK's materials expertise. Concurrent aims were to create facilities that optimize production and boost efficiency, to support the reorganization of production bases, and to transform new ideas into viable products faster. The ultimate goal is to craft a framework capable of responding to customers' demands in a timelier manner.

□ Strategic Field – Recording –

In HDD heads, TDK will use lessons learned from last year's disappointments to take stock of its technologies, including weaknesses, and push ahead with the development of cutting-edge technologies. In optical discs, we will focus our energies on multi level recording technologies, blue laser discs and other advanced optical disc formats.

□ Strategic Field – Communications –

TDK R&D Corp. was established in January 2001 as the U.S. base of our Telecom Technology Development Center (TTDC). This move gives TTDC a global foothold with a tri-polar structure located in Japan, Europe and the U.S. At the same time, it will facilitate better dialogue with customers in all markets and more effective R&D programs.

□ An Organization That Promotes Speedy Management

April 1, 2001 saw TDK usher in a new organizational structure. We reformed our organization to give us the flexibility to adapt quickly to a dynamically changing business environment and to accelerate decision-making. We eliminated the Electronic Components Business Group. All operational divisions involved with electronic components have now been placed under my direct supervision. A flatter organization means that more authority and responsibility have been delegated to the front lines of our business activities. We hope that this will spur our electronic component businesses to greater achievements and promote faster decision-making. In an additional reform, we established the Management Review & Support Department to monitor and support management plans. This move is also intended to foster and mobilize individuals with leadership qualities. The new Production Engineering Development Center adds another element to our organizational reforms.

□ Environmental Protection Activities

The environment is a major constituent of Exciting 108. With the view to becoming an environmentally conscious company that actively contributes to the creation of a society that recycles resources, TDK is putting in place environmental management systems (EMS). As of March 31, 2001, all of TDK's domestic manufacturing bases and laboratories had obtained ISO 14001 certification. Overseas, some of our bases have fallen behind schedule in earning this certification due to the transfer of processes and other actions carried out as part of production reforms. Plans call for these bases to be certified by the end of December 2001. Another ongoing drive targets the challenge of achieving zero emissions.

Themes for Fiscal 2002

The slowdown in the U.S. economy that began late in 2000 has cloaked the world economy in uncertainty. The dynamics in the electronics industry are radically different from just a year ago. We face significant challenges in the near term. The medium-term outlook, however, is brighter. A host of new markets are expected to emerge and blossom. Optical communications, ITS and other automotive electronics applications, and digital household appliances are just a few of these exciting markets. These markets will spawn new technologies, which will in turn lead to more new markets and technologies. Despite today's challenges, I can therefore state with confidence that the electronics industry has a bright future.

If we can respond accurately to market demands and shifts, I believe there are many opportunities for TDK. Equally, if we don't, our very existence will quickly be called into question. Nature provides a fitting metaphor. The Laws of Nature dictate that living things that fail to adapt to change will become extinct. Today, that change is taking place faster than ever before. We are seeing more opportunities as well as risks.

Adaptation is the key word for the current fiscal year. We must act with resolve and speed to position ourselves for growth in the medium term.

In specific terms, we will:

★ Strengthen Our Ability to Develop New Technologies

Proprietary technologies are the lifeblood of any company. Recruiting and fostering skilled employees holds the key to developing innovative technologies. Based on this awareness, we are taking a number of actions.

One is to introduce an annual-salary contract system for engineers effective from the current fiscal year. Developing new technologies and creating new products is no easy task. The aim of the new system is to provide greater motivation for the existing team of engineers and to facilitate the recruitment of skilled individuals who can make an immediate impact on TDK.

The start of the Development Strategy Council is designed to speed up the pace of development. Timing is just as important as groundbreaking technological development. Using resources effectively by selecting and concentrating them on strategic areas is also of paramount importance. With these thoughts in mind, the Development Strategy Council will hold meetings to share knowledge and information. Importantly, these meetings will cut across divisional lines.

As I previously mentioned, the TTDC is now a tri-polar structure, with the recent establishment of a communications R&D base in the U.S. Each base will push ahead with R&D focused on cutting-edge technologies in its home region. At the same time, information will be shared within the TTDC group to accelerate development.

★ Reform Our Organization for Speed

I expect the above organizational reforms that we carried out in April this year to make us capable of responding to change faster.

★ Promote IT Utilization

IT is critical to raising customer satisfaction. We will tap IT expertise in supply chain management (SCM) to solve delivery problems, and in customer relationship management (CRM) and knowledge management (KM) to shorten development timeframes.

Conclusion

Dynamic change characterizes our business environment. That's unavoidable. What we can control is our own destiny, however. The actions we will take in the current term will give further impetus to our transformation into an "Exciting Company." I sincerely ask for the continued support and guidance of our stakeholders.



Hajime Sawabe
President and CEO
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