Exciting 108 Progress Report

Exciting 108 Medium-Term Management Plan

The ultimate goal of Exciting 108, which was launched in April 2000 and runs through March 2004, is to maximize TDK's value by firmly establishing an identity as an "Exciting Company." Exciting 108 challenges TDK to reach several numeral targets. The analysis below shows how fiscal 2003 results stacked up.

Due to the collapse of the IT bubble and other macroeconomic factors, TDK believes that it will have difficulty hitting its Exciting 108 targets in fiscal 2004, the final year of the plan. Nevertheless, TDK remains committed to achieving the targets of Exciting 108—raising profitability and capital efficiency—by continuing to advance structural reforms and delivering innovative products in a timely manner that match market needs.

Profitability and Asset Utilization

TDK's profitability improved in fiscal 2003 as it reaped the benefits of structural reforms started in fiscal 2002, and of its policy of Selection and Concentration, as shown in the table below.

Moreover, from the standpoint of asset utilization, TDK's asset turnover also improved, thanks to efforts to improve inventory turnover and trade receivables turnover.

	Fiscal 2001 (Actual)	Fiscal 2002 (Actual)	Fiscal 2003 (Actual)	Fiscal 2004 (Target)
Operating profit ratio	8.3%	–7.7%	3.6%	13.0%
ROE	7.3%	–4.2%	2.1%	12.0%
TVA	–1.4%	–11.8%	–6.0%	3.0%
Asset turnover	0.9	0.7	0.8	1 or higher

Notes:
1. TVA is obtained by establishing a cost of capital based on the implicit return that shareholders expect. This figure is then used to evaluate returns on invested capital, which are calculated using earnings after taxes but without deducting interest expenses. The TVA target assumes a cost of capital of 8%.
2. Operating profit ratio is based on net sales and operating profit defined as net sales less cost of sales, selling, general and administrative expenses (excluding the amortization of certain identifiable intangibles in 2001), and resturcturing costs.
3. Effective from the fiscal year ended March 31, 2003, 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)." Accordingly, TDK has applied EITF 01-9 retroactively, restating net sales for fiscal 2001 and fiscal 2002. The operating profit ratio was calculated based on these restated figures.

Share of Sales and Growth Rates for Strategic Fields

During fiscal 2003, sales climbed sharply in Recording as TDK recaptured market share for HDD heads, compared with fiscal 2002. In Communications, however, sales dropped, despite a slight upswing in demand for mobile phone components, as communications infrastructure-related demand failed to recover.

	Fiscal 2001 (Actual)		Fiscal 2002 (Actual)		Fiscal 2003 (Actual)		Fiscal 2004 (Target)	
	Share of TDK sales	YoY growth rate	Share of TDK sales	YoY growth rate	Share of TDK sales	YoY growth rate	Share of TDK sales	YoY growth rate
Communications	14%	30%	9%	–50%	7%	–14%	20%	25%
Recording	41%	–7%	43%	–11%	47%	16%	45%	10%

Capital Expenditures

TDK held down total capital expenditures in fiscal 2003 and concentrated these expenditures on rationalization measures.

	Fiscal 2001 (Actual)		Fiscal 2002 (Actual)		Fiscal 2003 (Actual)		Fiscal 2004 (Target)
	Year	Cum.	Year	Cum.	Year	Cum.	Cum.
Capital Expenditures	99,452	99,452	58,777	158,229	41,451	199,680	350,000