

### 3) Business Results

Consolidated results for the first half of fiscal 2002, the six-month period from April 1, 2001 through September 30, 2001, are as follows:

TDK posted net sales of ¥272,620 million (US\$2,290,924 thousand), down 22.6% year on year, and an operating loss of ¥2,811 million (US\$23,622 thousand), compared with an operating profit of ¥36,449 million in the same period of the previous fiscal year. Furthermore, TDK posted a loss before income taxes of ¥3,082 million (US\$25,899 thousand), compared with income before income taxes of ¥47,831 million in the same period of the previous fiscal year. Net income dropped 94.4% to ¥1,832 million (US\$15,395 thousand) and net income per common share was ¥13.78 (US\$0.12).

Average exchange rates for the yen were ¥122 and ¥108 versus the U.S. dollar and euro, respectively, as the yen weakened by 14% and 9% in relation to these two currencies. TDK estimates that the depreciation of the yen had the net effect of lifting net sales by approximately ¥19.1 billion and reducing the operating loss by approximately ¥4.9 billion.

In the electronic materials and components segment, net sales decreased sharply, by 27.5% to ¥209,650 million (US\$1,761,764 thousand) due to several factors. The segment as a whole was affected by inventory corrections at TDK's customers in a broad range of product categories brought on by a global downturn in IT investment-induced demand, as well as the U.S. economic slowdown since the fourth quarter of the previous fiscal year. Another factor was an overly optimistic outlook for worldwide mobile phone and PC demand, which have driven advances in digital networking technologies. This has resulted in surplus inventories across a broad spectrum of electronic components, further hampering a recovery.

Within this segment, sales in the electronic materials sector declined 25.6% to ¥81,367 million (US\$683,756 thousand). Multilayer chip capacitors, which account for the majority of sector sales, recorded an overall fall in sales, mainly due to a sharp drop in demand for use in mobile phones and PCs and peripherals. By contrast, sales for mobile phones and PCs grew sharply in the same period of the previous fiscal year. Although there was a slight rise in demand for multilayer chip capacitors for automotive applications, fueled by the increasing use of electronics in automobiles, these sales still represent only a small fraction of overall sales of this product. In ferrite cores and magnets, ferrite cores for use in data-communications devices such as ADSL (Asymmetric Digital Subscriber Lines) devices, which saw strong demand last year, recorded a sharp drop in sales, reflecting a drop-off in IT investment-related demand. Intensifying competition in deflection yoke cores and flyback transformer cores, both key components in TVs and computer monitors, led to lower sales. Although sales of ferrite magnets for automotive applications held firm thanks to their increasing

use in automobiles and favorable exchange rates, magnet sales fell overall due to waning demand for use in motors for PCs and peripherals and AV products.

In the electronic devices sector, sales decreased 27.7% to ¥54,264 million (US\$456,000 thousand). Inductive device sales fell overall as demand dropped in the audio and visual products, PCs and peripherals and communications markets. Partially offsetting this fall was a marginal increase in sales of inductive devices for use in automobiles as more sophisticated electronics technologies find their way into automobiles. Sales of high-frequency components declined due to a rapid slowdown in the mobile phone market. A high proportion of TDK's high-frequency components are used in mobile phones. Other products in this sector recorded only a slight decline thanks to brisk demand for DC-DC converters for video game systems.

In the recording devices sector, sales dropped 30.2% to ¥64,022 million (US\$538,000 thousand), reflecting lower demand for HDD heads. This was the result of TDK's delay, relative to competitors, in supplying mainstream 30gigabyte/disk HDD heads, which resulted in TDK losing market share. The sales decline also reflected the scaling back of HDD production at customers, which was prompted by lackluster PC demand.

Sales in the semiconductors & others sector declined 23.6% to ¥9,997 million (US\$84,008 thousand). Sales of semiconductors for WAN/LAN and set-top box modems fell sharply due to the continuing downturn in the semiconductor market as demand for communications infrastructure equipment, which had been a driving force last year, declined.

In the recording media & systems segment, sales were almost the same year on year, increasing by a marginal 0.3% to ¥62,970 million (US\$529,160 thousand). Sales of CD-Rs increased on higher volumes despite lower year-on-year prices. Also contributing to higher sales in this segment were the yen's depreciation and the launch of sales of recording equipment last fall, which helped to offset lower audiotape and videotape sales due to a decline in total demand for those products.

By region, sales in Japan decreased 24.9% to ¥85,214 million (US\$716,084 thousand), reflecting lower sales in most product categories. Of particular note was the recording media & systems segment, where sales declined because the contribution to sales of recording equipment is small relative to other regions. In the Americas, sales declined 17.3% to ¥52,019 million (US\$437,134 thousand), owing to soft demand for electronic materials and electronic devices. This outweighed sales growth in the recording media & systems segment, where TDK posted higher sales of recording equipment, which began last fall. In Europe, sales decreased 16.9% to ¥38,002 million (US\$319,345 thousand), reflecting sluggish demand for electronic materials and electronic devices. In particular, sales of high-frequency components, mainly for GSM and other mobile phone

formats, fell dramatically. Higher sales in the recording media & systems segment, driven by rising CD-R sales volumes and the start of recording equipment sales in the current fiscal year, could not offset these declines. In Asia (excluding Japan) and Others, sales decreased 25.0% to ¥97,385 million (US\$818,361 thousand) due to soft demand for electronic materials and electronic devices. Lower sales in the recording devices sector, which account for a high proportion of sales in this region, also had a major impact.

The overall result was a 21.4% decline in overseas sales year on year to ¥187,406 million (US\$1,574,840 thousand). Overseas sales accounted for 68.7% of consolidated net sales, a 0.9 percentage point increase from 67.8% in the same six-month period a year ago.

On a parent-company basis, net sales decreased 29.9% to ¥164,023 million (US\$1,378,344 million) and current income declined 60.1% to ¥13,970 million (US\$117,394 thousand). Net income climbed 345.3% to ¥9,752 million (US\$81,949 thousand) and net income per share was ¥73.22 (US\$0.61). This reflected the absence of an expense of ¥34,644 million (US\$291,126 thousand) recorded in the previous fiscal year resulting from the adoption of a new accounting method for retirement liabilities.

As with consolidated results, sales in the electronic materials and components segment were hurt by the overall market slowdown, falling 30.8% year on year to ¥140,647 million (US\$1,181,907 thousand). The recording media & systems segment posted sales of ¥23,376 million (US\$196,436 thousand), a 23.6% year-on-year decrease. This reflected two main factors: a decrease in parent-company CD-R shipments following the cessation of production at the parent company and subsequent switch to outside purchases; and falling total demand for audiotapes and videotapes.

At today's meeting of TDK's board of directors, an interim dividend of ¥30 per share of common stock was approved.