

TDK Corporation Announces Fiscal 2002 Third-Quarter Consolidated Results

2) Summary

Consolidated results for the third quarter of fiscal 2002, the three-month period from October 1, 2001 through December 31, 2001, are as follows:

TDK posted net sales of ¥149,177 million (US\$1,130,129 thousand), down 17.2% year on year, and an operating loss of ¥14,171 million (US\$107,356 thousand), compared with operating income of ¥18,083 million in the same period of the previous fiscal year. Furthermore, TDK posted a loss before income taxes of ¥13,805 million (US\$104,583 thousand), compared with income before income taxes of ¥15,552 million in the same period of the previous fiscal year. TDK also posted a net loss of ¥9,759 million (US\$73,932 thousand), compared with net income of ¥10,392 million a year earlier. Consequently, net loss per common share was ¥73.45 (US\$0.56).

The third-quarter operating loss is partly attributable to the recording of ¥7,282 million (US\$55,167 thousand) in expenses related to structural reforms for restoring TDK's ability to generate earnings.

Average exchange rates for the yen were ¥123 and ¥111 versus the U.S. dollar and euro, respectively, as the yen weakened by 12% and 16% in relation to these two currencies compared with the same period a year ago. TDK estimates that the depreciation of the yen had the net effect of lifting net sales by approximately ¥10.6 billion and reducing the operating loss by approximately ¥2.9 billion.

In the electronic materials and components segment, net sales fell 24.2% to ¥107,592 million (US\$815,091 thousand).

Within this segment, sales in the electronic materials sector dropped 29.7% to ¥39,384 million (US\$298,364 thousand). Multilayer chip capacitors, which account for the majority of sector sales, saw a year-on-year drop in sales. In particular, sales of these capacitors for use in mobile phones, which had grown significantly in the same period of the previous fiscal year, fell sharply. There was a slight rise in demand for multilayer chip capacitors for automotive applications, fueled by the increasing use of electronics in automobiles. However, 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 decrease 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 PC monitors—led to lower sales of these products. Magnet sales fell overall due to waning demand for use in motors for PCs and peripherals and audio and visual products.

In the electronic devices sector, sales decreased 33.7% to ¥26,048 million (US\$197,333 thousand). Inductive device sales fell overall as demand dropped in the key audio and visual products and PCs and peripherals 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 vehicles. Sales of high-frequency components declined dramatically from their peak in the corresponding period of the prior fiscal year. This was attributable to the slowdown in demand for mobile phones, an application that accounts for a high proportion of sales of these components. Sales of other products in this sector were on a par with the previous year as a result of brisk demand for DC-DC converters for video game systems.

In the recording devices sector, sales were ¥38,259 million (US\$289,841 thousand), down 3.2% year on year. TDK regained market share in the third quarter through a gradual increase in shipments of 40gigabyte/disk HDD heads, which have won plaudits from customers. Consequently, sales of HDD heads rose markedly from the second quarter to around the same level of sales in the corresponding period of the previous fiscal year. Sales of other heads declined as demand dropped off.

Sales in the semiconductors & others sector declined 44.4% to ¥3,901 million (US\$29,553 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 increased 8.7% to ¥41,585 million year on year (US\$315,038 thousand). Sales of optical discs, predominantly CD-Rs, rose on higher volumes despite lower year-on-year

prices. Also lifting sales in this segment were three other factors: the yen's depreciation; growth in recording equipment sales due to the start of sales also in Europe (sales were launched in the U.S. last fall); and sales of new game software. These factors offset lower audiotape and videotape sales due to a decline in total demand for those products.

By region, sales in Japan decreased 33.0% to ¥40,894 million (US\$309,803 thousand), reflecting lower year-on-year 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 12.4% to ¥29,504 million (US\$223,515 thousand), owing to soft demand for electronic materials and electronic devices. This outweighed higher sales in the recording media & systems segment, which were lifted by sales of recording equipment and the launch of new game software. In Europe, sales decreased 28.9% to ¥21,496 million (US\$162,849 thousand), reflecting sluggish demand for electronic materials and electronic devices. In particular, there was a significant decline in sales of high-frequency components mainly for GSM and other mobile phone formats. Sales in the recording media & systems segment increased with the start of recording equipment sales in the current fiscal year. However, this increase was not sufficient to offset the declines. In Asia (excluding Japan) and Others, sales increased 3.7% to ¥57,283 million (US\$433,962 thousand), mainly as a result of TDK regaining market share in recording devices. These higher sales more than offset soft demand for electronic materials and electronic devices.

The overall result was a 9.1% decline in overseas sales year on year to ¥108,283 million (US\$820,326 thousand). Overseas sales accounted for 72.6% of consolidated net sales, up 6.5 percentage points from 66.1%.

Fiscal 2002 Projections

TDK has revised downward its consolidated and non-consolidated projections for fiscal 2002, the year ending March 31, 2002, which were announced in November last year. The projections are based principally on the following assumptions:

- The yen-U.S. dollar exchange rate for the fourth quarter is assumed at ¥130, compared with the previous estimate of ¥120 for the second half of the fiscal year.

- The electronic materials and components segment is expected to see a continuation of declining demand for components across the board as customers step up efforts to reduce inventories. Prices are also expected to fall further than November 2001 projections.
- TDK expects to continue to regain market share in the recording devices segment as more 40gigabyte/disk HDD heads, which have won ready acceptance from customers, are shipped in the fourth quarter.

TDK perceives the present market difficulties, characterized by some as the bursting of the IT bubble, as different in nature from an ordinary recessionary climate. To counter this situation, TDK believes that it is necessary to take actions to lower its break-even point and improve asset efficiency with the view to dramatically restoring its ability to generate earnings from the next fiscal year onward. TDK began implementing a plan in November 2001 to trim its consolidated head count as well as other measures. TDK will also implement additional structural reform measures, such as offering a special redundancy package and disposing of idle/unwanted facilities, in the fourth quarter. The estimated expenses associated with structural reforms, including those that have already been implemented, have been factored into the projections shown below.

TDK's consolidated and non-consolidated projections include estimated structural reform expenses of ¥21,400 million and ¥9,000 million, respectively.

Consolidated Projections for Fiscal 2002

	Revised Projection ¥ millions	Change (¥ millions or %) from FY01	As of Nov. 2001 ¥ millions
Net sales	¥565,000	-18.1%	¥560,000
Operating income (loss)	(36,000)	¥56,323	(1,300)
Income (loss) before income taxes	(35,900)	¥64,516	(2,600)
Net income (loss)	(23,000)	¥43,983	0

Non-Consolidated Projections for Fiscal 2002

	Revised Projection ¥ millions	Change (¥ millions or %) from FY01	As of Nov. 2001 ¥ millions
Net sales	¥312,000	-31.8%	¥317,000
Operating income (loss)	(7,800)	¥26,084	(2,800)
Current income (loss)	7,800	-84.4%	12,900
Net income (loss)	950	-89.1%	8,200

Cautionary Statement About Projections

Projections for the fiscal year ending March 31, 2002 are based on assumptions and beliefs of TDK and its group companies in accordance with data currently available. Consequently, these projections should not be relied upon as the sole basis for evaluating TDK. Actual results may differ substantially from the projections depending on a number of factors.

The electronics markets in which TDK operates are highly susceptible to rapid changes. Furthermore, TDK operates 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.