

2) Business Results and Financial Position

1. Summary

Consolidated results for the third quarter of fiscal 2003, the three-month period from October 1, 2002 to December 31, 2002, are as follows.

TDK posted net sales of ¥161,678 million (US\$1,347,317 thousand), 9.2% higher than one year earlier, amid difficult economic conditions around the world. Operating income was ¥6,172 million (US\$51,433 thousand), compared with an operating loss of ¥14,171 million in the previous fiscal year's third quarter. Furthermore, income before income taxes was ¥6,055 million (US\$50,458 thousand), compared with a loss before income taxes of ¥13,805 million one year earlier, and net income improved from a loss of ¥9,759 million to income of ¥4,575 million (US\$38,125 thousand). The result was net income per common share of ¥34.49 (US\$0.29). This performance reflects the benefits of structural reforms that TDK began enacting in the prior fiscal year, enabling the company to overcome challenges posed by a persistently difficult operating environment.

Average third-quarter yen exchange rates for the U.S. dollar and euro were ¥122.6 and ¥122.5, respectively. The yen appreciated 0.7% versus the dollar but declined 10.8% versus the euro, compared with the previous fiscal year's third quarter. TDK estimates that these changes in the yen's value had the net effect of increasing net sales by approximately ¥1.3 billion and lowering operating income by approximately ¥0.4 billion. The strength of the euro was the main reason for the positive impact on net sales. The negative impact on operating income was mainly attributable to a slightly weaker U.S. dollar relative to the yen and an operating loss in Europe, which was caused by actions associated with the structural reforms (refer to "Geographic segment information" on page 11).

(Sales by Segment)

Results by business segment were as follows.

Electronic materials and components segment

Net sales in this segment increased 13.3% to ¥121,864 million (US\$1,015,534 thousand). Sales by product sector were as follows.

Electronic materials

Sales in the electronic materials sector rose 5.5% to ¥41,553 million (US\$346,275 thousand).

(Capacitors) Net sales of capacitors were higher year on year but slightly lower than in the current fiscal year's second quarter. Automotive sales remained strong due to the increasing use of electronics in automobiles. However, total sales felt the effects of strong demands for price reductions from all user categories. Additionally, orders from manufacturers of audio and visual products declined as stepped-up output levels for the Christmas sales season were curtailed late in the third quarter.

(Ferrite cores and magnets) Demand was strong for ferrite cores used in LCD backlights and in power supplies, mainly for digital audio and visual products. Offsetting this strength was soft demand for cores used in information and communications applications and deflection yoke cores, a key component of TVs and computer monitors. The net result was generally flat sales of ferrite cores. Magnet sales increased, backed by solid demand for motor magnets, particularly for automotive requirements.

Electronic devices

In the electronic devices sector, sales increased 10.8% to ¥28,868 million (US\$240,567 thousand).

(Inductive devices) Inductive devices sales were higher because of the growing use of automotive electronics and higher sales volumes, compared with one year ago, for communications applications. This outweighed the effects of lower output by manufacturers of audio and visual products, which affected capacitor orders in the same way.

(High-frequency components) Orders from manufacturers of mobile phones and other types of communications products have been gradually turning upward since August 2002. Increased volumes thus enabled TDK to post higher sales despite the need to acquiesce to strong demands for price reductions.

(Other products) Overall, sales in this sector increased. Growth was paced by brisk sales of actuators and chip varistors used in PCs and peripherals and communications products. DC-DC converter sales declined as video game hardware manufacturers cut back production levels as the end of the Christmas sales season neared.

Recording devices

Sales of recording devices surged 25.0% to ¥47,818 million (US\$398,484 thousand). One factor was a recovery in TDK's market share in HDD heads, particularly 40 gigabyte/disk HDD heads. Additionally, the average number of heads used per HDD did not decline as rapidly as had been expected. Total demand for HDD heads remained high as a result, and sales climbed. Sales of other heads were higher as well, supported in part by rising orders for heads for high-capacity FDDs.

Semiconductors & others

In this sector, sales declined 6.9% to ¥3,625 million (US\$30,208 thousand). Capital expenditures for communications infrastructure systems continued to be soft, bringing down sales of semiconductors for WAN/LAN applications and set-top box modems.

Recording media & systems segment

Segment sales were down 1.6% to ¥39,814 million (US\$331,783 thousand). Audiotape and videotape sales fell in line with shrinking overall demand. Optical discs posted higher sales. Sales prices of CD-Rs, the largest component of this category, declined, but the sales volume increased. Demand for these discs is rising now that CD-R drives have become standard on many PCs. DVD sales continued to climb. Growth in these two categories offset declining demand for MDs. Sales of software and tape-based data storage media for computers were both higher. However, sales growth in optical discs and other categories was insufficient to offset the decline in sales of audiotapes and certain other products.

(Sales by Region)

By region, sales in Japan increased 5.3% to ¥43,040 million (US\$358,667 thousand). This was mainly attributable to a rebound in the market share of recording devices, which outweighed a decrease in sales in the recording media & systems segment linked to shrinking demand for audiotapes. In the Americas, sales decreased 1.4% to ¥28,134 million (US\$234,450 thousand) as sales in both the electronic materials and components and the recording media & systems segments were slightly lower. In Europe, sales were up 2.9% to ¥21,998 million (US\$183,317 thousand), partly reflecting strong sales of automotive components in the electronic materials and components segment. The main reason for the increase in sales in Europe, however, was the strength of the euro against the yen, compared with the same period of the previous fiscal year. In Asia (excluding Japan) and Others, sales rose 19.6% to ¥68,506 million (US\$570,883 thousand). TDK regained market share in the recording devices sector and both electronic materials and electronic devices posted sales gains.

The overall result was a 10.7% rise in overseas sales year on year to ¥118,638 million (US\$988,650 thousand). Overseas sales accounted for 73.4% of consolidated net sales, a 1.0 percentage point increase from 72.4% in the previous year's third quarter.

2. Cash Flows

Cash flows from operating activities

Net cash provided by operating activities was ¥19,387 million (US\$161,558 thousand), ¥16,135 million more than in the previous fiscal year's third quarter. There was a net improvement of ¥14,334 million in net income and a small decrease in depreciation and amortization. Among items related to changes in assets and liabilities, there was an increase in trade receivables and decreases in inventories and trade payables.

Cash flows from investing activities

Net cash used in investing activities was ¥8,288 million (US\$69,066 thousand), a decrease of ¥4,172 million. This was mainly attributable to a year-on-year decline in capital expenditures of ¥4,506 million to ¥8,453 million.

Cash flows from financing activities

Net cash used in financing activities was ¥3,420 million (US\$28,500 thousand), a decrease of ¥2,096 million. There was a decline in repayment of short-term debt, compared with the previous fiscal year, and dividends paid were down by ¥670 million to ¥3,316 million.

3. Fiscal 2003 Projections

TDK's consolidated and non-consolidated projections for fiscal 2003, the year ending March 31, 2003, as announced in October 2002, have been revised as follows. The projections are based principally on the following assumptions:

- TDK is assuming an average yen-U.S. dollar exchange rate of ¥120 for the fourth quarter of fiscal 2003, the same rate as was assumed in October 2002 for the second half of fiscal 2003.
- TDK does not foresee a strong recovery in demand for electronic materials and electronic devices, due to growing uncertainty in the world economy since TDK's previous announcement in October last year. Consequently, TDK expects difficult market conditions to persist in the fourth quarter.
- Fourth-quarter sales of HDD heads, the mainstay product in the recording devices sector, are expected to be on a par with third-quarter sales. This projection is based on the strong support for TDK's products from customers and solid orders. There are, however, certain risks relating to the complexities of the technology.

Consolidated Projections for Fiscal 2003

	Revised Projection	% Change from FY02 or FY02 Result	As of October 2002
	¥ millions		¥ millions
Net sales	¥608,100	6.6%	¥585,000
Operating income (loss)	20,200	-43,722	20,000
Income (loss) before income taxes	17,700	-43,697	18,300
Net income (loss)	12,600	-25,771	13,000

Note:

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)" from the fiscal year beginning April 1, 2002 and has applied EITF 01-9 retroactively, restating net sales for fiscal 2002. The changes were calculated based on these revisions.

Non-Consolidated Projections for Fiscal 2003

	Revised Projection	% Change from FY02 or FY02 Result	As of October 2002
	¥ millions		¥ millions
Net sales	¥320,700	0.9%	¥320,000
Operating income (loss)	800	-8,507	1,800
Current income	5,700	-24.8%	6,300
Net income (loss)	-1,400	-3,794	300

Cautionary Statement About Projections

This earnings release contains forward-looking statements, including projections, plans, policies, management strategies, targets, schedules, understandings and evaluations, about TDK and its group companies that are not historical facts. These forward-looking statements are based on current forecasts, estimates, assumptions, plans, beliefs and evaluations in light of information available to management on the date of this earnings release.

In preparing forecasts and estimates, TDK and its group companies have used as their basis, certain assumptions as necessary, in addition to confirmed historical facts. However, due to their nature, there is no guarantee that these statements and assumptions will prove to be accurate in the future. TDK therefore wishes to caution readers that these statements, facts and certain assumptions contained in this earnings release are subject to a number of risks and uncertainties and may prove to be inaccurate.

The electronics markets in which TDK and its group companies operate are highly susceptible to rapid changes. Furthermore, TDK and its group companies operate 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.

The premises and assumptions used in computing the projections in this earnings release include, but are not limited to, those explained above.