

2) Business Results and Financial Position

1. Summary

Consolidated results for the third quarter of fiscal 2004, the three-month period from October 1, 2003 to December 31, 2003, were as follows:

TDK posted net sales of ¥181,851 million (U.S.\$1,699,542 thousand), up 12.5% year on year from ¥161,678 million. Operating income climbed 193.9%, from ¥6,172 million, to ¥18,139 million (U.S.\$169,523 thousand). Income before income taxes rose 209.0%, from ¥6,055 million, to ¥18,712 million (U.S.\$174,879 thousand), and net income jumped 208.9%, from ¥4,575 million, to ¥14,132 million (U.S.\$132,075 thousand). Basic net income per common share was ¥106.75 (U.S.\$1.00), up from ¥34.49.

Average third-quarter yen exchange rates for the U.S. dollar and euro were ¥108.92 (previous year ¥122.62) and ¥129.48 (previous year ¥122.51), respectively, as the yen appreciated 11.2% versus the dollar and depreciated 5.7% against the euro. This had the effect of lowering net sales by approximately ¥13.0 billion and operating income by approximately ¥5.4 billion.

(Sales by Segment)

The following is an explanation of sales by segment.

Electronic materials and components segment

In the electronic materials and components segment, net sales increased 16.6%, from ¥121,864 million, to ¥142,134 million (U.S.\$1,328,355 thousand). Sales in the electronic materials and electronic devices sectors increased on the back of higher demand for components, which was fueled by a growing digital household appliances market, rebounding mobile phone demand and other factors. In the recording devices sector, sales of HDD heads rose sharply year on year as demand for HDDs continued to swell. These and other factors drove the increase in segment sales as a whole. Sector results were as follows.

Electronic materials

Sales in the electronic materials sector increased 3.5%, from ¥41,553 million, to ¥42,998 million (U.S.\$401,850 thousand).

(Capacitors) Sales of multilayer chip capacitors, which account for the majority of sector sales, increased year on year. Higher orders for these products, which reflected growing demand for information and communications products, offset falling sales prices and the negative effect of exchange rate movements.

(Ferrite cores and magnets) In ferrite cores, deflection yoke cores and flyback transformer cores saw sales drop due to falling demand and calls for discounts from customers. The drop in orders is a reflection of a rapid shift in consumer demand from CRTs, the main application for these products, to LCDs, PDPs and other flat panel displays. While demand for cores for the latter applications is expanding, this growth is insufficient to offset the downturn in sales of large cores. The result was lower sales for ferrite cores as a whole during the third quarter. Magnet sales also declined, even though sales volumes were largely unchanged, because of falling sales prices. Overall, sales of ferrite cores and magnets were down year on year.

Electronic devices

In the electronic devices sector, sales edged up 0.3%, from ¥28,868 million, to ¥28,957 million (U.S.\$270,626 thousand).

(Inductive devices) Inductive devices, the largest product category in this sector, posted higher sales year on year as demand grew from the communications products field in line with advances in the performance of mobile phones. However, sales growth was held back by lower unit prices and foreign currency movements.

(High-frequency components) Sales of high-frequency components decreased despite an upswing in unit volume, particularly for use in mobile phones, the main market for these components. The continuing glut in the supply of high-frequency components of all types prompted customers to demand price reductions that were greater than in other electronic components sectors.

(Other products) Overall, sales of other products decreased. Sensors and actuators recorded higher sales due to growth in demand in the communications products and PCs and peripherals sectors. However, sales of power systems declined as demand remained soft.

Recording devices

Recording devices sales rose 36.8%, from ¥47,818 million, to ¥65,425 million (U.S.\$611,449 thousand). Sales of HDD heads were up sharply, mainly due to continuing expansion in the HDD market and the resulting robust HDD sales by major TDK customers. Sales of other heads also increased.

Semiconductors & others

Sales in the semiconductors & others sector climbed 31.1%, from ¥3,625 million, to ¥4,754 million (U.S.\$44,430 thousand), despite sluggish sales of semiconductors for LAN applications. The growth reflected higher sales of anechoic chambers for noise control and equipment used in these chambers.

Recording media & systems segment

In the recording media & systems segment, sales edged down 0.2%, from ¥39,814 million, to ¥39,717 million (U.S.\$371,187 thousand). While TDK continues to command a high share of the audiotape and videotape markets, sales in these two categories decreased as demand continues to shrink due to structural changes. Optical media products posted increased sales, with higher sales of CD-Rs and DVDs in an expanding market offsetting lower sales prices. In the other products sector, sales decreased overall. Higher sales of LTO-standard* (Linear Tape-Open) tape-based data storage media for computers failed to offset lower sales of device-related products.

*Linear Tape-Open, LTO, LTO logo, Ultrium and Ultrium logo are trademarks of HP, IBM and Certance LLC in the U.S., other countries or both.

(Sales by Region)

Japan

Sales increased 7.4%, from ¥43,040 million, to ¥46,224 million (U.S.\$432,000 thousand). While sales in the electronic materials and recording devices sectors increased, sales fell in the electronic devices sector. Sales in the recording media & systems segment were on a par with the corresponding period of the previous fiscal year.

Americas

Sales decreased 12.5%, from ¥28,134 million, to ¥24,622 million (U.S.\$230,112 thousand). Sales fell in all sectors, with the exception of semiconductors & others. The main factors behind the fall in electronic materials were lower demand and the negative effect of the appreciation of the yen relative to the U.S. dollar.

Europe

Sales increased 1.1%, from ¥21,998 million, to ¥22,247 million (U.S.\$207,916 thousand). The recording media & systems segment recorded slightly higher sales while the electronic materials and electronic devices sectors recorded small declines.

Asia (excluding Japan) and Others

Sales increased 29.6%, from ¥68,506 million, to ¥88,758 million (U.S.\$829,514 thousand). All product categories recorded higher sales.

The overall result was a 14.3% rise in overseas sales year on year, from ¥118,638 million, to ¥135,627 million (U.S.\$1,267,542 thousand). Overseas sales accounted for 74.6% of consolidated net sales, a 1.2 percentage point increase from 73.4% one year earlier.

2. Cash Flows

Cash flows from operating activities

Net cash provided by operating activities was ¥22,384 million (U.S.\$209,196 thousand), ¥2,997 million more than in the third quarter of the previous fiscal year. There was a net improvement of ¥9,557 million in net income and an ¥884 million increase in depreciation and amortization. Among items related to changes in assets and liabilities, there was a sharp increase in trade receivables and an increase in trade payables.

Cash flows from investing activities

Net cash used in investing activities was ¥8,922 million (U.S.\$83,383 thousand), an increase of ¥634 million. Capital expenditures used net cash of ¥10,368 million (U.S.\$96,897 thousand), ¥1,915 million higher year on year. This was offset in part by proceeds of ¥1,442 million (U.S.\$13,477 thousand) from the sale of a U.S. subsidiary.

Cash flows from financing activities

Net cash used in financing activities was ¥3,109 million (U.S.\$29,056 thousand), a year-on-year decrease of ¥311 million. Dividends paid used cash of ¥3,309 million (U.S.\$30,925 thousand), about the same as in the third quarter of the previous fiscal year.

3. Fiscal 2004 Projections

TDK's consolidated and non-consolidated projections for fiscal 2004, the year ending March 31, 2004 ("Fiscal 2004"), have been revised, as detailed below.

Consolidated Projections for Fiscal 2004

	Revised projection for Fiscal 2004	% change from FY03	Projection made Fiscal 2004 as of October 2003
	¥ millions		¥ millions
Net sales	¥664,000	9.1%	¥636,000
Operating income	52,500	137.8	45,000
Income before income taxes	54,000	198.7	46,000
Net income	41,000	241.1	33,500

Non-Consolidated Projections for Fiscal 2004

	Revised projection for Fiscal 2004	% change from FY03	Projection made for Fiscal 2004 as of October 2003
	¥ millions		¥ millions
Net sales	¥315,000	-1.8%	¥307,800
Operating income (loss)	(3,400)	-	2,100
Current income	2,100	-76.9	7,500
Net income	200	50.4	2,400

Note: TDK had previously assumed an average yen-U.S. dollar exchange rate of ¥110 for the second half of fiscal 2004. The actual average rate in the third quarter was ¥109 and TDK is assuming an average rate of ¥105 in the fourth quarter.

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.