I-2) Management Policies

(1) Fundamental Management Policy

TDK was established in 1935 as the world's first company to commercialize a magnetic material called ferrite. In the ensuing years, TDK has developed and commercialized electronic materials, electronic devices, recording devices and recording media & systems. This drive has been based on the company's founding spirit: "Contribute to culture and industry through creativity."

To preserve its identity as a dynamic company, TDK is dedicated to creating value for all stakeholders, including shareholders, customers, suppliers, society and employees, by drawing on innovative thinking and a willingness to tackle new challenges. TDK firmly believes that it must remain an organization that is a constant source of exciting ideas that are of true value to stakeholders.

(2) Fundamental Policy for Distribution of Earnings

Returning earnings to shareholders is one of TDK's highest management priorities. As such, TDK's fundamental policy is to devote its efforts to a stable increase of dividends while taking into consideration a broad range of factors, including the return on equity (ROE), dividends as a percentage of equity (DOE) and the company's results of operation on a consolidated basis.

Retained earnings are used to invest in the development of new products and technologies in key fields, to upgrade production facilities and in other ways to make TDK more competitive and respond precisely to the rapid technological advances in the electronics industry.

(3) Medium- and Long-Term Management Strategy

In April 2004, TDK launched an initiative aimed at generating new growth with the overriding aim of becoming an exciting company, an ongoing theme at TDK.

The electronics industry, TDK's main market, is witnessing escalating competition due to progress in the digitalization and standardization of key devices. To accurately respond to changing market needs as product life spans shorten, TDK is dedicated to delivering new products that the market demands, without delay, precisely when those products are needed. With this in mind, TDK is aiming to increase the weighting of new products in its overall sales mix as its growth strategy over the medium term.

TDK also plans to take steps to refine its sophisticated technological and development capabilities in the core electronic materials and components business. TDK is aiming for growth by delivering the value customers demand in a timely manner through the development of products rooted in the company's core materials, process and evaluation technologies, which underpin its electronic materials and components business.

As a responsible corporate citizen, TDK believes that it is important to incorporate public, ethical, environmental and other considerations in its management processes and dealings with society. In particular, determined to play its part in preserving the environment for future generations, TDK has formulated a fundamental environmental plan, "TDK Environmental Action 2010," for contributing to the realization of a sustainable society.

(4) Corporate Ethics

TDK has formulated a corporate code of ethics to guide the activities of all members of TDK in their efforts to create an even better company. The corporate code of ethics, which is based on TDK's corporate motto and principles, specifies the rules that the company, management and employees must observe in the conduct of business. This code demonstrates TDK's commitment to constantly uphold corporate ethical standards and improve risk management. TDK takes every possible opportunity to educate staff on the corporate code of ethics.

(5) Strategy to Improve Corporate Governance

Companies must conduct their activities and manage their operations in a fair, impartial and transparent manner, abiding by laws and regulations, and with the recognition that their existence is supported by shareholders, customers, suppliers, society and employees. TDK put in place internal controls with this fundamental recognition in mind. It has also implemented a number of other measures in the same vein, such as appointing an outside director and statutory auditors, involving people outside the company in setting directors' remuneration, and ensuring that corporate ethics are strictly observed.

(5-1) Management structure and other corporate governance systems concerning decision-making, strategy execution and supervision

One of TDK's 7 directors is an outside director, who also serves as the chairperson of the Remuneration Committee, which was set up to ensure the fairness of directors' remuneration. Another committee, the Corporate Ethics Committee, was established to ensure that TDK upholds corporate ethical standards. Independent of this committee, TDK has a "helpline" that encourages employees to report matters relating to corporate ethics and offer suggestions. Moreover, having introduced the post of corporate officer, TDK has clearly demarcated responsibilities: directors are responsible for decision-making and oversight, while corporate officers have responsibility for executing day-to-day operations. Corporate officers execute policies set by the Board of Directors in their respective areas of responsibility.

TDK applies the Corporate Auditor System in accordance with the Commercial Code of Japan, and 3 of its 5 corporate auditors come from outside the company. The role of the corporate auditor is not restricted to the supervision of directors' activities. As required, they also audit business activities. In addition, the Management Review & Support Department is primarily responsible for auditing business activities.

Another defining aspect of TDK's corporate governance system is that it receives advice and cautionary counsel from outside legal counsel and independent auditors regarding risks associated with TDK's corporate activities.

(5-2) Personal, financial and trading relationships between the company and the outside director and outside corporate auditors, and other beneficial relationships

There are no personal or financial relationships between TDK and the outside director or the three outside corporate auditors.

(5-3) Measures taken to enhance corporate governance over the past year

To ensure that corporate ethical standards are being upheld, TDK has put in place a global corporate ethics framework that encompasses the activities of overseas subsidiaries as well as domestic ones. And, to comply with the U.S. Sarbanes-Oxley Act of 2002, a strict law relating to corporate governance that was prompted by a series of scandals involving major corporations, TDK formed a project team that includes outside experts to undertake a fundamental review and reinforce corporate systems. Furthermore, in the same vein, TDK restricts the work that is outsourced to independent auditors so as to preserve their impartiality and independence. Moreover, at the ordinary general meeting of shareholders held in June 2003, a resolution was approved that shortens the terms of directors to one year. This change was made to give the company the best management structure with which to respond flexibly to changes in its operating environment and to build greater trust with shareholders.

(6) Policy Regarding Reduction of TDK's Share Trading Unit

On August 1, 2000, TDK reduced the trading unit of its common shares from 1,000 to 100 shares to broaden the shareholder base and increase the liquidity of the company's shares. TDK now considers that its shares have sufficient liquidity. TDK will consider a further reduction of the trading unit based on its stock price and market needs as well as on a cost-benefit analysis.

I-3) Business Results and Financial Position

1. Summary

Consolidated results for fiscal 2004, ended March 31, 2004, were as follows.

The Japanese economy in fiscal 2004 tended toward recovery, led by IT-related production and exports. However, with no upturn evident in household incomes, consumer spending failed to rebound. Meanwhile, the U.S. economy, the driving force for the world economy, expanded compared with the previous year, with consumer spending, housing investment and capital expenditures all rising, as the government eased fiscal and monetary policy.

In the electronics industry, the year was characterized by the rising popularity of LCD and plasma flat-screen TVs, digital cameras and DVD recorders, as well as by the increasing sophistication of mobile phones and replacement demand for PCs, and the growing use of electronics in automobiles. However, deflationary trends in world markets affected these finished products, placing unrelenting pricing pressure on electronic materials and components and recording media and systems, TDK’s main products.

TDK saw orders drop in the first quarter (April-June 2003) of fiscal 2004 due to one-off factors such as the SARS outbreak and fallout from the Iraq war. Nevertheless, TDK remained focused on implementing profit structure reforms, carrying on initiatives from fiscal 2003 to improve asset productivity and concentrate resources on strategic businesses.

As a result, TDK posted consolidated net sales of ¥658,862 million (U.S.$6,215,679 thousand), up 8.2% from ¥608,880 million. Operating income climbed 146.0%, from ¥22,080 million to ¥54,322 million (U.S.$512,472 thousand). Income before income taxes jumped 207.5%, from ¥18,081 million to ¥55,603 million (U.S.$524,557 thousand). Net income soared 250.3%, from ¥12,019 million to ¥42,101 million (U.S.$397,179 thousand). Basic net income per common share was ¥317.80 (U.S.$3.00), up from ¥90.56.

During the year, the average exchange rate was ¥113.19 for the U.S. dollar and ¥132.65 for the euro, representing a 7.2% appreciation in the yen’s value against the U.S. dollar and a 9.7% depreciation against the euro. Overall, exchange rate movements had the effect of lowering net sales by approximately ¥4 billion and operating income by approximately ¥1.5 billion.

(Sales by Segment)

The following is a discussion of sales by business segment.

<u>Electronic materials and components segment</u>

In the electronic materials and components segment, net sales increased 10.7%, from ¥472,529 million to ¥522,862 million (U.S.$4,932,660 thousand). Sales in both the electronic materials and electronic devices sectors decreased compared with the previous fiscal year when TDK benefited from a temporary surge in demand related to the 2002 FIFA World Cup™ and strong demand from manufacturers following a period of inventory reductions. This decline occurred despite solid demand for components that was spurred by the growing popularity of flat-screen TVs, digital cameras, DVD recorders and other electronic products, as well as by recovering sales of mobile phones. Segment sales as a whole rose on the back of a sharp year-on-year increase in sales of HDD heads accompanying burgeoning demand for HDDs. Sector results were as follows.

Electronic materials

Sales in the electronic materials sector decreased 1.3%, from ¥168,949 million to ¥166,818 million (U.S.$1,573,755 thousand).

(Capacitors) Sales of multilayer chip capacitors, the main product in the capacitor sector, increased. Higher orders for capacitors, which reflected growing demand for 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 sales prices. The drop in orders is a reflection of a rapid shift in consumer demand from CRT TVs to LCD, plasma and other flat-panel models. Higher sales of small coils and transformer cores, a category where demand is increasing, failed to offset this decrease, resulting in a decline in overall sales of ferrite cores. Magnet sales declined as the effect of falling sales prices outweighed higher sales volumes. Overall, sales of ferrite cores and magnets were down year on year.

Electronic devices

In the electronic devices sector, sales decreased 4.2%, from ¥112,729 million to ¥107,999 million (U.S.$1,018,858 thousand).

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

(High-frequency components) Sales of high-frequency components decreased despite an upswing in shipment volumes that resulted from strong demand for components used in mobile phones, the main market for these components, and successful activities to win new orders. The decrease reflects the continuing glut in the supply of high-frequency components in the market as a whole, which prompted customers to demand price reductions that were greater than in other electronic component categories.

(Other products) Overall, sales of other products decreased. Sensors and actuators recorded higher sales due to growth in demand for communications products and PCs and peripherals. However, sales of power systems declined due to lackluster demand associated with the amusement field, a sector where demand was strong in the previous fiscal year.

Recording devices

Sales of recording devices climbed 30.8%, from ¥175,986 million to ¥230,105 million (U.S.$2,170,802 thousand). Sales of HDD heads, the main product in this sector, were up sharply. This was primarily because of 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 20.7%, from ¥14,865 million to ¥17,940 million (U.S.$169,245 thousand), despite sluggish sales of semiconductors for communications applications. 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 0.3%, from ¥136,351 million to ¥136,000 million (U.S.$1,283,019 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 volumes of CD-Rs and DVDs in an expanding market offsetting lower sales prices. Sales of other products decreased. Higher sales of LTO-standard* (Linear Tape-Open) tape-based data storage media for computers failed to offset lower sales of PC software, recording equipment and other 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)
By region, sales in Japan increased 1.9%, from ¥165,503 million to ¥168,656 million (U.S.$1,591,094 thousand). While sales fell in the electronic materials and electronic devices sectors and recording media & systems segment, sales rose sharply in the recording devices sector. In the Americas, sales decreased 15.5%, from ¥106,060 million to ¥89,657 million (U.S.$845,821 thousand). Sales fell in all sectors, with the exception of semiconductors & others, due to the negative effect of the appreciation of the yen relative to the U.S. dollar. In Europe, sales rose 4.1%, from ¥78,740 million to ¥81,950 million (U.S.$773,113 thousand), reflecting the yen's depreciation relative to the euro and strong sales of CD-Rs and DVDs. In Asia (excluding Japan) and other areas, sales climbed 23.2%, from ¥258,577 million to ¥318,599 million (U.S.$3,005,651 thousand), mainly due to higher sales of recording devices.

The overall result was a 10.6% rise in overseas sales year on year, from ¥443,377 million to ¥490,206 million (U.S.$4,624,585 thousand). Overseas sales accounted for 74.4% of consolidated net sales, a 1.6 percentage point increase from 72.8% one year earlier.

On a parent-company basis, net sales decreased 1.4%, from ¥320,697 million to ¥316,050 million (U.S.$2,981,603 thousand). Operating income decreased 44.8%, from ¥3,182 million to ¥1,756 million (U.S.$16,566 thousand). Current income rose 13.2%, from ¥9,078 million to ¥10,277 million (U.S.$96,952 thousand). Net income was ¥4,458 million (U.S.$42,056 thousand), compared with ¥133 million in fiscal 2003, while basic net income per share rose from ¥0.53 to ¥32.87 (U.S.$0.31).

TDK plans to pay a year-end dividend of ¥30 per common share. Together with the interim dividend of ¥25 per common share paid in December 2003, the dividend per common share applicable to the year will be ¥55.

On a parent-company basis, fiscal 2004 ROE was 1.1% and DOE was 1.7%.

2. Financial Position

(2-1) The following table summarizes TDK's balance sheet at March 31, 2004.

Total assets	¥770,319 million	3.1% increase
Total stockholders' equity	¥576,219 million	4.0% increase
Equity ratio	74.8%	0.7 percentage point increase

At the end of the year, cash and cash equivalents were ¥56,604 million higher than on March 31, 2003. Net property, plant and equipment and other assets decreased ¥16,962 million and ¥14,526 million, respectively. As a result of the above items and other changes, total assets increased ¥22,982 million.

Total liabilities increased ¥732 million. Trade payables, accrued expenses and income taxes payable increased ¥2,957 million, ¥5,963 million and ¥3,632 million, respectively, while retirement and severance benefits decreased ¥11,450 million.

Total stockholders' equity increased ¥22,334 million. Retained earnings increased ¥34,837 million, while accumulated other comprehensive loss increased ¥11,563 million.

(2-2) Cash Flows

(¥ millions)

	FY 2004	FY 2003	Change
Net cash provided by operating activities	114,704	104,358	10,346
Net cash used in investing activities	(37,770)	(46,645)	8,875
Net cash used in financing activities	(9,661)	(7,925)	(1,736)
Effect of exchange rate changes on cash and cash equivalents	(10,669)	(4,998)	(5,671)
Net increase in cash and cash equivalents	56,604	44,790	11,814
Cash and cash equivalents at beginning of period	170,551	125,761	44,790
Cash and cash equivalents at end of period	227,155	170,551	56,604

Operating activities provided net cash of ¥114,704 million (U.S.$1,082,113 thousand), a year-on-year increase of ¥10,346 million. This reflected a ¥30,082 million increase in net income to ¥42,101 million (U.S.$397,179 thousand) and a ¥6,556 million decrease to ¥51,233 million (U.S.$483,330 thousand) in depreciation and amortization. In changes in assets and liabilities, there were increases in trade receivables and inventories of ¥5,326 million and ¥22,101 million, respectively.

Investing activities used net cash of ¥37,770 million (U.S.$356,321 thousand), ¥8,875 million less than a year earlier. While capital expenditures increased ¥3,415 million to ¥44,866 million (U.S.$423,264 thousand), payment for purchase of investments decreased ¥6,863 million.

Financing activities used net cash of ¥9,661 million (U.S.$91,141 thousand), ¥1,736 million more than in the previous fiscal year. This primarily reflected increases in repayments of short-term debt and dividends paid of ¥793 million and ¥652 million, respectively.

(2-3) Trends in Cash Flow Indicators

	FY2000	FY2001	FY2002	FY2003	FY2004
Stockholders' equity ratio (%)	73.6	77.8	77.9	74.1	74.8
Capital adequacy ratio on a market value basis (%)	239.9	133.8	121.7	80.4	136.7
No. of years to redeem debt	0.02	0.10	0.07	0.02	0.00
Interest coverage ratio (times)	165.3	138.0	32.8	180.9	355.1

[Notes]
Stockholders' equity ratio = Total stockholders' equity / Total assets
Capital adequacy ratio on a market value basis = Market capitalization (*1) / Total assets
(*1) Market capitalization = Closing price of TDK's common shares on the Tokyo Stock Exchange on March 31, 2004 x Shares issued and outstanding at year-end after deducting treasury stock
No. of years to redeem debt = Interest-bearing liabilities (*2) / Cash flows from operating activities (*3)
(*2) Interest-bearing liabilities: The balance of "short-term debt" and long-term debt included in "long-term debt, excluding current installments" on the consolidated balance sheets.
(*3) Cash flows from operating activities: "Net cash provided by operating activities" on the consolidated statements of cash flows.
Interest coverage ratio = Cash flows from operating activities / Interest payments (*4)
(*4) Interest payments: "Interest expense" on the consolidated statements of income

3. Fiscal 2005 Projections

TDK's consolidated and non-consolidated projections for fiscal 2005, the year ending March 31, 2005, are as follows.

[Consolidated Projections for Fiscal 2005]

	Year ending March 2005 (¥ millions)	% change from FY04	Year ended March 2004 (¥ millions)
Net sales	680,000	3.2	658,862
Operating income	60,000	10.5	54,322
Income before income taxes	62,000	11.5	55,603
Net income	46,500	10.4	42,101

[Non-Consolidated Projections for Fiscal 2005]

	Year ending March 2005 (¥ millions)	% change from FY04	Year ended March 2004 (¥ millions)
Net sales	338,000	6.9	316,050
Operating income	9,700	452.4	1,756
Current income	20,500	99.5	10,277
Net income	13,500	202.8	4,458

The projections are based principally on the following assumptions:

- An average exchange rate of ¥105=US$1 for fiscal 2005.
- Orders for passive components (electronic materials and electronic devices) as a whole are expected to remain at a comparatively high level, supported by firm demand in the first half of the year. However, this demand may wane by the end of 2004.
- Orders for recording devices are expected to decline in the first half of fiscal 2005, but second-half sales of these products should be supported by growth in demand for HDDs used in PCs and consumer electronics.
- In the recording media & systems segment, lower sales of audiotapes and videotapes are forecast. However, sales may rise year on year in the segment as a whole, with higher sales of optical media products absorbing this decline.

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.