

## **I-3) Business Results and Financial Position**

### **1. Summary**

Consolidated results for the first half of fiscal 2005, the six-month period from April 1, 2004 through September 30, 2004, are as follows:

TDK posted net sales of ¥318,770 million (U.S.\$2,871,802 thousand), a rise of 0.8% over the ¥316,279 million recorded in the first half of the previous fiscal year. Operating income was ¥26,889 million (U.S.\$242,243 thousand), up 11.9% from ¥24,020 million. Income before income taxes was ¥28,804 million (U.S.\$259,495 thousand), up 15.2% from ¥25,014 million. Net income was ¥19,869 million (U.S.\$179,000 thousand), up 3.2% from ¥19,257 million, meaning basic net income per common share was ¥150.11 (U.S.\$1.35), compared with ¥145.27 in the first half of the previous fiscal year.

Average first-half yen exchange rates for the U.S. dollar and euro were ¥109.80 and ¥133.28, respectively, as the yen appreciated 7.0% versus the U.S. dollar and 0.2% against the euro. This had the effect of lowering net sales by approximately ¥15.1 billion and operating income by approximately ¥5.9 billion.

### **(Sales by Segment)**

TDK's businesses are broadly classified into two business segments: the electronic materials and components segment and the recording media & systems segment. The following is an explanation of sales by segment.

#### **(1) Electronic materials and components segment**

This segment is made up of four product sectors: (1-1) electronic materials, (1-2) electronic devices, (1-3) recording devices, and (1-4) semiconductors & others.

Segment net sales increased 3.1% to ¥262,364 million (U.S.\$2,363,640 thousand), from ¥254,352 million. Segment operating income climbed 15.8% to ¥29,908 million (U.S.\$269,441 thousand), from ¥25,832 million.

The electronics market in the first quarter of fiscal 2005 saw strong demand for components for mobile phones and digital home appliances such as flat-screen TVs, digital still cameras and DVD recorders continue from the fourth quarter of the previous fiscal year. However, the second quarter was characterized by slowing demand for mobile phone components and by inventory reductions in digital home appliances, particularly AV-related products, which had been produced in anticipation of demand stimulated by the Summer Olympic Games and other events. Demand from the PC and automotive fields was stronger throughout the interim period than in the previous fiscal year. Under these market conditions, sales of electronic materials and electronic devices increased, lifting segment sales as a whole. Sector results were as follows.

#### **(1-1) Electronic materials**

This sector is broken down into two product categories: capacitors and ferrite cores and magnets.

Sales in the electronic materials sector rose 10.6% to ¥91,036 million (U.S.\$820,144 thousand), from ¥82,302 million.

**(Capacitors)** Sales rose year on year. In IT home electronics appliance applications, sales volumes increased on the back of growth in digital home appliances. Furthermore, sales rose on greater demand for the use of capacitors in mobile phones, a rising proportion of which have color displays and cameras, and in automobiles, which are increasingly making use of electronics. These factors absorbed the effect of downward pressure on sales prices and of the higher yen.

**(Ferrite cores and magnets)** Sales of ferrite cores and magnets increased year on year. In ferrite cores, sales volume growth was recorded for general-purpose power supply cores for digital home appliances and cores for communications equipment. Magnet sales volume also rose on strong orders for automotive and IT home electronics appliance applications.

### **(1-2) Electronic devices**

This sector has three product categories: inductive devices, high-frequency components and other products.

Sales in the electronic devices sector rose 9.6% to ¥57,511 million (U.S.\$518,117 thousand), from ¥52,451 million.

**(Inductive devices)** Sales of inductive devices increased year on year. In IT home electronics appliance applications, sales grew for use in digital home appliances, thanks in large part to demand spurred by the Summer Olympic Games. Furthermore, an increase in the number of components used in mobile phones, which are being equipped with cameras and other additional features, spurred growth in sales of coils, multilayer products and other products.

**(High-frequency components)** Sales of high-frequency components edged down year on year. While sales volume of high-frequency components was higher year on year, sales were brought down slightly by the continuation of strong discounting pressure from clients and the effect of production cutbacks at mobile phone manufacturers in China due to inventory problems.

**(Other products)** Sales of other products rose year on year. Power systems recorded higher sales on strong sales of DC-DC converters and DC-AC inverters for the industrial equipment market. Sensors and actuators also recorded higher sales, mainly for use in PCs and peripherals and communications equipment.

### **(1-3) Recording devices**

This sector has two product categories: HDD heads and other heads.

Sector sales declined 7.3% to ¥103,333 million (U.S.\$930,928 thousand), from ¥111,423 million.

**(HDD heads)** Sales decreased on lower orders for TDK's HDD heads, reflecting two factors. One was a sharp drop in orders from a major customer that started producing heads in-house last year. The other cause was that some other customers reduced HDD production to resolve the problem of excess inventories.

**(Other heads)** Sales of other heads declined year on year, with sales of optical pickups sluggish.

#### **(1-4) Semiconductors & others**

This sector has two product categories: semiconductors and others.

Sector sales climbed 28.2% to ¥10,484 million (U.S.\$94,451 thousand), from ¥8,176 million.

**(Semiconductors)** Sales of semiconductors declined due to lower sales to the communications equipment market.

**(Others)** Other sales increased year on year. While sales of anechoic chambers for electromagnetic noise control were down slightly, TDK recorded higher external sales of manufacturing equipment and other products.

#### **(2) Recording media & systems segment**

This segment is made up of four product categories: audiotapes, videotapes, optical media and other products.

Segment sales declined 8.9% to ¥56,406 million (U.S.\$508,162 thousand), from ¥61,927 million. The segment recorded an operating loss of ¥3,019 million (U.S.\$27,198 thousand), an increase of 66.6% from last year's operating loss of ¥1,812 million.

**(Audiotapes and videotapes)** Sales of audiotapes and videotapes declined year on year. While TDK maintained a high market share, demand continues to decline for these products as a whole.

**(Optical media)** Sales of optical media increased, as sharply higher sales volumes of DVDs due to expanding demand absorbed the effect of downward pressure on sales prices.

**(Other products)** Sales of other products decreased year on year, the result mainly of the sale in the previous fiscal year of a U.S. software development subsidiary and sluggish sales of recording equipment. On the other hand, the steady increase continued in sales of LTO-standard\* (Linear Tape-Open) tape-based data storage media for computers.

\*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)**

Detailed geographic segment information can be found in the segment information on page 17 of the consolidated results.

By region, in Japan, the electronic materials and recording devices sectors recorded higher sales. However, sales were down slightly in the electronic devices sector and the recording media & systems segment.

In the Americas, sales in the electronic materials sector and the recording media & systems segment declined. The higher yen versus the U.S. dollar also impacted sales in the Americas.

In Europe, lower sales were recorded in the recording media & systems segment.

In Asia (excluding Japan) and other areas, sales declined in the recording devices sector, but the electronic materials and electronic devices sectors recorded higher sales.

The overall result was a 1.5% decrease in overseas sales year on year, from ¥234,743 million to ¥231,138 million (U.S.\$2,082,324 thousand). Overseas sales accounted for 72.5% of consolidated net sales, a 1.7 percentage point decrease from 74.2%.

On a parent-company basis, net sales increased 10.0% to ¥167,709 million (US\$1,510,891 thousand), from ¥152,474 million. Operating income was ¥5,696 million (U.S.\$51,315 thousand), up 436.3% from ¥1,062 million. Current income was ¥22,169 million (U.S.\$199,720 thousand), up 360.0% from ¥4,819 million. Net income was ¥15,883 million (U.S.\$143,090 thousand), up 1,309.3% from ¥1,127 million, meaning basic net income per common share was ¥119.99 (U.S.\$1.08), compared with ¥8.51 in the first half of the previous fiscal year.

At the meeting of TDK's Board of Directors on October 28, an interim dividend of ¥30 per share of common stock was approved.

## 2. Financial Position

(2-1) The following table summarizes TDK's balance sheet at September 30, 2004, compared with March 31, 2004.

Total assets	¥807,913 million	4.9% increase
Total stockholders' equity	¥610,176 million	5.9% increase
Equity ratio	75.5%	0.7 point increase

At September 30, 2004, cash and cash equivalents were ¥8,814 million higher than at March 31, 2004, net trade receivables were ¥5,340 million higher, inventories were ¥10,128 million higher and other current assets were ¥8,522 million higher. Net property, plant and equipment rose ¥7,808 million. As a result of these and other changes, total assets increased ¥37,594 million.

Total liabilities increased ¥3,659 million. While retirement and severance benefits declined ¥9,663 million, trade payables increased ¥647 million, accrued expenses rose ¥5,033 million and income taxes payables rose ¥6,695 million.

Total stockholders' equity increased ¥33,957 million, reflecting a ¥15,283 million rise in retained earnings and a ¥19,548 million decrease in accumulated other comprehensive loss.

## (2-2) Cash Flows

(¥ millions)

	Fiscal 2005 Interim	Fiscal 2004 Interim	Change
Net cash provided by operating activities	38,415	52,031	(13,616)
Net cash used in investing activities	(29,107)	(18,535)	(10,572)
Net cash used in financing activities	(5,701)	(5,292)	(409)
Effect of exchange rate changes on cash and cash equivalents	5,207	(5,349)	10,556
Net increase in cash and cash equivalents	8,814	22,855	(14,041)
Cash and cash equivalents at beginning of period	227,155	170,551	56,604
Cash and cash equivalents at end of period	235,969	193,406	42,563

Operating activities provided net cash of ¥38,415 million (U.S.\$346,081 thousand), a year-on-year decrease of ¥13,616 million. Net income rose ¥612 million to ¥19,869 million (U.S.\$179,000 thousand) and depreciation and amortization increased ¥1,726 million to ¥25,368 million (U.S.\$228,540 thousand). In changes in assets and liabilities, trade receivables decreased ¥5,877 million, trade payables decreased ¥8,681 million and income taxes payables, net increased ¥5,121 million.

Investing activities used net cash of ¥29,107 million (U.S.\$262,225 thousand), ¥10,572 million more than a year earlier. This mainly reflected a ¥9,030 million increase to ¥29,856 million (U.S.\$268,973 thousand) in capital expenditures.

Financing activities used net cash of ¥5,701 million (U.S.\$51,360 thousand), ¥409 million more than a year earlier, mainly due to a ¥656 million increase in dividends paid.

### 3. Fiscal 2005 Projections

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

#### [Consolidated Projections for Fiscal 2005]

	Year ending March 2005 (¥ million)	% change from FY2004	Year ended March 2004 (¥ million)
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 (¥ million)	% change from FY2004	Year ended March 2004 (¥ million)
Net sales	344,700	9.1	316,050
Operating income	13,400	663.1	1,756
Current income	33,700	227.9	10,277
Net income	22,900	413.7	4,458

Note:

The projections are based principally on the following assumptions:

- An average yen-U.S. dollar exchange rate of ¥105 for the second half of the year.
- The projections take into consideration seasonal factors, namely higher demand at the end of the calendar year, in the third quarter for passive components (electronic materials and electronic devices). But with market conditions expected to deteriorate thereafter, demand may wane in the fourth quarter of fiscal 2005.
- In recording devices, demand for HDD heads is expected to recover in the second half of the fiscal year on growing demand for HDDs.
- In the recording media & systems segment, seasonal factors are expected to lift sales of existing audiotapes and videotapes and optical media products above first-half levels.
- TDK is projecting a year-on-year increase in sales in the electronic materials and components segment but a decrease in the recording media & systems segment. On a consolidated basis, TDK is projecting a 3.2% year-on-year increase in net sales as a whole.

### **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 bases, 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.