

2. Business Results and Financial Position

1) Summary

Consolidated results for the third quarter of fiscal 2005, the three-month period from October 1, 2004 to December 31, 2004, were as follows:

TDK posted net sales of ¥174,657 million (U.S.\$1,679,394 thousand), down 4.0% year on year from ¥181,851 million. Operating income declined 7.8%, from ¥18,139 million to ¥16,722 million (U.S.\$160,788 thousand). Income before income taxes decreased 10.7%, from ¥18,712 million to ¥16,718 million (U.S.\$160,750 thousand), and net income declined 13.6%, from ¥14,132 million to ¥12,209 million (U.S.\$117,394 thousand). Basic net income per common share was ¥92.35 (U.S.\$0.89), compared with ¥106.75 for the corresponding period of fiscal 2004.

Average third-quarter yen exchange rates for the U.S. dollar and euro were ¥105.92 (previous year ¥108.92) and ¥137.19 (previous year ¥129.48), respectively, as the yen appreciated 2.8% versus the dollar and depreciated 6.0% against the euro. This had the effect of lowering net sales by approximately ¥2.2 billion and operating income by approximately ¥0.9 billion.

(Sales by Segment)

TDK's businesses are broadly classified into two business segments: electronic materials and components segment and 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 1.4% from ¥142,134 million to ¥144,185 million (U.S.\$1,386,394 thousand). Segment operating income rose 0.6% from ¥18,920 million to ¥19,039 million (U.S.\$183,067 thousand). Sales of electronic products normally rise every year in the third quarter due to year-end demand. However, the increase in this fiscal year's third quarter fell short of the typical seasonal upswing because of excess inventories of finished products caused by a one-time surge in demand related to the Summer Olympic Games in Athens, Greece, in the first half of fiscal 2005. There was no growth in orders at TDK for components for digital home appliances, including LCD TVs, plasma displays and DVD recorders, mobile phones and PCs. HDD demand recovered in the third quarter following production cutbacks by HDD manufacturers to reduce excessive inventories in the first half of fiscal 2005. Under these market conditions, although sales of electronic materials and recording devices were flat, higher sales of electronic devices drove overall segment sales higher. 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 were ¥43,002 million (U.S.\$413,481 thousand), on a par with the previous year's ¥42,998 million.

(Capacitors) Sales were slightly down year on year. While sales for use in automobiles were healthy, sales to other fields dropped. TDK was also unable to absorb the negative effects of sales price discounts and forex movements through improvements in the sales mix.

(Ferrite cores and magnets) Sales of ferrite cores and magnets increased year on year. Metal magnet sales were higher on increasing HDD demand.

(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 5.6% to ¥30,571 million (U.S.\$293,952 thousand), from ¥28,957 million.

(Inductive devices) Sales of inductive devices increased year on year, despite lower unit sales prices. This was attributed to higher demand for devices used in digital home appliances, increasingly sophisticated mobile phones, and automobiles, which are being equipped with more electronics.

(High-frequency components) Sales of high-frequency components were up year on year. In mobile phone applications, the main market for these components, TDK posted an increase in sales on higher volumes and an improved product mix, overcoming persistently strong discounting pressure from customers and excess supply of components.

(Other products) Sales of other products rose year on year. Power systems recorded higher sales on strong sales of DC-AC inverters for the industrial equipment market. Sales of sensors and actuators were largely unchanged.

(1-3) Recording devices

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

Sector sales edged down 0.1% from ¥65,425 million to ¥65,351 million (U.S.\$628,375 thousand).

(HDD heads) Sales increased year on year. TDK lost orders due to the commencement of in-house production of heads last year by a major customer and discounting pressure was strong due to a longer lifespan for existing products. Nevertheless, HDD head sales rose on higher volumes, the result of expansion of the HDD market.

(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 10.7% from ¥4,754 million to ¥5,261 million (U.S.\$50,586 thousand).

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

(Others) Sales increased year on year. While sales of anechoic chambers for electromagnetic noise control were down, 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 23.3% from ¥39,717 million to ¥30,472 million (U.S.\$293,000 thousand). The segment recorded an operating loss of ¥2,317 million (U.S.\$22,279 thousand), an increase of 196.7% from last year's operating loss of ¥781 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 declined slightly. While sales volumes of DVDs increased sharply due to expanding demand, unit sales prices declined. Another reason for the fall in sales of optical media was lower sales volumes of CD-Rs.

(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, sales of LTO-standard* (Linear Tape-Open) tape-based data storage media for computers continued to rise steadily on both a volume and monetary basis.

*Linear Tape-Open, LTO, LTO Logo, Ultrium and Ultrium Logo are trademarks of Certance, HP and IBM in the US, other countries or both.

(Sales by Region)

Detailed geographic segment information can be found in the segment information on page 13 of the consolidated results.

In Japan, the recording devices sector recorded higher sales, whereas the electronic materials and electronic devices sectors and recording media & systems segment recorded lower sales.

In the Americas, sales increased in the electronic devices sector. Sales in the electronic materials and recording devices sectors and recording media & systems segment declined due in part to the appreciation of the yen versus the U.S. dollar.

In Europe, sales increased in the electronic devices sector, but decreased in the electronic materials sector and recording media & systems segment.

In Asia (excluding Japan) and other areas, sales increased in the electronic materials and electronic devices sectors, but decreased in the recording devices sector and recording media & systems segment.

The overall result was a 7.6% decrease in overseas sales year on year, from ¥135,627 million to ¥125,370 million (U.S.\$1,205,481 thousand). Overseas sales accounted for 71.8% of consolidated net sales, a 2.8 percentage point decrease from 74.6%.

2. Financial Position

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

Total assets	¥806,163 million	0.2% decrease
Total stockholders' equity	¥604,021 million	1.0% decrease
Equity ratio	74.9%	0.6 percentage point decrease

As at December 31, 2004, inventories were ¥8,488 million lower than as at September 30, 2004, and net property, plant and equipment was ¥4,907 million lower. Net trade receivables increased ¥5,920 million, marketable securities increased ¥1,179 million and investments in securities increased ¥2,089 million. As a result of these and other changes, total assets declined ¥1,750 million.

Total liabilities increased ¥2,930 million compared with September 30, 2004. Income taxes payables rose ¥1,247 million, retirement and severance benefits increased ¥4,372 million and deferred income taxes (noncurrent liabilities) increased ¥1,784 million. Trade payables declined ¥2,139 million and accrued expenses declined ¥3,726 million.

Total stockholders' equity decreased ¥6,155 million, compared with September 30, 2004. While retained earnings increased ¥8,333 million, there was a ¥14,496 million increase in accumulated other comprehensive loss.

(2-2) Cash Flows

	(¥ millions)		
	FY2005 3Q	FY2004 3Q	Change
Net cash provided by operating activities	20,624	22,384	(1,760)
Net cash used in investing activities	(12,200)	(8,922)	(3,278)
Net cash used in financing activities	(3,864)	(3,109)	(755)
Effect of exchange rate changes on cash and cash equivalents	(5,262)	(3,164)	(2,098)
Net increase (decrease) in cash and cash equivalents	(702)	7,189	(7,891)
Cash and cash equivalents at beginning of period	235,969	193,406	42,563
Cash and cash equivalents at end of period	235,267	200,595	34,672

Operating activities provided net cash of ¥20,624 million (U.S.\$198,308 thousand), ¥1,760 million less than a year earlier. Net income declined ¥1,923 million to ¥12,209 million (U.S.\$117,394 thousand) and depreciation and amortization decreased ¥1,692 million to ¥13,641 million (U.S.\$131,164 thousand). In changes in assets and liabilities, trade receivables decreased ¥11,021 million, inventories decreased ¥5,888 million, trade payables decreased ¥4,380 million, accrued expenses decreased ¥7,222 million, income taxes payables, net decreased ¥1,149 million, and retirement and severance benefits decreased ¥1,643 million.

Investing activities used net cash of ¥12,200 million (U.S.\$117,308 thousand), ¥3,278 million more than a year earlier. Capital expenditures increased ¥2,662 million to ¥13,030 million (U.S.\$125,288 thousand).

Financing activities used net cash of ¥3,864 million (U.S.\$37,154 thousand), ¥755 million more than in the previous fiscal year's third quarter. The main reason was an increase of ¥657 million in dividends paid.

3. Fiscal 2005 Projections

TDK's consolidated projections for fiscal 2005, the year ending March 31, 2005, have been revised, as detailed below.

[Consolidated Projections for Fiscal 2005]

	Revised projections (¥ million)	% change from FY2004	Projections as of October 2004 (¥ million)
Net sales	660,000	0.2	680,000
Operating income	60,000	10.5	60,000
Income before income taxes	62,000	11.5	62,000
Net income	44,500	5.7	46,500

Notes:

The revised projections are based principally on the following assumptions:

- An average yen-U.S. dollar exchange rate of ¥105 for the fourth quarter.
- In electronic components (electronic materials and electronic devices), compared with the first half of fiscal 2005, when there was special demand related to the Summer Olympic Games in Athens, Greece, growth in demand in the second half has been weak, with demand over the year-end period lower than expected. Furthermore, a rapid recovery in demand for components in the fourth quarter is not expected. Consequently, TDK expects lower sales of electronic materials and slightly lower sales of electronic devices than in its previous forecast.
- In recording devices, orders for TDK's HDD heads are higher than in the first half of fiscal 2005 on the back of a rapid upswing in demand for HDDs that started in the second half. As a result, TDK is projecting higher sales of recording devices in this forecast.
- In the recording media & systems segment, while there was no major change in demand for audiotapes and videotapes and other non-optical products, third-quarter sales of optical media products grew less than expected, with sales prices falling because of stiffer competition. Accordingly, TDK now expects sales to decline in this segment, in comparison with its previous forecast in October last year.
- TDK has thus revised downward its consolidated net sales forecast from its previous projection in October last year in consideration of the above factors. However, TDK has not revised its previous projections in October last year with respect to operating income, as it expects to absorb the decrease in earnings from the anticipated fall in sales through rationalization, including the reduction of costs, an improved product mix and ongoing reforms to its profit structure.

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.