I-3) Business Results and Financial Position

1. Summary

Consolidated results for fiscal 2005, ended March 31, 2005, were as follows.

In the electronics industry in the first half of fiscal 2005, demand for digital home appliances, such as LCD and plasma flat-screen TVs and DVD recorders, was boosted by the Summer Olympic Games in Athens, and other events. This resulted in strong demand for the TDK Group's electronic components in the first half. However, demand for these components began to cool in the second half in line with production cutbacks of finished products that use them. In this business environment, TDK continued to implement profit structure reforms. TDK also actively made investments to drive growth, such as by ramping up production capacity of capacitors and forging a strategic alliance regarding HDD heads.

Amendments (July 15, 2005)

As a result, TDK posted consolidated net sales of ¥657,853 million (U.S.$6,148,159 thousand), up 0.3% from ¥655,792 million. Operating income rose 5.9%, from ¥56,510 million to ¥59,830 million (U.S.$559,159 thousand). Income from continuing operations before income taxes increased 8.7%, from ¥55,847 million to ¥60,728 million (U.S.$567,551 thousand). Net income downed 20.9%, from ¥42,101 million to ¥33,300 million (U.S.$311,215 thousand). Basic net income per common share was ¥251.71 (U.S.$2.35), down from ¥317.80.

During the year, the average exchange rate was ¥107.55 for the U.S. dollar and ¥135.17 for the euro, representing a 5.0% appreciation in the yen's value against the U.S. dollar and a 1.9% decline against the euro. Overall, exchange rate movements had the effect of lowering net sales by approximately ¥20.6 billion and operating income by approximately ¥4.0 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.

(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 4.9%, from ¥519,792 million to ¥545,214 million (U.S.$5,095,458 thousand). Segment operating income rose 15.0%, from ¥58,715 million to ¥67,520 million (U.S.$631,028 thousand).

Looking at electronic materials and electronic devices, demand for components was strong in the fiscal year's first half on the back of higher demand for digital home appliances driven by the Athens Summer Olympic Games. However, the second half saw sales prices of components drop as demand cooled due to inventory cutbacks of digital home appliances. The overall result, however, was a year-on-year increase in sales of both electronic materials and electronic devices.

In recording devices, HDD demand was lackluster in the first half of fiscal 2005 due to inventory cutbacks by customers following strong HDD demand in the second half of the previous fiscal year. Demand for HDD heads also picked up in the second half of fiscal 2005 once this adjustment phase ended. The result was a year-on-year increase in sales of recording devices.

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 4.8%, from ¥166,818 million to ¥174,800 million (U.S.$1,633,645 thousand).

(Capacitors) Sales rose year on year. Sales of multilayer chip capacitors, the main product in the capacitors sector, were strong in the first half, as previously mentioned. In the second half, amid lackluster demand, TDK was able to absorb sales price declines and the effect of forex movements by improving the sales mix. These factors led to higher year-on-year sales.

(Ferrite cores and magnets) Sales of ferrite cores and magnets increased year on year. In ferrite cores, sales declined from the previous fiscal year despite higher demand for general-purpose power supply cores for digital home appliances and cores for communications equipment. This decrease was due to a reduction in output of deflection yoke cores and flyback transformers cores used in CRT TVs. However, sales of magnets increased year on year, the result of steadily rising demand for use in automotive and HDD applications. The net result was a year-on-year increase in sales of ferrite cores and magnets as a whole.

(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 7.8%, from ¥107,999 million to ¥116,387 million (U.S.$1,087,729 thousand).

(Inductive devices) Sales increased year on year. Inductive devices, the largest product category in the electronic devices sector, posted higher sales despite lower sales prices and the negative effect of forex movements. The increase was attributable to higher demand spurred by acceleration in the pace at which automobiles are incorporating electronics and the increasing sophistication of mobile phones, as well as new product launches.

(High-frequency components) Sales of high-frequency components declined marginally year on year because higher sales volume and an improved product mix failed to completely offset persistently strong discounting pressure from mobile phone handset manufacturers, the main customer for these components.

(Other products) Sales of other products rose year on year. In power systems, sales of DC-DC converters and DC-AC inverters were healthy. Sensors and actuators recorded higher sales due to growth in demand for use in PCs and peripherals and communications equipment. As a result of this, overall sales of other products were higher than in the previous fiscal year.

(1-3) Recording devices

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

Sector sales increased 1.9%, from ¥230,105 million to ¥234,578 million (U.S.$2,192,318 thousand).

(HDD heads) Sales increased year on year. In HDD heads, the main product in this sector, TDK had to overcome the loss of business from a major customer that started producing heads in house in 2004, as well as the impact of falling sales prices and unfavorable forex movements. Cutbacks in HDD inventories at customers in the first half of the year also shaped the market. However, demand for HDD heads rose in the second half of the fiscal year following the end of these cutbacks, leading to higher year-on-year sales.

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

(1-4) Semiconductors & others

Sector sales climbed 30.8%, from ¥14,870 million to ¥19,449 million (U.S.$181,766 thousand).

TDK recorded slightly higher sales of anechoic chambers for electromagnetic noise control and growth in external sales of manufacturing equipment due to higher investments in semiconductor facilities and equipment by customers.

(2) Recording media & systems segment

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

Segment sales declined 17.2%, from ¥136,000 million to ¥112,639 million (U.S.$1,052,701 thousand). The segment recorded an operating loss of ¥7,690 million (U.S.$71,869 thousand), an increase of 248.8% from last year’s operating loss of ¥2,205 million.

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

(Optical media) Sales of optical media increased, with higher DVD sales volumes offsetting a sharp fall in prices of DVDs and lower CD-R sales.

(Other products) Sales of other products decreased year on year. There was an increase in sales of LTO-standard* (Linear Tape-Open) tape-based data storage media for computers. However, a decline in sales caused by the sale in the previous fiscal year of a U.S. software development subsidiary and lower sales of recording equipment brought overall sales of other products down year on year.

*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 18 of the consolidated results.

By region, in Japan, sales in the electronic devices sector and recording media & systems segment declined, while higher sales were recorded in the electronic materials, recording devices and semiconductors & others sectors.

In the Americas, sales decreased in the electronic materials and recording devices sectors as well as the recording media & systems segment. The higher yen versus the U.S. dollar also impacted sales in the Americas.

In Europe, lower sales were recorded in the electronic materials and semiconductors & others sectors as well as the recording media & systems segment.

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

The overall result was a 2.7% decrease in overseas sales year on year, from ¥487,169 million to ¥473,828 million (U.S.$4,428,299 thousand). Overseas sales accounted for 72.0% of consolidated net sales, a 2.3 percentage point decrease from 74.3% one year earlier.

On a parent-company basis, net sales increased 3.9%, from ¥316,050 million to ¥328,452 million (U.S.$3,069,644 thousand). Operating income increased 392.8%, from ¥1,756 million to ¥8,653 million (U.S.$80,869 thousand). Current income rose 197.3%, from ¥10,277 million to ¥30,550 million (U.S.$285,514 thousand). Net income increased 786.3%, from ¥4,458 million to ¥39,513 million (U.S.$369,280 thousand). Basic net income per common share was ¥297.93 (U.S.$2.78), compared with ¥32.87 a year earlier.

TDK plans to pay a year-end dividend of ¥40 per common share. Together with the interim dividend of ¥30 per common share paid in December 2004, the planned dividend per common share applicable to the year will be ¥70.

Amendments (July 15, 2005)

2. Financial Position

(2-1) The following table summarizes TDK's consolidated balance sheet at March 31, 2005.

Total assets	¥808,001 million (4.9% increase)
Total stockholders' equity	¥639,067 million (10.9% increase)
Equity ratio	79.1% (4.3 percentage point increase)

At the end of the year, cash and cash equivalents were ¥24,353 million higher than on March 31, 2004. Net trade receivables were ¥9,668 million higher and net property, plant and equipment rose ¥8,024 million. However, other assets decreased ¥9,489 million. As a result of the above items and other changes, total assets increased ¥37,682 million.

Total liabilities decreased ¥27,052 million. Trade payables and income taxes payable increased ¥2,175 million and ¥14,594 million, respectively, while retirement and severance benefits declined ¥44,682 million following the transfer of the substitutional portion of Employees' Pension Fund (EPF) liabilities to the government.

Total stockholders' equity increased ¥62,848 million due to a ¥24,801 million increase in retained earnings and a ¥38,730 million decrease in accumulated other comprehensive loss.

(2-2) Cash Flows

Amendments (July 15, 2005)

(¥ millions)

	Fiscal 2005	Fiscal 2004	Change
Net cash provided by operating activities	93,582	113,820	(20,238)
Net cash used in investing activities	(60,863)	(37,647)	(23,216)
Net cash used in financing activities	(9,458)	(9,661)	203
Net cash provided by (used in) discontinued operations	(1,625)	761	(2,386)
Effect of exchange rate changes on cash and cash equivalents	2,717	(10,669)	13,386
Net increase in cash and cash equivalents	24,353	56,604	(32,251)
Cash and cash equivalents at beginning of period	227,155	170,551	56,604
Cash and cash equivalents at end of period	251,508	227,155	24,353

Operating activities provided net cash of ¥93,582 million (U.S.$874,598 thousand), a year-on-year decrease of ¥20,238 million. Net income downed ¥8,801 million to ¥33,300 million (U.S.$ 311,215 thousand) and depreciation and amortization increased ¥2,080 million to ¥52,806 million (U.S.$493,514 thousand). In changes in assets and liabilities, inventories decreased ¥11,329 million, trade payables decreased ¥7,955 million, accrued expenses decreased ¥11,374 million and retirement and severance benefits, net decreased ¥6,766 million, while income taxes payables, net increased ¥8,760 million.

Investing activities used net cash of ¥60,863 million (U.S.$568,813 thousand), ¥23,216 million more than a year earlier. This mainly reflected a ¥16,534 million increase to ¥61,005 million (U.S.$570,140 thousand) in capital expenditures and a ¥2,423 million increase to ¥2,424 million in payments for purchase of investments in securities.

Financing activities used net cash of ¥9,458 million (U.S.$88,393 thousand), ¥203 million less than a year earlier. The main outflow was ¥7,938 million for dividends paid.

(2-3) Trends in Cash Flow Indicators

	FY2001	FY2002	FY2003	FY2004	FY2005
Stockholders' equity ratio (%)	77.8	77.9	74.1	74.8	79.1
Capital adequacy ratio on a market value basis (%)	133.8	121.7	80.4	136.7	120.1
No. of years to redeem debt	0.10	0.07	0.02	0.00	0.00
Interest coverage ratio (times)	138.0	32.8	180.9	352.4	96.8

[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, 2005 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 balances 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. Business Risks

With development, production and sales bases in countries around the world, the TDK Group is engaged in global business activities. Furthermore, the electronics industry, the main field of operations of the TDK Group, is seeing dramatic technological innovation and changes in market prices, resulting in intense competition in new product development and efforts to win customers. Because of these and other factors, the TDK Group is subject to various business risks that include, but are not limited to, changes in demand and foreign exchange rates caused by world economic trends; unpredictable events in conducting business overseas; more intense competition in the development of new products in line with rapid technological innovation; the ability to respond to intense price competition and diversifying demands from customers; the ability to acquire intellectual property rights; the ability to procure raw materials and other products; increasingly stringent environmental regulations internationally, and unavoidable natural disasters.

4. Fiscal 2006 Projections

TDK’s consolidated and non-consolidated projections for fiscal 2006, the year ending March 31, 2006, are as follows.

Amendments (July 15, 2005)

[Consolidated Projections for Fiscal 2006]

	Year ending March 2006 (¥ millions)	% change from FY05	Year ended March 2005 (¥ millions)
Net sales	690,000	4.9	657,853
Operating income	67,000	12.0	59,830
Income before income taxes	69,000	13.6	60,728
Net income	50,000	50.2	33,300

[Non-Consolidated Projections]

	Year ending March 2006 (¥ millions)	% change from FY05	Year ended March 2005 (¥ millions)
Net sales	334,900	2.0	328,452
Operating income	17,300	99.9	8,653
Current income	39,800	30.3	30,550
Net income	27,000	-31.7	39,513

Note:

The projections are based principally on the following assumptions:

- An average yen-U.S. dollar exchange rate of ¥100 for the full year.
- There is expected to be a weak recovery generally in demand for passive components (electronic materials and electronic devices) in the first half of fiscal 2006. However, with current inventories of finished products estimated to be at generally suitable levels, in the second half of fiscal 2006, there is expected to be an increase in production of finished products in line with growth in demand at the end of 2005. This increase is expected to also lead to higher demand for components in the second half of the fiscal year.
- Sales of recording devices are expected to increase in fiscal 2006, continuing on from the previous fiscal year. With the base of demand widening for HDDs, double-digit annual growth is expected to continue in fiscal 2006. Furthermore, the growth in demand for HDDs for video recorders and other consumer product applications is also expected to boost demand for HDD heads, supporting sales of these products.
- Lower sales are forecast in the recording media & systems segment. Sales of audiotapes and videotapes are expected to decline in line with falling demand. While sales of optical media products and tape-based data storage media for computers are forecast to increase, this growth is unlikely to fully offset the decline in sales of audiotapes and videotapes. In fiscal 2006, TDK plans to implement strategies to counter falling DVD sales prices, a factor behind the deterioration in earnings in fiscal 2005, as well as push ahead with ongoing structural reforms of production and sales divisions.

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.