

I-3) Business Results and Financial Position

1. Summary

Consolidated results for the first half of fiscal 2006, the six-month period from April 1, 2005 through September 30, 2005, are as follows:

TDK posted net sales of ¥350,387 million (U.S.\$3,100,770 thousand), a rise of 10.4% over the ¥317,492 million recorded in the first half of the previous fiscal year. Operating income was ¥28,050 million (U.S.\$248,230 thousand), up 1.1% from ¥27,740 million. Income from continuing operations before income taxes was ¥31,598 million (U.S.\$279,628 thousand), up 6.5% from ¥29,659 million. Net income was ¥21,666 million (U.S.\$191,735 thousand), up 9.0% from ¥19,869 million, meaning basic net income per common share was ¥163.84 (U.S.\$1.45), compared with ¥150.11 in the first half of the previous fiscal year.

Average first-half yen exchange rates for the U.S. dollar and euro were ¥109.52 and ¥135.61, respectively, as the yen appreciated 0.3% versus the U.S. dollar and depreciated 1.7% against the euro. This had the effect of increasing net sales by approximately ¥0.9 billion and lowering operating income by approximately ¥0.2 billion.

(Sales by Segment)

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

Effective from the current fiscal year, TDK has changed the names of a product sector and business segment. However, there were no reclassifications of sales. Specifically, "Semiconductors & others" has been renamed "Other electronic components", while "Recording media & systems" segment is now called the "Recording media" segment.

(1)Electronic materials and components segment

This segment is made up of four products sectors: (1-1) electronic materials, (1-2) electronic devices, (1-3) recording devices, and (1-4) other electronic components.

Segment net sales rose 15.2% to ¥300,720 million (U.S.\$2,661,239 thousand), from ¥261,086 million, while segment operating income rose 4.9% to ¥32,269 million (U.S.\$285,566 thousand), from ¥30,759 million. In the electronics market in the first half of fiscal 2006, in comparison with the same period of a year earlier, while the first quarter was sluggish, demand started to rebound in the second quarter. Looking at trends in finished products, demand was generally strong for PCs, HDDs, flat-screen TVs and mobile phones, while demand for car electronics was steady. Sector sales of TDK's electronic materials and components framed against this market backdrop 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 declined 5.4% from ¥91,036 million to ¥86,089 million (U.S.\$761,850 thousand).

[Capacitors] Sales declined year on year. Sales of multilayer ceramic chip capacitors, the main product in the capacitors category, were hurt by stiffer competition and falling prices in markets other than car electronics, where sales were up.

[Ferrite cores and magnets] Sales of ferrite cores and magnets rose year on year. Sales of ferrite cores declined against a backdrop of declining demand for CRT televisions. However, magnet sales rose significantly on the back of higher demand for HDDs.

(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 6.0% to ¥60,952 million (U.S.\$539,398 thousand), from ¥57,511 million.

[Inductive devices] Sales increased year on year. The main factor was higher sales of power line coils for mobile phones, HDDs and car electronics.

[High-frequency components] Sales decreased year on year, despite strong demand for components for wireless LANs. This decline reflected continuing declines in sales prices of components for mobile phones and lower shipment volumes of some products.

[Other products] Sales of other products rose year on year, mainly because of higher sales of sensors and actuators for mobile phones and of DC-AC inverters for industrial equipment and amusement equipment.

(1-3)Recording devices

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

Sector sales climbed 35.8% from ¥103,333 million to ¥140,288 million (U.S.\$1,241,487 thousand).

[HDD heads] Sales increased year on year. Amid rising demand for HDDs, HDD head shipments increased, absorbing the impact of falling prices.

[Other heads] Sales of other heads declined year on year, due to inventory reductions of optical pickups.

(1-4)Other electronic components

Sector sales rose 45.5% from ¥9,206 million to ¥13,391 million (U.S.\$118,504 thousand), as higher sales of displays and other new products outweighed lower sales of semiconductor manufacturing equipment.

(2)Recording media segment

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

Segment sales dropped 11.9% from ¥56,406 million to ¥49,667 million (U.S.\$439,531 thousand). The segment recorded an operating loss of ¥4,219 million (U.S.\$37,336 thousand), 39.7% more than the operating loss of ¥3,019 million in the previous fiscal year.

[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 slightly year on year, with higher DVD sales driven by increasing demand offsetting lower CD-R sales.

[Other products] Sales of other products decreased year on year, mainly because of ongoing actions to create a more tightly focused lineup of recording equipment & accessory products. Sales of LTO-standard* (Linear Tape-Open) tape-based data storage media for computers continued to increase.

*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.

[Japan] Sales were down in all product sectors, except recording devices.

[Americas] Sales rose in the electronic devices, recording devices and other electronic components sectors.

[Europe] Sales were down in all product sectors.

[Asia (excluding Japan) and other areas] Sales increased in the electronic devices, recording devices and other electronic components sectors, as customers continued to shift manufacturing bases to Asia (excluding Japan) and other areas.

The overall result was a 15.0% increase in overseas sales year on year, from ¥229,870 million to ¥264,305 million (U.S.\$2,338,982 thousand). Overseas sales accounted for 75.4% of consolidated net sales, a 3.0 percentage point increase from 72.4% one year earlier.

On a parent-company basis, net sales declined 2.8% to ¥163,096 million (U.S.\$1,443,327 thousand), from ¥167,709 million. Operating income was ¥5,854 million (U.S.\$51,805 thousand), up 2.8%, from ¥5,696 million. Current income was ¥16,364 million (U.S.\$144,814 thousand), down 26.2% from ¥22,169 million. The parent company recorded a net loss of ¥1,303 million (U.S.\$11,530 thousand), compared with net income of ¥15,883 million in the previous fiscal year. As a result, basic net loss per common share was ¥9.86 (U.S.\$0.08), compared with basic net income per common share of ¥119.99 in the first half of the previous fiscal year.

At the meeting of TDK's Board of Directors on October 31, an interim dividend of ¥40 per share of common stock was approved.

2. Financial Position

(2-1) The following table summarizes TDK's balance sheet at September 30, 2005, compared with March 31, 2005.

Total assets	¥839,342 million	3.9% increase
Total stockholders' equity	¥668,682 million	4.6% increase
Equity ratio	79.7%	0.6 point increase

At September 30, 2005, net trade receivables were ¥13,633 million higher than at March 31, 2005, inventories were ¥11,451 million higher, net property, plant and equipment was ¥12,923 million higher and other assets were ¥9,270 million higher. On the other hand, cash and cash equivalents were ¥26,863 million lower. As a result of these and other changes, total assets increased ¥31,341 million from March 31, 2005.

Total liabilities increased ¥2,779 million. While income taxes payables declined ¥15,044 million, trade payables increased ¥11,888 million, accrued expenses increased ¥4,770 million and noncurrent liabilities rose ¥980 million.

Total stockholders' equity increased ¥29,615 million, reflecting a ¥15,859 million increase in retained earnings and a ¥13,572 million decrease in accumulated other comprehensive loss.

(2-2) Cash Flows

(¥ millions)

	Fiscal 2006 Interim	Fiscal 2005 Interim	Change
Net cash provided by operating activities	18,562	39,032	(20,470)
Net cash used in investing activities	(45,104)	(29,006)	(16,098)
Net cash used in financing activities	(5,763)	(5,701)	(62)
Net cash used in discontinued operations	(88)	(718)	630
Effect of exchange rate changes on cash and cash equivalents	5,530	5,207	323
Net (decrease) increase in cash and cash equivalents	(26,863)	8,814	(35,677)
Cash and cash equivalents at beginning of period	251,508	227,155	24,353
Cash and cash equivalents at end of period	224,645	235,969	(11,324)

Operating activities provided net cash of ¥18,562 million (U.S.\$164,265 thousand), a year-on-year decrease of ¥20,470 million. Income from continuing operations increased ¥926 million to ¥21,650 million (U.S.\$191,593 thousand) and depreciation and amortization rose ¥1,362 million to ¥26,537 million (U.S.\$234,841 thousand). In changes in assets and liabilities, trade receivables increased ¥8,748 million and inventories increased ¥1,672 million, while trade payables increased ¥11,066 million. Income taxes payables, net decreased ¥22,489 million.

Investing activities used net cash of ¥45,104 million (U.S.\$399,150 thousand), ¥16,098 million more than a year earlier. Capital expenditures increased ¥4,533 million to ¥34,288 million (U.S.\$303,434 thousand). Increased outflows of ¥8,701 million and ¥3,317 million for the payment for purchase of a subsidiary, net of cash acquired and investments in securities, respectively, were the other main reasons.

Financing activities used net cash of ¥5,763 million (U.S.\$51,000 thousand), ¥62 million more than a year earlier. Dividends paid increased ¥1,318 million due to a ¥10 per share increase in the year-end dividend, while there was a ¥969 million decrease in net outflows for the sales and purchase of treasury stock.

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; product quality; the recruitment and training of employees; government regulation; 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 projections for fiscal 2006, the year ending March 31, 2006, are as follows:

[Consolidated Projections for Fiscal 2006]

	FY 2006 (¥ millions)	% change from FY 2005	Projections as of July 2005 (¥ millions)
Net sales	725,000	10.2	690,000
Operating income	68,000	13.7	67,000
Income before income taxes	72,500	19.4	69,000
Net income	51,000	53.2	50,000

Note:

The projections are based principally on the following assumptions:

- # An average yen-U.S. dollar exchange rate of ¥100 for the second half of the year.
- # Demand for passive components (electronic materials and electronic devices) is expected to grow robustly in the third quarter due to seasonal factors. However, a slight correction is expected in the fourth quarter. The projections also assume no major drop in spending on consumer electronics during late 2005 and the beginning of 2006.

Demand for HDD heads is expected to grow further in the third quarter due to the outlook for a further increase in HDD demand. Due to seasonal factors, however, there is expected to be a slight drop-off in demand for HDD heads in the fourth quarter. Based on this outlook for demand, TDK has revised its sales plan for the second half of fiscal 2006 for recording devices.

The forecast for the recording media segment is unchanged based on the assumption that structural reforms planned for fiscal 2006 will be completed. However, the forecast factors in delays in implementing structural reforms as planned at the start of the fiscal year and revisions to the manufacturing and sales systems, particularly in respect of optical media products. The sales plan for the second half of fiscal 2006 assumes a year-on-year decrease in audiotape and videotape sales. While higher sales due to volume growth is predicted for optical media and data storage tapes, this increase is unlikely to fully offset lower sales in other products. Accordingly, the recording media segment is forecast to post lower sales year on year.

On October 1, 2005, TDK completed the purchase of Invensys plc.'s Lambda Power Division. Accordingly, consolidated projections incorporate forecast results for the second half of fiscal 2006 of this division. The incorporation of this division is expected to increase TDK's second-half sales by around ¥25.0 billion.

[Non-Consolidated Projections for Fiscal 2006]

	FY 2006 (¥ millions)	% change from FY 2005	Projections as of July 2005 (¥ millions)
Net sales	334,900	2.0	334,900
Operating income	17,300	99.9	17,300
Current income	28,500	-6.7	28,500
Net income	30,700	-22.3	30,700

Note:

The above projections for fiscal 2006 are the same as those announced on July 28, 2005.

Cautionary Statements with Respect of Forward-Looking Statements

This material contains forward-looking statements, including projections, plans, policies, management strategies, targets, schedules, understandings and evaluations, about TDK and its group companies (TDK Group). These forward-looking statements are based on the current forecasts, estimates, assumptions, plans, beliefs and evaluations of TDK Group in light of information currently available to it, and contain known and unknown risks, uncertainties and other factors. TDK Group therefore wishes to caution readers that, being subject to risks, uncertainties and other factors, TDK Group's actual results, performance, achievements or financial position could be materially different from any future results, performance, achievements or financial position expressed or implied by these forward-looking statements, and TDK Group undertakes no obligation to publicly update or revise any forward-looking statements after the issue of this material.

The electronics markets in which TDK and its group companies operate are highly susceptible to rapid changes. Risks, uncertainties and other factors that can have significant effects on TDK Group include, but are not limited to, shifts in technology, fluctuations in demand, prices, interest and foreign exchange rates, and changes in economic environments, conditions of competition, laws and regulations.