

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

### **1. Summary**

Consolidated results for fiscal 2006, ended March 31, 2006, were as follows.

Looking at economic conditions worldwide during the past fiscal year, the U.S. economy grew on the back of steadily rising consumer spending, which was supported by a strong job market, and higher levels of capital expenditures in the corporate sector. Meanwhile, European economies tended toward recovery due to a strong corporate sector, led by German companies, and the knock-on effects of this recovery on employment and consumer spending. In Asia, China maintained a high economic growth rate and economies elsewhere in the region grew as well. Expansion was also evident in the Japanese economy, with capital expenditures rising due to increased production activity in the corporate sector and personal spending increasing as the job market improved.

In the electronics industry, to which the TDK Group belongs, there was growth in the market for digital home appliances such as LCD and plasma flat-screen TVs and DVD recorders during the past fiscal year. The notebook PC, HDD and mobile phone markets also remained robust. There was rapid expansion, too, in the market for MP3 digital audio players, which store music using semiconductors or HDDs. The market for car electronics also remained firm. Strength in these markets, along with the beneficial effects of an increase in the number of components used in these products, produced solid demand in fiscal 2006 for TDK's electronic components. Amid this operating environment, TDK made two corporate acquisitions and executed reforms to improve its profit structure in the recording media segment. In these and other ways, TDK thus actively invested to accelerate growth and increase its earnings.

TDK posted consolidated net sales of ¥795,180 million (U.S.\$6,796,410 thousand), up 20.9% from ¥657,853 million. Operating income rose 1.2% from ¥59,830 million to ¥60,523 million (U.S.\$517,291 thousand). Income from continuing operations before income taxes increased 8.9% from ¥60,728 million to ¥66,103 million (U.S.\$564,983 thousand). Net income rose 32.4% from ¥33,300 million to ¥44,101 million (U.S.\$376,932 thousand). Basic net income per common share was ¥333.50 (U.S.\$2.85), up from ¥251.71.

During the year, the average yen exchange rate was ¥113.32 for the U.S. dollar and ¥137.83 for the euro, representing a 5.4% depreciation in the yen's value against the U.S. dollar and a 2.0% decline against the euro. Overall, exchange rate movements had the effect of increasing net sales by approximately ¥31.3 billion and operating income by approximately ¥7.7 billion.

On October 1, 2005, TDK purchased shares of the Lambda Power Division (power supply business) owned by U.K.-based Invensys plc. Consequently, the operating results of 20 companies that form the Lambda Power Division have been included in the TDK Group's consolidated operating results beginning with the second half of fiscal 2006.

## **(Sales by Segment)**

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

In fiscal 2006, "Semiconductors & others" and "Recording media & systems" were renamed "Other electronic components" and "Recording media," respectively. There were no changes in product classifications.

### **(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) other electronic components.

Segment net sales climbed 26.1% to ¥687,750 million (U.S.\$5,878,205 thousand), from ¥545,214 million, while segment operating income rose 10.1% to ¥74,333 million (U.S.\$635,325 thousand), from ¥67,520 million.

Sector sales of TDK's electronic materials and components 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 3.4% from ¥174,800 million to ¥180,766 million (U.S.\$1,545,009 thousand).

[Capacitors] Sales increased marginally year on year, as the impact on sales of sluggish demand in the communications market and falling prices was offset by higher sales to the car electronics market. A weaker yen also supported sales.

[Ferrite cores and magnets] Sales of ferrite cores and magnets rose year on year. Sales of ferrite cores were largely unchanged, as higher sales from increasing demand for power supply cores was negated by lower sales of cores used in CRT TVs. Ferrite magnet sales were also largely unchanged, with lower demand stemming from customer inventory cutbacks offset by higher sales of products to the car electronics market. Sales of rare-earth magnets rose 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 leapt 32.9% to ¥154,680 million (U.S.\$1,322,051 thousand), from ¥116,387 million. This growth was mainly due to the inclusion for the first time of the operating results of the Lambda Power Division in the second half of the fiscal year. However, even excluding these sales, existing business in this sector posted year-on-year sales growth.

[Inductive devices] Sales of inductive devices increased mainly due to growth in sales of SMD power line coils for use in mobile phones and HDDs, and in sales of products for use in car electronics.

[High-frequency components] Sales of high-frequency components were down year on year. While sales of wireless LAN components rose, total category sales were brought down by further declines in sales prices of some components for mobile phones.

[Other products] Sales of other products rose year on year. The main factors were growth in sales of DC-AC inverters for use in LCD panels and of sensors and actuators for HDDs and mobile phones. The inclusion of six months' sales of the Lambda Power Division in this category also boosted sales.

#### (1-3) Recording devices

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

Sector sales rose 34.7% from ¥234,578 million to ¥315,928 million (U.S.\$2,700,239 thousand).

[HDD heads] Sales increased year on year. Amid rising demand for HDDs used in PCs and consumer electronics, HDD head shipments increased. This higher volume outweighed a drop in sales prices, resulting in an increase in overall sales.

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

#### (1-4) Other electronic components

Sector sales surged 87.0% from ¥19,449 million to ¥36,376 million (U.S.\$310,906 thousand) due to higher sales of anechoic chambers\* and sales growth in new businesses.

\*These chambers block external electromagnetic radiation to permit the measurement of electromagnetic noise.

#### (2) Recording media segment

This segment has three product categories: audiotapes and videotapes, optical media and other products.

Segment sales declined 4.6% from ¥112,639 million to ¥107,430 million (U.S.\$918,205 thousand). The segment recorded an operating loss of ¥13,810 million (U.S.\$118,034 thousand), 79.6% more than the operating loss of ¥7,690 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 year on year. CD-R demand has peaked and is declining slowly. However, lower CD-R sales caused by the downturn in demand and discounting pressure were offset by higher sales of DVDs driven by increasing demand.

[Other products] Sales of other products decreased year on year. Sales of LTO-standard\* (Linear Tape-Open) tape-based data storage media for computers rose on higher demand. However, sales of recording equipment & accessory products declined as TDK made progress with efforts to create a more tightly focused product lineup.

\*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.

[Japan] Sales were down in the recording devices sector and recording media segment.

[Americas] Sales were down in the electronic materials sector and recording media segment.

[Europe] Sales were down in the electronic materials and recording devices sectors.

[Asia (excluding Japan) and other areas] Sales increased in all product sectors, except the recording media segment.

The overall result was a 31.2% increase in overseas sales year on year from ¥473,828 million to ¥621,522 million (U.S.\$5,312,154 thousand). Overseas sales accounted for 78.2% of consolidated net sales, a 6.2 percentage point increase from 72.0% one year earlier.

On a parent-company basis, net sales increased 1.9% from ¥328,452 million to ¥334,817 million (U.S.\$2,861,683 thousand). Operating income increased 46.0% from ¥8,653 million to ¥12,635 million (U.S.\$107,991 thousand). Current income increased 5.9% from ¥30,550 million to ¥32,350 million (U.S.\$276,495 thousand). Net income decreased 22.0% from ¥39,513 million to ¥30,825 million (U.S.\$263,461 thousand). Basic net income per common share was ¥232.30 (U.S.\$1.98), compared with ¥297.93 a year earlier.

TDK plans to pay a year-end dividend of ¥50 per common share. With the interim dividend of ¥40 per common share paid in December 2005, the planned dividend per common share applicable to the year will be ¥90.

## **2. Financial Position**

(2-1) The following table summarizes TDK's consolidated balance sheets at March 31, 2006.

Total assets	¥ 923,503 million	(14.3% increase)
Total stockholders' equity	¥ 702,419 million	(9.9% increase)
Equity ratio	76.1%	3.0 percentage point decrease

At the end of the year, cash and cash equivalents were ¥12,491 million lower than on March 31, 2005. Net trade receivables were ¥41,060 million higher, other current assets rose ¥15,090 million, and net property, plant and equipment rose ¥26,696 million. Other assets increased ¥26,597 million. As a result of these and other changes, total assets increased ¥115,502 million.

Total liabilities increased ¥43,338 million. Trade payables and accrued expenses increased ¥22,597 million and ¥18,554 million, respectively.

Total stockholders' equity increased ¥63,352 million due to a ¥32,702 million increase in retained earnings and a ¥29,711 million decrease in accumulated other comprehensive loss.

## (2-2) Cash Flows

(¥ millions)

	Fiscal 2006	Fiscal 2005	Change
Net cash provided by operating activities	89,118	93,753	(4,635)
Net cash used in investing activities	(104,782)	(60,863)	(43,919)
Net cash used in financing activities	(7,125)	(9,629)	2,504
Net cash used in discontinued operations	(414)	(1,625)	1,211
Effect of exchange rate changes on cash and cash equivalents	10,712	2,717	7,995
Net increase (decrease) in cash and cash equivalents	(12,491)	24,353	(36,844)
Cash and cash equivalents at beginning of period	251,508	227,155	24,353
Cash and cash equivalents at end of period	239,017	251,508	(12,491)

Operating activities provided net cash of ¥89,118 million (U.S.\$761,692 thousand), a year-on-year decrease of ¥4,635 million. Income from continuing operations rose ¥7,446 million to ¥44,411 million (U.S.\$379,581 thousand) and depreciation and amortization increased ¥5,734 million to ¥58,540 million (U.S.\$500,342 thousand). In changes in assets and liabilities, trade receivables increased ¥9,543 million and inventories increased ¥3,748 million, while trade payables increased ¥6,856 million and accrued expenses increased ¥14,843 million. Income taxes payables, net decreased ¥25,153 million.

Investing activities used net cash of ¥104,782 million (U.S.\$895,573 thousand), ¥43,919 million more than a year earlier. Capital expenditures increased ¥12,906 million to ¥73,911 million (U.S.\$631,718 thousand). Payment for purchase of subsidiaries, net of cash acquired increased ¥32,868 million, while proceeds from sales and maturities of investments in securities increased ¥2,475 million.

Financing activities used net cash of ¥7,125 million (U.S.\$60,897 thousand), ¥2,504 million less than a year earlier. Dividends paid increased ¥2,640 million due to a ¥20 per common share increase in the year-end dividend, while there was a ¥1,176 million decrease in net outflows for the sale and purchase of treasury stock.

## (2-3) Trends in Cash Flow Indicators

	FY2002	FY2003	FY2004	FY2005	FY2006
1) Stockholders' equity ratio (%)	77.9	74.1	74.8	79.1	76.1
2) Capital adequacy ratio on a market value basis	121.7	80.4	136.7	120.1	127.0
3) No. of years to redeem debt	0.07	0.02	0.00	0.00	0.08
4) Interest coverage ratio (times)	32.8	180.9	352.4	97.0	598.1

### [Notes]

1) Stockholders' equity ratio = Total stockholders' equity / Total assets

2) 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, 2006 x Shares issued and outstanding at year-end after deducting treasury stock

3) 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.

4) 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 and technology 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 2007 Projections

TDK's consolidated projections for fiscal 2007, the year ending March 31, 2007, are as follows:

##### [Consolidated Projections for Fiscal 2007]

	FY2007 (Forecasts) (¥ millions)	FY2006 (Actual) (¥ millions)	Change from FY2006 (¥ millions)	% change from FY2006
Net sales	820,000	795,180	24,820	3.1
Operating income	82,000	60,523	21,477	35.5
Income before income taxes	88,000	66,103	21,897	33.1
Net income	61,000	44,101	16,899	38.3

##### [Non-Consolidated Projections for Fiscal 2007]

	FY2007 (Forecasts) (¥ millions)	FY2006 (Actual) (¥ millions)	Change from FY2006 (¥ millions)	% change from FY2006
Net sales	341,600	334,817	6,783	2.0
Operating income	23,400	12,635	10,765	85.2
Current income	36,700	32,350	4,350	13.4
Net income	23,100	30,825	-7,725	-25.1

##### Notes:

The projections are based principally on the following assumptions:  
An average yen-U.S. dollar exchange rate of ¥110 for the full year.

In electronic materials and electronic devices, TDK is projecting a year-on-year increase in sales, supported by higher demand for components used in digital home appliances, mobile phones and other products.

Regarding HDD heads, the major product in the recording devices sector, TDK's forecast factors in an expected decline in orders due to realignment in the HDD industry. On the other hand, sales plans incorporate projected higher demand for HDD heads driven by the increasing use of HDDs in consumer electronics and expanding demand for compact HDDs. Consequently, TDK is projecting a year-on-year increase in sales volume. However, TDK is forecasting an overall drop in sales due to expectations that prices will continue to decline.

Regarding the recording media segment, lower sales of audiotapes and videotapes due to falling demand and of other products are expected to result in lower sales overall.

## **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 Group operates 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.