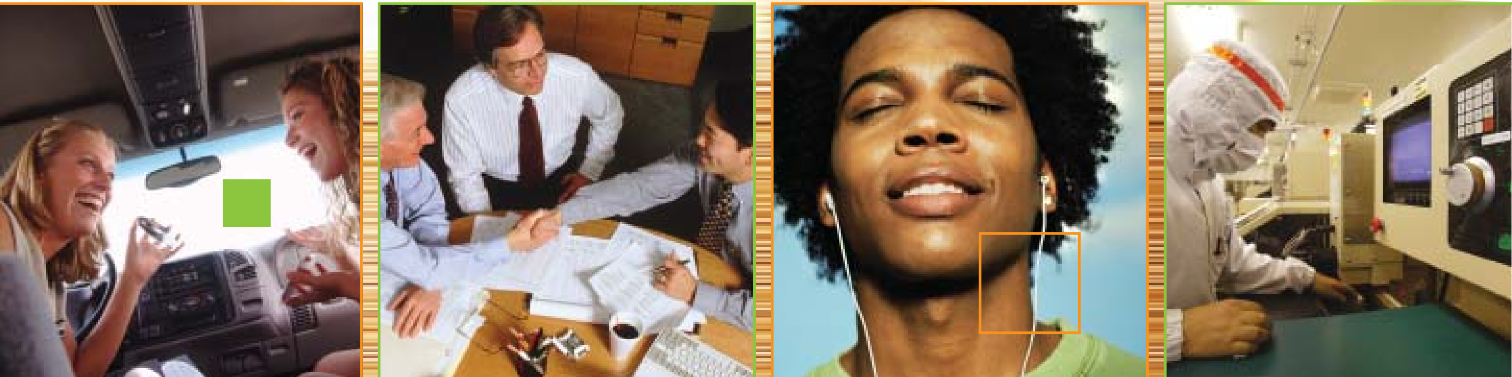
e-material solution provider

TDK

TDK Corporation Annual Report 2005

April 2004-March 2005

Open to Change, Committed to Continuity



About TDK

TDK Corporation was established in 1935 as the world's first company to commercialize a magnetic material called ferrite. In the ensuing years, TDK has developed and commercialized a host of other materials and products. This drive is based on the company's founding spirit of "Contribute to culture and industry through creativity."

Looking ahead, TDK is determined to further refine its materials, process, and evaluation & simulation technologies—its core technologies—aiming to be an Exciting Company, a consummate e-material solution provider that delivers with perfect timing products imbuing value that customers want.

CONTENTS

Open to Change, Committed to Continuity 01
Financial Highlights 06
To Our Stakeholders 07
Environmental Activities 10
Corporate Governance 11
Fusing Core Technologies With Nanotechnology to Accelerate Growth 12
TDK at a Glance 18
Review of Operations 20
Directors, Corporate Auditors and Corporate Officers 26
Financial Review 27
Five-years Financial Summary 44
Consolidated Statements of Income 45
Consolidated Balance Sheets 46
Consolidated Statements of Stockholders' Equity 48
Consolidated Statements of Cash Flows 49
Notes to Consolidated Financial Statements 50
Report of Independent Registered Public Accounting Firm 75
Investor Information 76

CAUTIONARY STATEMENT ABOUT PROJECTIONS

This Annual Report 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 at the time this Annual Report was prepared.

In preparing forecasts and estimates, TDK and its group companies have used as their basis, 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 annual report 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.

Open to Change,

Committed to Continuity

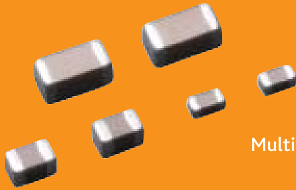
—Growth Driven by Change and Continuity—

Technological innovation in the information and communications fields is fundamentally changing society. TDK has driven progress in electronics at the vanguard of this change. Value in the form of our core technologies has allowed us to play this role. As before, growth at TDK will continue to be driven by a willingness to embrace change and deliver this value.

Playing an Integral Part in an Evolving World

Mobile phones, PCs, digital home appliances, automobiles and other products are evolving by the day. TDK has supplied crucial electronic components for these products and in the process helped to enrich people's lives.

The advent of a ubiquitous information society will soon spawn an infinite number of electronic devices featuring unprecedented performance and added value. We are determined to place TDK's various electronic components at the heart of these devices as well.



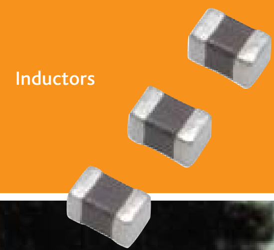
Multilayer ceramic chip capacitors

Open to Change

Leading in Fast-moving Fields of Technology

High-speed, large-capacity networks are fast becoming a reality. Amid this trend, the rate of progress in creating electronic components that are smaller, boast more capacity and deliver higher performance is breathtaking.

In fast-moving technology fields, TDK is consistently one of the pacesetters.



GMR heads for HDD

Leveraging Our Core Technologies to the Maximum

70 years ago TDK was established with the goal of commercializing ferrite.

From then until now, the wellspring of our value has been the materials, process, and evaluation and simulation technologies spawned in the process of raising the performance of ferrite.

The supply of value-added products created using these core technologies will continue to raise TDK's value in the future, too.

Ferrite magnets

Reinforcing Our Customer Relationships

TDK treasures its core technologies. For good reason. Core technologies win the support of customers and earn their immeasurable trust.

Building relationships of trust has always been important to TDK. And it will remain so.

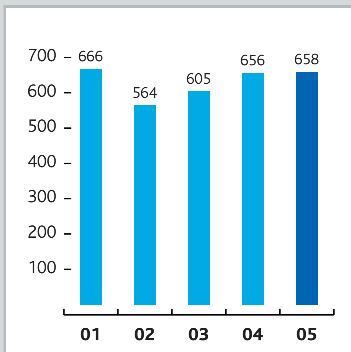
Committed to Continuity

FINANCIAL HIGHLIGHTS

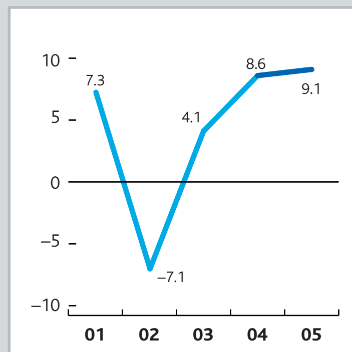
Years ended March 31	Yen in millions except per share amounts 2005	2004	U.S. dollars in thousands except per share amounts 2005	Change (%)
OPERATING RESULTS				
Net sales	**¥657,853**	655,792	**$6,148,159**	0.3
Electronic materials	**174,800**	166,818	**1,633,645**	4.8
Electronic devices	**116,387**	107,999	**1,087,729**	7.8
Recording devices	**234,578**	230,105	**2,192,318**	1.9
Semiconductors and others	**19,449**	14,870	**181,766**	30.8
Electronic materials and components	**545,214**	519,792	**5,095,458**	4.9
Recording media & systems	**112,639**	136,000	**1,052,701**	(17.2)
(Overseas sales)	**473,828**	487,169	**4,428,299**	(2.7)
Net income	**33,300**	42,101	**311,215**	(20.9)
Net income per share:				
(basic)	**251.71**	317.80	**2.35**	
(diluted)	**251.56**	317.69	**2.35**	
Cash dividends per share	**60.00**	50.00	**0.56**	
FINANCIAL POSITION				
Total assets	**¥808,001**	770,319	**$7,551,411**	4.9
Stockholders' equity	**639,067**	576,219	**5,972,589**	10.9
Long-term debt, excluding current installments	**81**	27	**757**	200.0
PERFORMANCE INDICATORS				
Overseas production/net sales	**59.0**	58.6		
Gross profit margin percentage	**26.4**	27.4		
Operating income ratio	**9.1**	8.6		
Return on equity	**5.5**	7.5		
Price-earnings ratio	**29.2**	25.0		

Notes: 1. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", the figures for the year ended March 31, 2004 relating to discontinued operations have been reclassified accordingly.
2. Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥107=US$1.

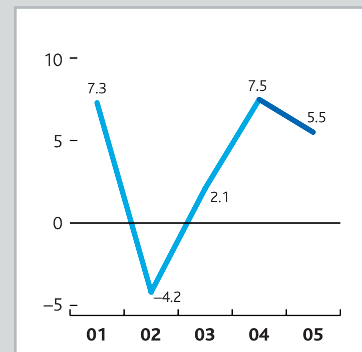
Net Sales
(Yen in billions)



Operating Income Ratio
(%)



Return on Equity
(%)



TO OUR STAKEHOLDERS

Hajime Sawabe *President and CEO*

Demand Dynamics Change, but Sales Increase

To start this year's letter, I am pleased to report growth in sales and earnings. In fiscal 2005, ended March 31, 2005, our consolidated net sales rose 0.3% to ¥657,853 million and operating income increased 5.9% to ¥59,830 million. However, net income declined 20.9% to ¥33,300 million*.

For the electronic components sector, fiscal 2005 was a year of major change. It was a year of two distinct halves. In the first half, supported by increasing demand for digital home appliances and PCs, orders from customers were strong. But the second half told a different story, with demand dropping as manufacturers slashed inventories.

Let's look at how our two operating segments performed in this context.

In the electronic materials and components segment, the four product sectors (electronic materials, electronic devices, recording devices and semiconductors and others) all posted higher year-on-year sales in spite of changing demand dynamics. With recording devices, initially we had forecast lower sales due to the loss of business of a major customer. However, the negative effect this had on sales was offset by an increase in sales to other customers and the knock-on effect on our operations of higher demand for HDDs used in digital home appliances and other products.

The recording media & systems segment reported lower sales as market prices for optical media products fell far more than we had expected.

During the past year, we continued to focus on strengthening the electronic materials and components segment—our core business and an area where we excel—as the foundation of our growth. Our goal is sustained growth by making our core business more powerful. Fiscal 2005 saw us bring to market a host of new products. The result was that the share of new products except HDD heads in our overall

*Please refer to subsequent events (Note 22) on page 74.

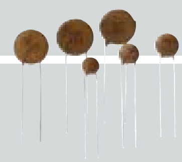
TDK Products Through the Years

The world's first ferrite core

1935

Deflection yoke cores and flyback transformer cores for black and white TVs

1951


Ceramic disk capacitors

1955

sales mix rose by 6 percentage points year on year to 30%. The higher sales in the electronic materials and components segment in fiscal 2005 show that our efforts are paying off.

The past year also highlighted a major challenge we face as we strive to deliver more growth: our performance is influenced to a large degree by inventory levels of the finished products that use our products. The fact that we were unable to prevent our performance from slipping in the second half of the year because we failed to absorb the effect of softer demand for electronic components underscores this point.

Ongoing improvements to our profit structure and structural reforms over the past few years have produced a measure of success. Our break-even point is lower and we now have fewer unprofitable products in our portfolio. But if we are to achieve robust growth in the coming years, it is imperative that we unite as a company to overcome the issue I have just highlighted.

Two Cultures Will Support TDK's Growth

I believe there are two keys to achieving steady growth at TDK going forward: the ability to discern unfailing value, and the ability to instigate change. TDK will celebrate its 70th anniversary in December 2005. During these past seven decades, we have fostered two corporate cultures centered on these two abilities, based on an understanding of what they truly mean to an organization and its potential to grow.

A Culture That Fosters the Ability to Discern Unfailing Value

Seventy years ago, TDK was established with the goal of being the first company in the world to commercialize a magnetic material called ferrite, which was invented in Japan. In the ensuing years, ferrite's outstanding properties have been critical to advances in electronics technology. Befitting a pioneer of this material, we have maintained a technological edge over other companies in ferrite. Products as diverse as magnets, inductors, capacitors and HDD heads carry on the legacy of technological innovation in ferrite at TDK.

As we approach our 70th anniversary, we have reaffirmed the fact that ferrite technology is the source of TDK's superiority, and that the materials, process, and evaluation & simulation technologies spawned in the process of refining ferrite are the lifeblood of TDK's corporate value. This is evident in our creation of many high-performance products through the years.

Our stance that electronic components is our core business has not wavered once over these seven decades. This stance and the value of the proprietary technologies produced by our core business have won acclaim from finished products manufacturers, facilitating cooperative efforts to develop value-added products.

I believe that value-added electronic components originating from our core technologies will raise TDK's value in the years to come, too.

A Culture That Fosters the Ability to Instigate Change

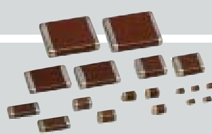
There is another culture at work within TDK. It is a culture that tries to preempt and instigate change by picking up on signs of change from the massive volume of information in our operating environment.

Advances in information and communications technology are spawning a society in which networks connect home appliances, automobiles, mobile phones and various other devices. In this ubiquitous society, I believe that three fields, above all others, will see an explosion of diverse applications in the near future: IT home electronic appliances; high-speed, large-capacity networks; and car electronics.

TDK was quick to identify these as growth fields. And we have funneled resources to them in preparation for the expected expansion in demand for electronic components. In fiscal 2005, we concentrated our R&D efforts on organic electro-luminescent (EL) displays, wireless sensors and other products that are sure to play a pivotal role in the electronics industry in the years to come. The desire to help create an enriched society by developing and supplying value-added products that stay ahead of the curve in markets and society is deeply woven into TDK's corporate DNA.

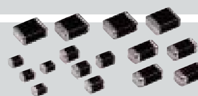
The world's first music cassette tape (SD cassette)

1968



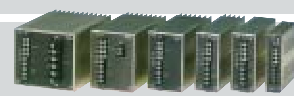
Multilayer ceramic chip capacitors

1977



MLF series of multilayer chip inductors

1980



Switching power supplies

1981

I believe that our customers must be the first place we look when creating products that have value for them. Accordingly, our salespeople and researchers are encouraged to pick up on what customers are saying with the desire to satisfy them. This customer-facing mindset now permeates the entire organization and has been ingrained in employees whether they work in sales or research. It manifests itself in our superior product creation capabilities.

Entering a New Stage of Growth With Cultures That Support Growth

Underpinned by these cultures, we intend to mark our 70th anniversary by moving to a new stage of growth. My mission is to boost our ability to grow through structural reforms in areas untouched until now as well as through other initiatives.

(1) Make aggressive investments through a process of selection and concentration

We will concentrate investments on product fields exhibiting the potential for growth and high earnings. Our goal is to quickly commercialize products by focusing on fields where we can set TDK apart in the marketplace with our materials and process technologies.

(2) Bolster manufacturing capabilities matched to the market

We will encourage a mindset transformation on the factory floor with regard to quality management and lowering costs. Above all, we will strengthen integration between the development and manufacturing groups to upgrade TDK's technological capabilities and add value to products. Furthermore, we intend to proceed with efforts to pinpoint unprofitable businesses to reform or exit.

(3) Expedite development

We will focus on speeding up development and raising efficiency through measures such as a more robust technology strategy and improvements to processes.

(4) Expand in the Chinese market

We view China as a very important market for TDK. To become more competitive there, we will work to improve earnings at all bases in the country.

(5) Strengthen human resources

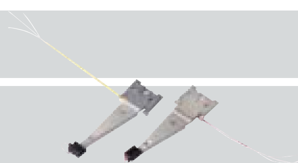
We will work to strengthen human resources such as through education, respecting each and every employee. Specifically, our focus will be on training for production leaders, education on market trends for developers given by salespeople, and training on our technology for salespeople by researchers. On top of this, we will strengthen our workforce by recruiting skilled people from outside the company. We will also endeavor to ensure that employees are compensated in line with their efforts and achievements.

The electronics industry is expanding before our very eyes. It offers enormous business opportunities. We are determined to seize these opportunities and translate them into growth. We will do this by leveraging our materials and process technologies to strengthen our core business. Driving this will be a foundation of unique cultures.

TDK has a history of fostering resilient corporate cultures and the staying power required to make steady progress toward a definite goal. Guided by our keen sense of change in society and technology, we will shift resources to fields offering prospects for more growth as we strive to increase our value to society. TDK is determined to grow. I am confident that our current actions will lead to more growth in the coming years.

July 2005

Hajime Sawabe
President and CEO

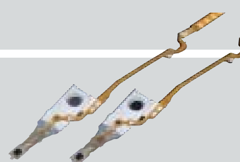


HGA monolithic magnetic head for computers

1986

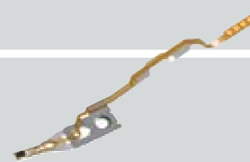
CD-R optical disc

1992



High areal recording density MR head

1994



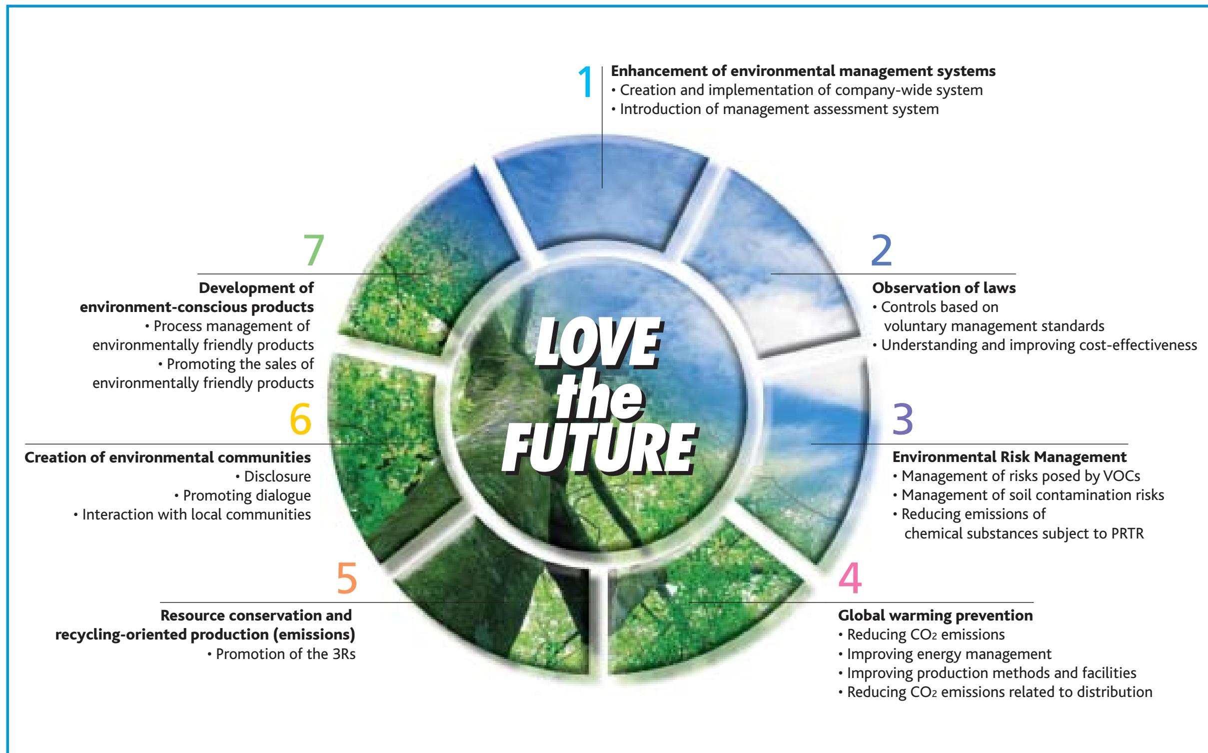
Tunneling-MR head

2005

ENVIRONMENTAL ACTIVITIES

TDK positions environmental preservation as one of its most important management themes. In October 2002, the company formulated a fundamental environmental plan, "TDK Environmental Action 2010." Running through 2010, this plan contains concrete action points that were established based on the nature of TDK's business activities, and sets medium- and long-term goals. The plan clearly defines the roles and responsibilities of sites, business divisions and head office.

• An Overview of TDK Environmental Action 2010



• Major Accomplishments and Future Initiatives

Enhancement of Environmental Management Systems

TDK has been working to integrate its environmental management system (EMS) on a company-wide basis with the goal of promoting unified environmental activities as a group. These efforts culminated with the completion of the EMS integration process in March 2005 at the parent company and certain domestic subsidiaries. By March 2006, TDK hopes to have also integrated the EMS of all domestic subsidiaries, after which it will move on to integrate the systems of overseas subsidiaries.

Resource Conservation and Recycling-Oriented Production (Emissions)

In March 2004, TDK achieved zero emissions at all sites in Japan and four overseas sites. Efforts are ongoing at other overseas sites to achieve the same goal. A highlight of fiscal 2005 was reducing total emissions by 9.7% year on year in Japan, the result of initiatives such as reusing materials in production processes.

Promoting the Development of Environmentally Friendly Products

In recent years, more stringent regulations have been imposed on hazardous substances in products. Responding to this trend, in December 2004, TDK completed the process for having its general-purpose electronic components comply with the RoHS Directive*. Through operation of its product environmental management system, TDK will guarantee to customers that its products are environmentally safe.

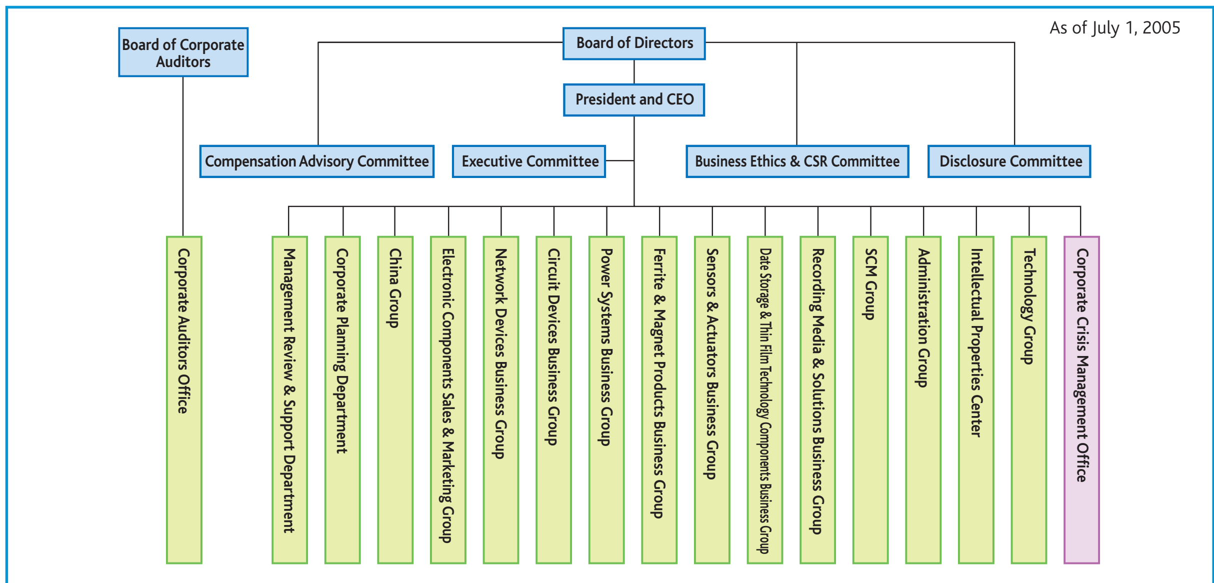
*Conformity to RoHS Directive: With the exception of exempted applications, lead, cadmium, mercury, hexavalent chromium, and PBB and PBDE, which are designated bromine-based flame retardants, have not been used in products in conformity with EU Directive 2002/95/EC.

Environmental Communities

In 1999, TDK began publishing an annual environmental report to fulfill its disclosure responsibilities with regards to its environmental activities. In 2004, reflecting increasing public interest in corporate social responsibility (CSR) in recent years, TDK replaced the environmental report with a sustainability report. This report has a wider reporting scope and includes information that was contained in environmental reports.

CORPORATE GOVERNANCE

Companies must conduct their activities and manage their operations in a fair, impartial and transparent manner, abiding by laws and regulations, and with the recognition that their existence is supported by shareholders, customers, suppliers, employees and society. TDK has put in place various internal control systems with this fundamental recognition in mind. It has also implemented a number of other measures in the same vein, such as appointing an outside director and outside statutory auditors; involving people outside the company in setting directors' remuneration; and building a corporate ethics system, in which reports are submitted directly to the Board of Directors, that includes education and diffusion programs and other activities.



TDK has adopted the corporate auditor system within the meaning of the Commercial Code of Japan; one of TDK's seven directors is an outside director. Furthermore, three of its five corporate auditors come from outside the company. Moreover, having introduced the post of corporate officer, TDK has clearly demarcated responsibilities: directors are responsible for decision-making and oversight, while corporate officers have responsibility for executing day-to-day operations. Corporate officers execute policies set by the Board of Directors in their respective areas of responsibility.

Two full-time corporate auditors and three part-time corporate auditors perform audits. The auditors examine the performance of directors mainly from the perspective of legality by inspecting departments, examining important documents and attending important meetings. Collaboration among corporate auditors involves submitting reports and holding discussions at monthly meetings of the Board of Corporate Auditors.

The eight-member Management Review & Support Dept., an internal audit organization that reports to the CEO of TDK, carries our periodic audits and offers support from the perspective of the consistency of business execution and management policy and the rationality of management efficiency. In the fiscal year ended March 31, 2005, the department made preparations to comply with the U.S. Sarbanes-Oxley Act of 2002, which requires companies to undertake self-evaluations of the establishment and operation of internal control systems.

To ensure the transparency of directors' remuneration, TDK has introduced bonuses linked to the company's results and, at the same time, has the outside director serve as chairperson of the Compensation Advisory Committee. Moreover, to ensure corporate ethical standards are upheld, a Business Ethics & CSR Committee was established at TDK and ethics councils were formed at domestic and overseas subsidiaries. These actions are part of ongoing efforts to build a global corporate ethics management framework that also encompasses domestic and overseas subsidiaries. To monitor the state of compliance with corporate ethical standards, a "helpline" has been established, creating an internal system that encourages employees to report matters involving corporate ethics and to offer suggestions.

The Compensation Advisory Committee, Business Ethics & CSR Committee and Disclosure Committee report directly to the Board of Directors.

Another defining aspect of TDK's corporate governance system is the ability to receive advice and directives from outside legal counsel regarding risks associated with TDK's corporate activities. Moreover, to give the company the best managerial structure for responding flexibly to the various changes in its operating environment, and to build greater trust with shareholders, the company has set the terms of directors to one year.

The corporate governance rules of the New York Stock Exchange requires that foreign private issuers disclose any significant ways in which their corporate governance practices differ from the NYSE domestic corporate governance standards (Section 303A. 11).

TDK complies with this requirement by providing statements in its Form 20-F filed with the United States Securities and Exchange Commission under the heading "Significant differences in corporate governance practices between TDK and U.S. listed companies on the New York Stock Exchange". Copies of the Form 20-F are available at the following URL.

TDK's Website http://www.tdk.co.jp/ir_e/library/lib50000.htm

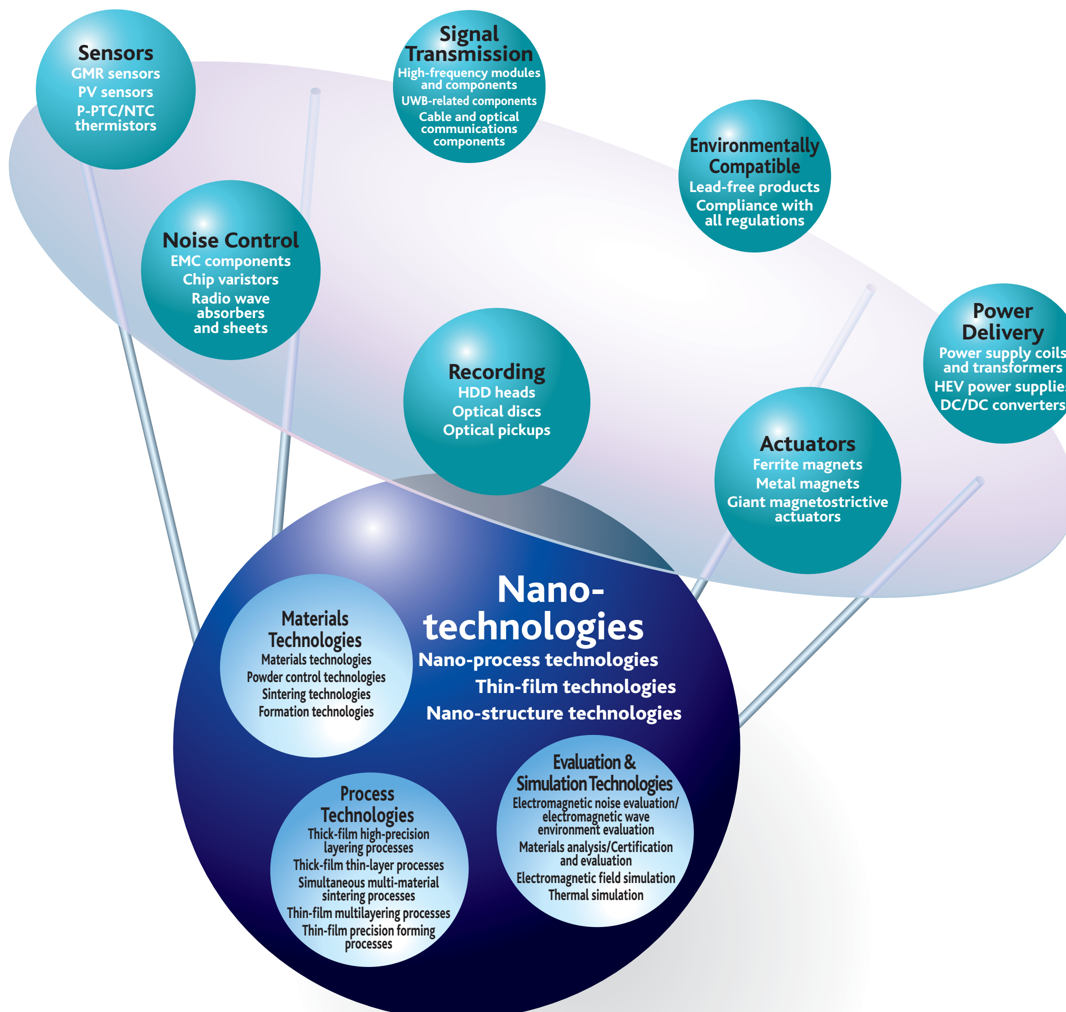
Fusing Core Technologies With Nanotechnology to Accelerate Growth

TDK's Nanotechnology—Creating a New Technology Paradigm

Today, all manner of high-tech fields are embracing the technological concepts and techniques of nanotechnology. This groundbreaking technology is poised to take a major leap forward to an exciting new stage.

The word nanotechnology first appeared in the mass media around 2000. The U.S. was first to position nanotechnology as a strategic research field of national importance with the aim of revitalizing manufacturing industries that were being hollowed out. In Japan, nanotechnology is now regarded as one of four important fields of science alongside IT, biotechnology and the environmental technology.

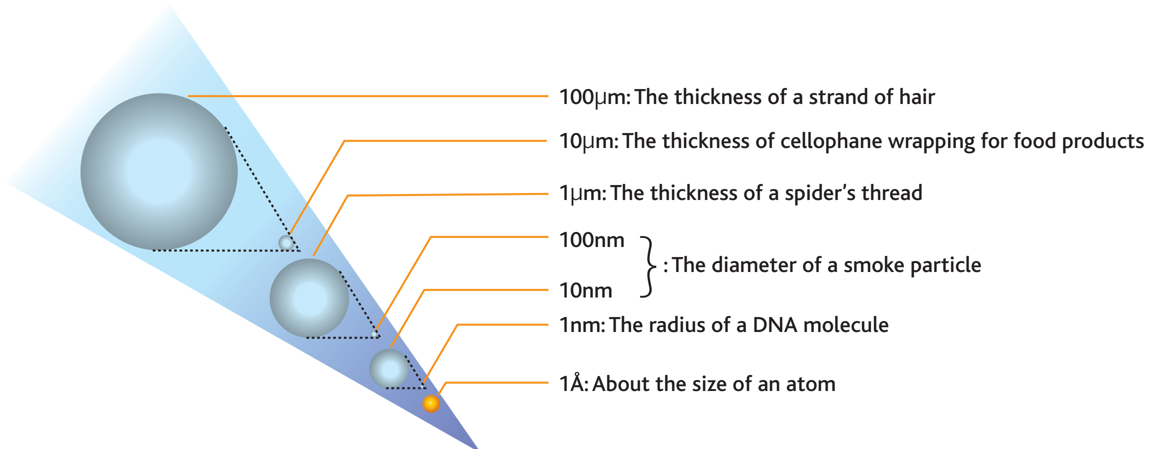
But nanotechnology is not a fleeting trend. Rather, it is a momentous technology paradigm that will define progress over the next century. In the 20th century, electronics emerged as a new technology paradigm straddling the disciplines of physics and engineering. Now, nanotechnology is creating a paradigm that cuts across myriad fields, sweeping aside barriers created by past segmentation and specialization. Nanotechnology has two contrasting aspects. On the one hand, it is a microscopic technology of the atomic and molecular level. On the other, it is a macroscopic technology with the potential to solve environmental and energy problems on a world scale. Nanotechnology may even have the potential of bringing about innovations even more radical than those sparked by the industrial revolution. Long an innovator in materials, TDK is determined to make nanotechnology an even greater driving force of its own growth.



The development of new products and technologies imbuing value that anticipate market needs drives growth in manufacturing industries. Aiming to be a consummate e-material solution provider, TDK is improving and bolstering its organizational structure. Guiding these activities is the catchphrase "Join all our forces together and strengthen the growth power."

Value-added products that are competitive in the international arena are not developed overnight. They are borne of sophisticated technologies created over many years. One of TDK's greatest strengths is its expertise in three core technologies: materials technologies accumulated over many years, and its exclusive process technologies and evaluation & simulation technologies built on this foundation.

Nanotechnology will alter existing technologies as the creative force for new ideas and lateral thinking, serving as the springboard for new breakthroughs. It harbors boundless potential. TDK is determined to unlock this potential to add to its storehouse of core technologies and to develop next-generation technologies and products that were once the stuff of dreams.



Making Core Businesses Even Stronger—The Latest Advances Stemming From TDK's Nanotechnology

TDK aims to use nanotechnologies to refine its wealth of core technologies, which are the cornerstone of the company's businesses, to make these technologies even stronger. TDK's nanotechnologies allow us to capture even greater synergies in fields where we are unrivaled and to innovate for a new tomorrow. This section showcases just some of the latest accomplishments of our new product and technology development efforts.

☐ The Dream of Perpendicular Recording Technologies Comes to Life in TDK's HDD Heads

Today, HDDs are found in an increasing array of digital home appliances other than computers, such as HDD/DVD players, digital audio equipment and car navigation systems. Incorporating a variety of nanotechnologies, HDDs are a cutting-edge technology. Rapid advances are being made in raising the recording capacity of HDDs while making them more compact. This progress will increasingly see HDDs become a common feature in mobile phones and other mobile devices.

TDK manufactures magnetic heads, vital components of HDDs. In fact, we are the world's leading head supplier, commanding a global market share of 30%. As the preeminent company in the field, we have opened up new technological frontiers in magnetic HDD heads. Some of our many accomplishments include

development of thin-film magnetic heads replace of bulk heads, MR heads that make use of the magneto-resistive (MR) effect, and the even more advanced Giant-MR (GMR) and tunneling-MR (TMR) heads.

TDK's leading-edge nanotechnology continues to create breakthroughs in HDD head technology. Perpendicular magnetic recording (PMR) heads that transcend the boundaries of longitudinal recording are a case in point. This is a development much awaited by the industry.

Perpendicular magnetic recording was first proposed as a theoretical possibility in the 1970s. However, the complexity of this high-density magnetic recording technology prevented its commercial development by manufacturers the world over. This method demands highly sophisticated thin-film process technologies to form microscopic single poles between multiple thin layers. Beyond that, a number of complex issues arise when trying to miniaturize single poles. One particularly difficult problem is overcoming pole erasure, the deletion of magnetic data due to remanent magnetization at the tip of the pole.

Drawing on its nano-level thin-film multilayering and processing technologies and other skills, TDK has cleared the innumerable technological hurdles one by one. By incorporating original ideas in the shape of the head pole, its materials, the shield structure and other areas, TDK solved the vexing problem of pole erasure. This achievement enabled TDK to win the global race to establish technology for mass producing PMR heads (for recording) that boast a high signal/noise ratio and outstanding reliability. In 2004, TDK achieved an areal recording density of 133Gbpsi (Giga bit per square inch) with a GMR/PMR head. This combination GMR head (for playback) and PMR head has already proven its reliability in HDDs. Adding to these successes, a TDK-developed TMR/PMR head that incorporates a next-generation TMR head (for playback) has achieved an areal recording density of over 150Gbpsi.

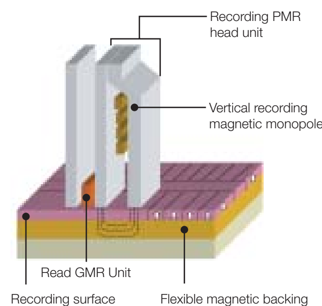
By providing a way to make HDDs much smaller and dramatically raise areal recording density, the PMR head has opened up the possibility that one day, in the not too distant future, people will watch videos on their mobile phones. This will redefine forever the role of mobile devices in our lives.

Targeting the upcoming terabit age (1Tbpsi=1,000Gbpsi), TDK is now taking up the challenge of developing groundbreaking technologies that will lead to more innovation in magnetic recording.

Gbpsi (Giga bit per square inch): A measure of recording capacity per square inch.
GMR (Giant Magnetoresistive) heads: The most commonly type of magnetic heads currently used in hard disk drives.
TMR (Tunneling Magnetoresistive) heads: A type of read head with higher sensitivity and resolution than GMR heads.
PMR (Perpendicular Magnetic Recording): A method of magnetizing recording elements in the direction of the thickness of the recording layer. PMR is expected to achieve much higher recording densities than the longitudinal magnetic recording currently in use.

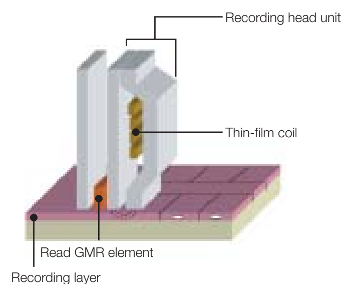
Comparison of PMR and LMR Recording Methods

Perpendicular Magnetic Recording (PMR)



The magnetic field generated by the monopole forms a U-shaped magnetic path that goes through the flexible magnetic backing, and the magnetic field that goes through the recording layer is used, making perpendicular magnetic recording possible.

Longitudinal Magnetic Recording (LMR)



The LMR recording method uses magnetic field that leaks between a gap in the recording heads. The magnetic field passes through the interior of the recording layer in the shape of a circular arc, so longitudinal magnetic recording is parallel to the recording surface.

The Industry's Long Wait Is Almost Over—Discrete Track Media Promises to Open Up the Terabit Era

Moore's Law holds that transistor density in integrated circuits will increase at an annual rate of 50%. Since the mid-1990s, the annual rate of increase in the areal recording density of HDDs has been 100%, outpacing Moore's Law.

However, magnetic interference from adjacent tracks grows as recording tracks become narrower. Another problem is "thermal fluctuation"* caused by the microscopic size of the crystals of magnetic material in the top layer. Discrete track media eliminates these problems. This epoch-making technology physically separates recording tracks by forming minute grooves in the recording layer, thereby reducing the magnetic interference from adjacent tracks. This opens the possibility of a dramatic leap forward in surface recording density.

At TDK, we study magnetic recording media in parallel with the development of magnetic heads. Discrete track media is one of the products of this cooperative research effort. In developing this media, we employed electron-beam (EB) lithography to achieve nanometer-order control, as well as precision dry-etching processing, proprietary surface planarizing technology and other state-of-the-art nanotechnologies. With a track pitch of 90nm achieved through ultra-fine processing, this next-generation magnetic recording media makes possible a surface recording density of over 200Gbpsi.

The development of new products before markets for those products emerge is a driving force behind TDK's growth. We are determined to build on our overwhelming competitive edge in magnetic head technology. At the same time, we will vigorously pursue research at the vanguard of the industry, namely discrete bit media and the application of spintronics, to make possible even higher density recording.

*Thermal fluctuation: Refers to the change in magnet polarization of the microscopic magnets that form the magnetic layer due to fluctuations in ambient temperature, even at room temperature. This causes data errors in HDDs.

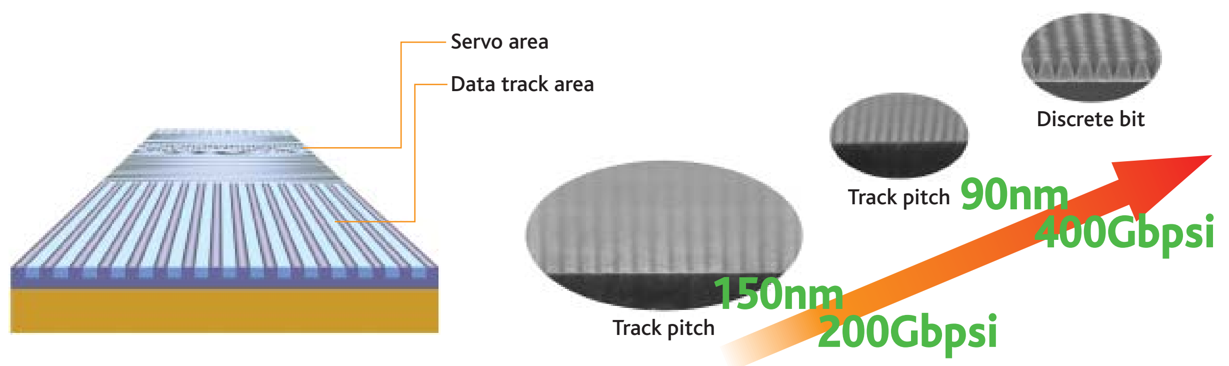


Diagram of discrete track media with a track pitch of a mere 90nm

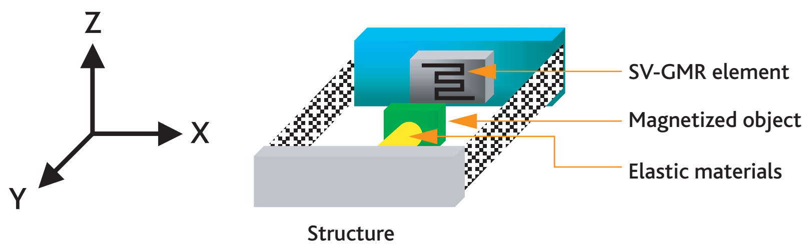
Discrete bit media, the next stage of progress after discrete track media, will enable a surface recording density of 400Gbpsi

Highly Sensitive Sensors Applying Magnetic Head Technology—GMR Sensor/Drop Sensor

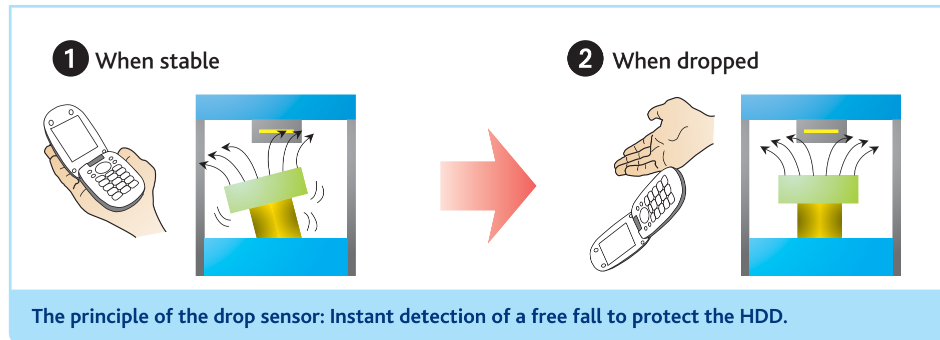
The GMR sensor is a newly developed magnetic sensor that combines GMR head technologies, TDK's thin-film and nano-process technologies. Due to the compact size and ultra-high sensitivity of this sensor, researchers looked beyond rotation and angle sensors to explore applications such as current sensors in automobiles and robots and bio sensors that detect antibodies in blood.

Another possibility is making multi-GMR chips by lining up many GMR elements on a substrate. These chips are attracting attention as a new type of highly sensitive magnetic sensor with almost unlimited applications. One possible application is as a line sensor for non-destructive surface testing to detect metal defects in aircraft, nuclear power plants, chemical plants and other plants and machinery.

More and more HDDs are used in mobile devices thanks to progress in the miniaturization of these drives. An example of a pioneering application of the GMR sensor, this unique, compact sensor combines GMR elements and tiny magnets. The sensor can quickly detect the falling motion of a mobile phone or other device, such as when it is accidentally dropped, and automatically retracts the magnetic head before impact, protecting the HDD from damage. TDK's drop sensor can immediately detect motion along three axes (X-Y-Z). In addition, its ultra-compact profile enables it to be placed directly inside a HDD.



Structure



The principle of the drop sensor: Instant detection of a free fall to protect the HDD.

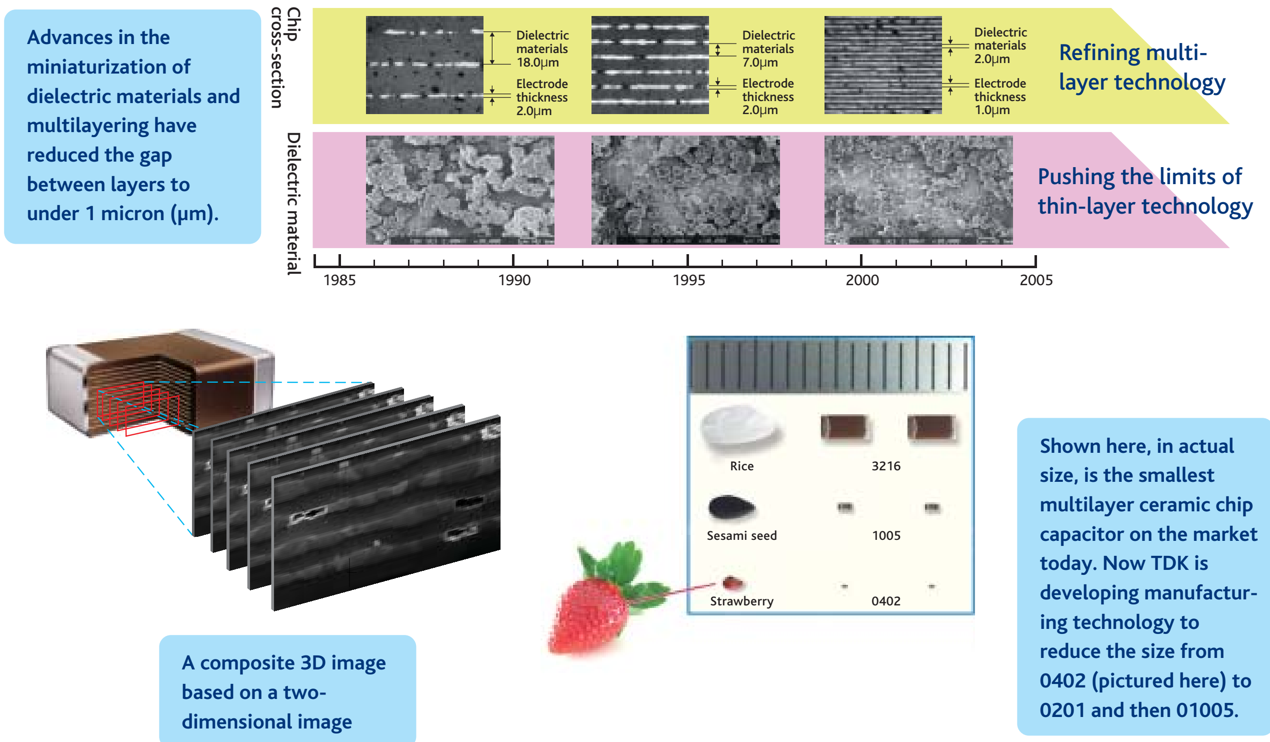
Nanomaterials Make Multilayer Ceramic Chip Capacitors Smaller While Raising Capacitance

Since many multilayer ceramic chip capacitors are used in mobile devices, making capacitors smaller is vital to reducing the size of these devices. Applying nano-material technologies to its wealth of fine multilayering technologies, TDK is exploring ways to make dielectric material sheets and internal electrodes that are even thinner. These efforts culminated in the development of a 3216-size (3.2x1.6mm) high-capacitance 100μF capacitor.

TDK has almost completed development of manufacturing technology for 2012-size (2.0x1.2mm) 100μF multilayer ceramic chip capacitors by drawing on a host of new technologies. These include newly developed high-precision screen technologies, revolutionary irregularity elimination technologies for press formation, and technology that can gently peel off even ultra-thin 1-micron sheets of dielectric materials with no damage.

When the gap between layers of a multilayer ceramic chip capacitor falls below 1 micron (μm), the particle size of barium titanate, a dielectric material, must be smaller than 100 nanometers, a feat that requires highly sophisticated powder technology. TDK has developed titanium oxide barium nano-particles that enable the formation of even thinner layers. Now TDK is applying high-quality nickel alloy high dispersion slurry technology, dry-electrode lithography processes and other techniques, as it takes up the challenge of advancing capacitor technology to uncharted territory. We plan to reduce the size of capacitors from 0402 to 0201 and then 01005. Another goal is making a chip capacitor with 1,000 layers, which would raise capacitance to level of an aluminum electrolytic capacitor.

TDK is determined to adopt advanced nanotechnologies to drive new advances in its powerful fine multilayering technologies.



Advances in the miniaturization of dielectric materials and multilayering have reduced the gap between layers to under 1 micron (μm).

A composite 3D image based on a two-dimensional image

Shown here, in actual size, is the smallest multilayer ceramic chip capacitor on the market today. Now TDK is developing manufacturing technology to reduce the size from 0402 (pictured here) to 0201 and then 01005.

In this section, we showcased a few of the new products and technologies that highlight TDK's advanced nanotechnologies. Our nanotechnologies are not ideas for products of the near future. They can be found today in a host of electronic components and devices. Nanotechnology will continue to be a key driving force behind advances in TDK's core materials, process and evaluation & simulation technologies.

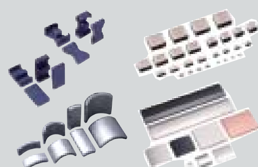
Nanotechnology is a world harboring boundless potential and a wellspring of myriad applications. TDK is determined to add to its reservoir of nanotechnologies, with the aim of creating a new technology paradigm. Our R&D efforts will be relentless.

TDK AT A GLANCE

Years ended March 31	Yen (Millions) 2005	Yen (Millions) 2004	U.S. Dollars (Thousands) 2005	Change (%)
Electronic materials and components	¥545,214	519,792	$5,095,458	4.9
Electronic materials	174,800	166,818	1,633,645	4.8
Electronic devices	116,387	107,999	1,087,729	7.8
Recording devices	234,578	230,105	2,192,318	1.9
Semiconductors and others	19,449	14,870	181,766	30.8
Recording media & systems	112,639	136,000	1,052,701	–17.2
Total	¥657,853	655,792	$6,148,159	0.3

Electronic Materials and Components

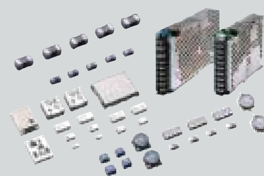
Electronic Materials



Main Products
Multilayer ceramic chip capacitors, ferrite cores for coils and transformers, ferrite and rare-earth magnets

Fiscal 2005 Highlights
Sales rose 4.8% on growth in capacitors, mainly for digital home appliances, and magnets for automotive and HDD applications

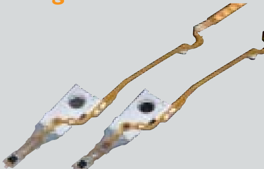
Electronic Devices



Main Products
Coils (inductors), EMC components, high-frequency components, piezoelectric components, sensors, chip varistors, DC-DC converters, switching power supplies

Fiscal 2005 Highlights
Sales rose 7.8% on higher sales of inductive devices spurred by acceleration in the pace at which automobiles are incorporating electronics and the increasing sophistication of mobile phones

Recording Devices



Main Products
GMR heads for hard disk drives, heads for high-capacity floppy disk drives, thermal printer heads, optical pickups

Fiscal 2005 Highlights
Sales increased 1.9%, reflecting higher sales of HDD heads on the back of a surge in HDD demand

Semiconductors and Others

Main Products
Anechoic chambers

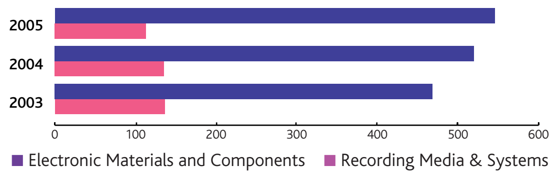
Fiscal 2005 Highlights
Sales rose 30.8% due to higher sales of anechoic chambers and growth in external sales of manu-facturing equipment

Recording Media & Systems

Main Products
Audiotapes, videotapes, CD-Rs, MiniDiscs (MDs), DVDs, tape-based data storage media for computers

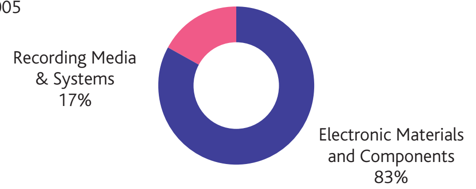
Fiscal 2005 Highlights
Sales declined 17.2% due to lower demand for audiotapes and videotapes as well as lower sales of other products as TDK realigned its product mix

Sales by Segment
(¥ Billion)

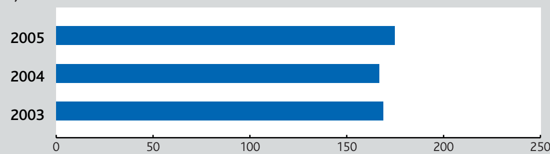


■ Electronic Materials and Components ■ Recording Media & Systems

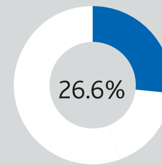
Share of Sales by Segment
2005



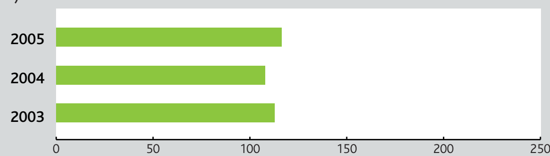
Sales by Electronic Materials Product
(¥ Billion)



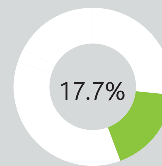
Share of Sales by Electronic Materials Product



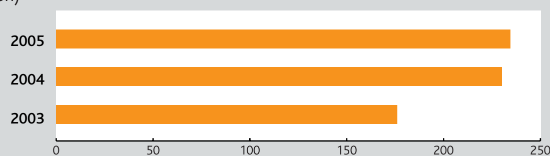
Sales by Electronic Devices Product
(¥ Billion)



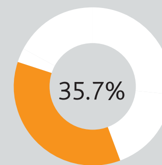
Share of Sales by Electronic Devices Product



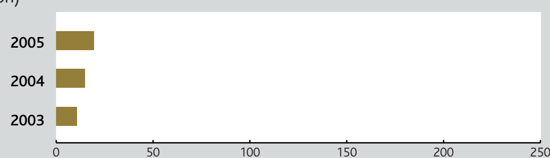
Sales by Recording Devices Product
(¥ Billion)



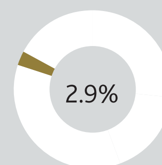
Share of Sales by Recording Devices Product



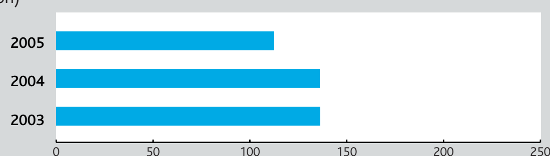
Sales by Semiconductors and Others Product
(¥ Billion)



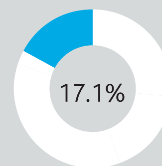
Share of Sales by Semiconductors and Others Product



Sales by Recording Media & Systems Product
(¥ Billion)



Share of Sales by Recording Media & Systems Product



REVIEW OF OPERATIONS

Consolidated net sales for fiscal 2005, ended March 31, 2005, increased 0.3% from ¥655,792 million to ¥657,853 million.

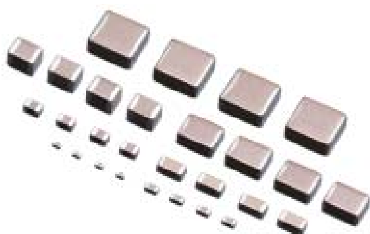
In the electronics industry in the first half of fiscal 2005, demand for digital home appliances, such as LCD and plasma flat-screen TVs and DVD recorders, was boosted by the Summer Olympic Games in Athens, and other events. This resulted in strong demand for the TDK Group's electronic components in 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.

Electronic Materials and Components Segment

Segment net sales increased 4.9%, from ¥519,792 million to ¥545,214 million. Segment operating income rose 15.0%, from ¥58,715 million to ¥67,520 million.

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.



Multilayer ceramic chip capacitors (MLCC)

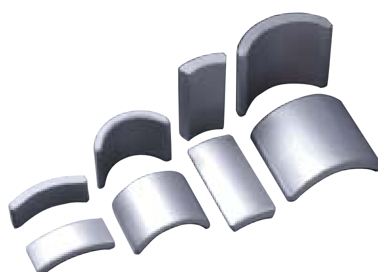
Electronic Materials

[Product Overview]

The electronic materials sector is broadly divided into two product sectors: capacitors, and ferrite cores & magnets.

Multilayer ceramic chip capacitors (MLCC), the mainstay product of the first category, are produced by alternately stacking many layers of electrodes, consisting mainly of palladium or nickel, and dielectric material, mainly barium titanate or titanium oxide. The standout feature of these capacitors, which are designed to store electrical energy, is that each of the layers is no thicker than several to tens of micrometers. The ability to form such thin layers is one of TDK's greatest strengths and is critical to capaci-tor performance because energy storage increases with the number of

Ferrite cores



Ferrite magnets

Rare-earth magnets

layers. Multilayer chip capacitors store and discharge electric charges in the circuits of electronic devices. They are used to smooth out and stabilize electrical current, eliminate electromagnetic interference, or "noise," and allow alternate current to pass while blocking direct current, a process known as coupling.

Ferrite is an electronic material that is mainly used as a magnetic material. Consisting primarily of ferric oxide, ferrite also includes cobalt, nickel, manganese or other metals to obtain precisely the desired properties. As ferrite is produced by sintering powder materials, it is called a magnetic ceramic. Ferrite is broadly divided into two types. One is soft ferrite, which is used in cores for transformers and coils. By improving the characteristics of soft ferrite, it is possible to make smaller, lighter and more efficient transformers and coils. The other type is hard ferrite. This material is used chiefly to make magnets that are essential to the operation of motors in office equipment, audio and visual products, automobiles and other widely used products.

TDK has also commercialized rare-earth magnets, consisting mainly of metals such as samarium and neodymium. Extremely powerful in relation to their small size, rare-earth magnets are used mainly in small, voice coil motors (VCMs) for HDDs and automobile applications.

[Results]

Sales in the electronic materials sector rose 4.8%, from ¥166,818 million to ¥174,800 million.

Capacitor sales rose year on year. Sales of multilayer chip capacitors, the main product in the capacitors sector, were strong in the first half. 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.

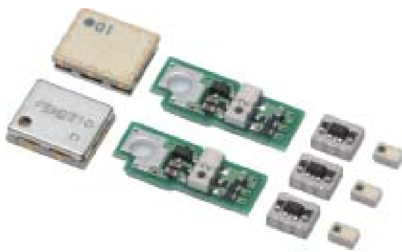
Sales of ferrite cores and magnets increased year on year. In ferrite cores, sales declined from the previous fiscal year despite higher demand for general-purpose power supply cores for digital home appliances and cores for communications equipment. This decrease was due to a reduction in output of deflection yoke cores and flyback transformer 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.

Electronic Devices

[Product Overview]

The electronic devices sector is broken down into three broad categories: inductive devices, high-frequency components, and other products.

The main products in the inductive devices category are coils and EMC components. Coils are typically made by winding a wire around a ferrite core. Because they produce a magnetic field when a current passes through the wire and also produce electromotive force depending on changes in magnetic flux, coils are widely used in electronic circuits. TDK has commercialized SMD coils that use an epoxy resin adhesive and multi-layer chip coils, in which coil patterns are formed by a process similar to printing. Choke coils and common mode filters are other coil types. EMC components reduce electromagnetic noise given off by all types of electronic devices. In recent years, as IC clock frequencies have climbed, high-frequency noise has become an increasingly serious problem. TDK has addressed this with a broad lineup of EMC components, including beads and filters, made from ferrite, which is an excellent absorber of high-frequency noise.



High-frequency components

High-frequency components are chiefly used in circuits for mobile phones and other devices that handle high frequency signals. In mobile phones, voice frequencies must be modulated and demodulated at extremely high frequencies. TDK produces isolators that use ferrite to control the movement of these signals, and VCOs (voltage-controlled oscillators) that produce frequencies required for transmission and reception in mobile phones. This category also consists of diplexers that split and combine signals of differing frequencies in mobile phones. These products are modules made by combining capacitors, coils, resistors, ICs, transistors and other components.

Coils (inductors)

In other products, TDK offers switching power supplies that convert alternating current into direct current, DC-AC inverters that convert direct current into alternating current, and DC-DC converters that alter DC voltages, and transformers which have two or more coils, use electromagnetic coupling to step up and down AC voltage or convert impedance.

Also, TDK manufactures products such as sensors and actuators, as well as chip varistors. Sensors are measurement devices that produce an electrical signal that varies in accordance with a specific parameter such as humidity or printer toner level. Actuators are products that convert electrical energy into mechanical energy for such applications as buzzers. Chip varistors protect electronic circuits from abnormal voltages, such as static electricity and pulses, that can cause equipment to malfunction.

Chip varistors

[Results]

Sales in the electronic devices sector rose 7.8% from ¥107,999 million to ¥116,387 million.

Power system products

Sales in the inductive devices sector 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.

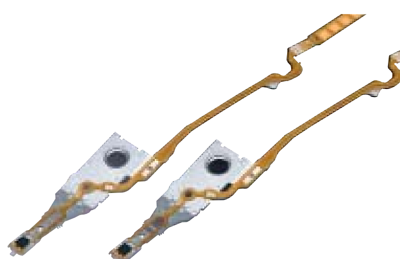
Sales of high-frequency components declined marginally year on year because higher sales volume and an improved product mix failed to completely offset persistently strong discounting pressure from mobile phone handset manufacturers, the main customer for these components.

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.

Recording Devices

[Product Overview]

The recording devices sector is divided into two categories: heads for Head Disk Drives (HDDs), the mainstay of the sector, and other types of heads. HDD heads employ a thin-film construction and magneto-resistive (MR) material to “read” signals recorded on hard disks. MR refers to the phenomenon in which a material’s electrical resistance varies when exposed to a magnetic field. The commercialization of HDD heads using this MR effect has made it possible to “read” signals recorded on hard disks at much higher areal densities. At present, GMR (Giant-MR) heads, which have higher playback sensitivity than conventional MR heads, are the mainstream technology in the HDD head market.



GMR heads for HDDs

Other heads includes optical pickups, magnetic heads used in floppy disk drives (FDDs) and thermal printer heads.

[Results]

Sector sales increased 1.9% from ¥230,105 million to ¥234,578 million.

Sales of HDD heads increased year on year. 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.

Optical pickup for DVDs

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

Semi-conductors and Others

[Product Overview]

Anechoic chambers are rooms in which walls are covered with ferrite tiles that absorb electromagnetic waves. These spaces, designed to block electromagnetic waves emanating from outside as well as to control reflections of electromagnetic radiation within the chamber, facilitate the evaluation and testing of noise in electronic devices, including those used in automobiles.

Anechoic chamber

This sector also includes manufacturing equipment that is sold externally as well as other products and newly developed products, such as organic EL displays, not included in the aforementioned three sectors (electronic materials, electronic devices and recording devices).

[Results]

Sector sales climbed 30.8% from ¥14,870 million to ¥19,449 million.

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.

Recording Media & Systems Segment

Segment sales declined 17.2% from ¥136,000 million to ¥112,639 million. The segment recorded an operating loss of ¥7,690 million, an increase of 248.8% from last year's operating loss of ¥2,205 million.

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.

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

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.

DVD

Blu-ray disc

LTO

[Product Overview]

In the recording media & systems segment, the main products are audiotapes, videotapes, optical media, and tape-based data storage media for computers.

TDK supplies several types of optical discs, including write-once CD-Rs and 4.7 gigabyte DVDs that can hold approximately 7 times more data than their CD counterparts, although having the same 12cm diameter. TDK has also commercialized a Blu-ray disc that can store huge volumes of data. These discs are seen as the next generation of optical media.

In tape-based data storage media for computers, TDK has commercialized a product that has been verified under LTO Ultrium 3 standards, making it compatible with magnetic-tape backup equipment meeting the LTO* (Linear Tape-Open) standard.

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

DIRECTORS, CORPORATE AUDITORS AND CORPORATE OFFICERS

Directors (☆Outside Director)

Hajime Sawabe
President and CEO

Jiro Iwasaki
Director

Shinji Yoko
Director

Takeshi Nomura
Director

Yasuhiro Hagihara☆
Director

Takehiro Kamigama
Director

Seiji Enami
Director

Corporate Auditors (*Outside Corporate Auditor)

Takuma Otsuka
Corporate Auditor

Masaaki Miyoshi
Corporate Auditor

Kazutaka Kubota*
Corporate Auditor

Kaoru Matsumoto*
Corporate Auditor

Ryoichi Ohno*
Corporate Auditor

Corporate Officers

Hajime Sawabe
President and CEO

Kiyoshi Ito
Executive Vice President

Takehiro Kamigama
Executive Vice President

Jiro Iwasaki
Senior Vice President

Shinji Yoko
Senior Vice President

Takeshi Nomura
Senior Vice President

Takaya Ishigaki
Senior Vice President

Minoru Takahashi
Senior Vice President

Yukio Hirokawa
Corporate Officer

Masatoshi Shikanai
Corporate Officer

Michinori Katayama
Corporate Officer

Kenryo Namba
Corporate Officer

Seiji Enami
Corporate Officer

Raymond Leung
Corporate Officer

Shunji Itakura
Corporate Officer

Shiro Nomi
Corporate Officer

Shinichi Araya
Corporate Officer

(As of June 29, 2005)

FINANCIAL REVIEW

Operating Results

SEGMENT SALES

Consolidated net sales rose 0.3% from ¥655.8 billion to ¥657.9 billion ($6,148 million) in fiscal 2005, the year ended March 31, 2005.

The Company's operations are affected by the economies of various regions of the world, including Japan, the United States, Europe and China. Despite rising crude oil prices and other factors that restricted growth, the U.S. economy generally expanded steadily due in part to an upturn in capital expenditures and improvements in employment statistics and household incomes. European economies, while resilient in the first half of fiscal 2005, suffered a slowdown in the second half due to the effects of a strengthening euro, rising crude oil prices and other negative factors. China, meanwhile, maintained a high economic growth rate. In comparison, the Japanese economy slowed due to a drop-off in exports, the result of second-half production cutbacks by manufacturers of IT and digital products, despite strength in capital expenditures that was supported by strong corporate earnings.

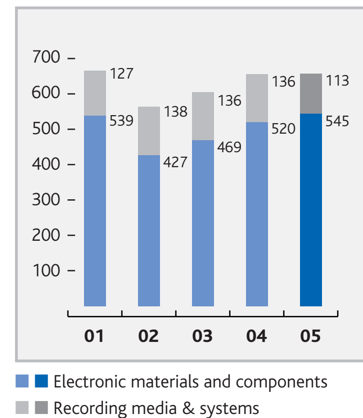
In the electronics industry in the first half of fiscal 2005, demand for digital home appliances, such as LCD and plasma TVs and DVD recorders, was boosted by the Summer Olympic Games in Athens and other factors. This resulted in strong demand for the Company's electronic components in the first half. 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, the Company continued to implement cost structure reforms, for example, the improvement of variable expenses by reviewing terms of supply and requesting discounts from purchased materials vendors. The Company also actively made investments to drive growth, such as by ramping up production capacity of capacitors and forging a strategic alliance in HDD heads.

As a result, the electronic materials and components segment posted net sales of ¥545.2 billion ($5,095 million), up 4.9% from ¥519.8 billion in the previous fiscal year.

Sales in the electronic materials sector rose 4.8% from ¥166.8 billion to ¥174.8 billion ($1,634 million). Sales of multilayer chip capacitors, a mainstay of capacitor products, increased year over year. In the first half of fiscal 2005, the Athens Olympics propelled demand for digital home appliances higher, which had an add-on effect for components used in them. In the second half, however, demand for components cooled, this time the result of cutbacks in the production of digital home appliances, and prices also dropped. But, against this market backdrop, the Company absorbed the sales price declines and the effect of unfavorable foreign exchange movements through improvements

Net Sales
(Yen in billions)



to its product mix. 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 transformer cores used in CRT TVs. Magnet sales increased year over year, the result of steadily rising demand for use in automotive and HDD applications.

Sales in the electronic devices sector increased 7.8% from ¥108.0 billion to ¥116.4 billion ($1,088 million). Inductive devices, the largest product category in this sector, posted higher sales, despite lower sales prices and the negative effect of foreign exchange movements. This 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 by new product launches. Sales of high-frequency components declined marginally year over 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. 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.

In the recording devices sector, sales rose 1.9% from ¥230.1 billion to ¥234.6 billion ($2,192 million). Sales of HDD heads, the main product in this sector, rose year over year. However, the Company 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 foreign exchange movements. Cutbacks in HDD inventories at customers in the first half of fiscal 2005 also affected the sector's performance. However, demand for HDD heads rose in the second half of

the fiscal year following the end of these cutbacks. Sales of other heads declined year over year due to sluggish sales of optical pickups.

Sales in the semiconductors and others sector climbed 30.8% from ¥14.9 billion to ¥19.4 billion ($182 million). The Company recorded slightly higher sales of anechoic chambers for electromagnetic noise control and equipment used in these chambers. There was also growth in external sales of manufacturing equipment due to higher investments in semiconductor facilities and equipment by customers.

Operating income of the electronic materials and components segment in fiscal 2005 was ¥67.5 billion, up ¥8.8 billion from fiscal 2004. In spite of the deep-rooted pressure for sales price discounts, operating income increased due to higher sales of capacitors and inductive devices, discounts in raw materials and cost improvements by rationalization.

In the recording media & systems segment, sales declined 17.2% from ¥136.0 billion to ¥112.6 billion ($1,053 million). Sales of audiotapes and videotapes declined year over year. While the Company maintained a high market share, demand is declining for these products as a whole. Sales of optical media increased, with higher DVD sales volume offsetting a sharp fall in DVD prices and lower CD-R sales. Sales of other products decreased year over 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 over year.

Operating loss of the recording media & systems segment in fiscal 2005 was ¥7.7 billion, up ¥5.5 billion from fiscal 2004. Operating loss increased due to a decline in demand of audiotapes and videotapes as a whole, decrease in sales as a result of sale of a subsidiary in the United States of America in fiscal 2004, and continuous drop in sales prices mainly in optical media.

*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

Yen in millions (%)

Years ended March 31	2005		2004		2003	
Japan	**¥184,025**	**(28.0)**	168,623	(25.7)	165,484	(27.4)
Americas	**77,813**	**(11.8)**	88,734	(13.5)	104,134	(17.2)
Europe	**71,702**	**(10.9)**	80,710	(12.3)	77,713	(12.9)
Asia (excluding Japan)	**321,612**	**(48.9)**	314,875	(48.0)	254,925	(42.1)
Middle East and Africa	**2,701**	**(0.4)**	2,850	(0.5)	2,609	(0.4)
Net sales	**¥657,853**	**(100.0)**	655,792	(100.0)	604,865	(100.0)

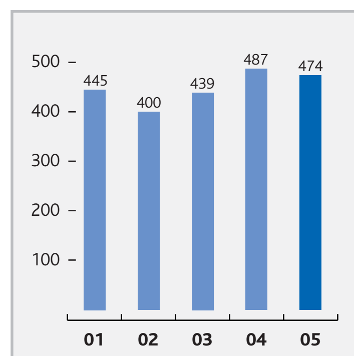
Note: Sales by region are classified by the customer location.

By region, sales in Japan rose 9.1% from ¥168.6 billion to ¥184.0 billion ($1,720 million). Overseas sales declined 2.7% from ¥487.2 billion to ¥473.8 billion ($4,428 million). Overseas sales accounted for 72.0% of consolidated net sales.

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 and others sectors. The electronics materials and components segment saw its operating income increase by ¥17.6 billion due to increase in operating ratio, discount in raw materials and decrease in cost by rationalization. Although operating loss of the recording media & systems segment increased slightly, operating income in fiscal 2005 was ¥25.8 billion, up ¥16.9 billion from fiscal 2004.

In Asia (excluding Japan) and Oceania, sales declined in the recording devices sector and recording media & systems segment, but sales increased in the electronic materials and electronic devices sectors. The operating income of the electronic materials and components segment decreased by ¥8.8 billion. This decrease is due to a significant decline in sales prices mainly in recording devices and capacitors. Operating income of the recording media & systems segment also decreased slightly, resulting in operating income for fiscal 2005 of ¥33.6 billion, ¥9.5 billion less than fiscal 2004.

Overseas Sales
(Yen in billions)



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. The operating income of the electronic materials and components segment decreased ¥0.9 billion from fiscal 2004. However, operating income in fiscal 2005 was ¥5.5 billion, up ¥0.9 billion from fiscal 2004, due to decrease in operating loss of the recording media & systems segment as a result of sale of a subsidiary engaged in software development.

In Europe, lower sales were recorded in the electronic materials and semiconductors and others sectors as well as the recording media & systems segment. While operating loss of the electronic materials and components decreased, operating loss of the recording media & systems segment in fiscal 2005 reversed from operating income in fiscal 2004 to operating loss of ¥4.7 billion by decrease of ¥5.8 billion, due to a significant decline in sales prices mainly in optical media. As a result, operating loss in fiscal 2005 was ¥5.1 billion, ¥5.0 billion less than fiscal 2004.

EFFECT OF FOREIGN EXCHANGE MOVEMENTS

In fiscal 2005, overseas sales accounted for 72.0% of consolidated net sales, down 2.3 percentage points. As a result, fluctuations in foreign exchange rates have a significant effect on the Company's consolidated sales and income. During fiscal 2005, the yen appreciated 5.0% in relation to the U.S. dollar and depreciated 1.9% in relation to the euro, based on the Company's average internal exchange rates. Overall, the Company estimates that each ¥1 movement in the exchange rates during fiscal 2005 had the effect of reducing net sales by about ¥4.0 billion and operating income by about ¥1.0 billion, in relation to the prior fiscal year.

By region, foreign exchange fluctuations reduced sales in Japan by about ¥3.8 billion, in Asia (excluding Japan) and Oceania by about ¥23.6 billion and in the Americas by about ¥5.5 billion, but increased sales in Europe by about ¥1.4 billion. The effect of foreign exchange fluctuations on consolidated net sales after the elimination of intersegment transactions was about ¥20.6 billion.

The Company conducts a large share of business activities outside Japan as one way to offset the impact of exchange-rate fluctuations. Such activities include manufacturing and sales, as well as research, design and procurement. In-region production in fiscal 2005 represented 112.1% of sales in Asia (excluding Japan) and Oceania, 20.9% in the Americas, and 23.9% in Europe. Overseas production accounted for 59.0% of total sales in fiscal 2005, compared with 58.6% one year earlier, and for 81.9% of overseas sales, compared with 78.9% one year earlier. The rise in the percentage of overseas production in fiscal 2005 is mainly due to higher production in Asia in the electronic materials and components segment.

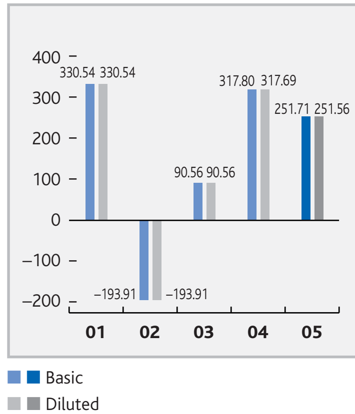
The Company and certain overseas consolidated subsidiaries hedge exposure to foreign exchange movements by entering into forward foreign exchange contracts and swaps for some foreign currency-denominated obligations. Foreign exchange risk arising in operating activities is hedged by using forward foreign exchange contracts. In principle, the Company's policy is to hedge up to 50% of expected foreign currency-denominated accounts receivable for each month for the next six months. Due to the global nature of operations, management realizes that currency movements continue to have the potential to exert a material influence on consolidated performance.

EXPENSES AND NET INCOME

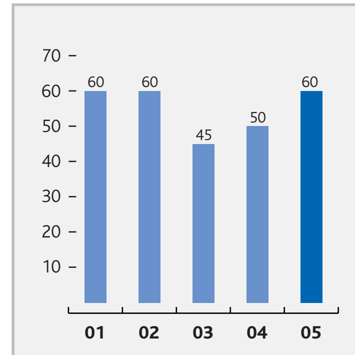
Yen in millions (%)

Years ended March 31	2005		2004		2003	
Net sales	**¥657,853**	**(100.0)**	655,792	(100.0)	604,865	(100.0)
Cost of sales	**484,323**	**(73.6)**	476,407	(72.6)	459,552	(76.0)
Selling, general and administrative expenses	**119,886**	**(18.2)**	122,875	(18.8)	115,569	(19.1)
Settlement gain, net	**6,186**	**(0.9)**	–	–	–	–
Restructuring cost	**–**	**–**	–	–	5,197	(0.9)
Other income (other expenses)	**898**	**(0.1)**	(663)	(–0.1)	(3,995)	(–0.7)
Income taxes and minority interests	**23,763**	**(3.6)**	12,492	(1.9)	6,959	(1.1)
Loss from discontinued operations, net of tax	**3,665**	**(0.5)**	1,254	(0.2)	1,574	(0.2)
Net income	**¥ 33,300**	**(5.1)**	42,101	(6.4)	12,019	(2.0)

Net Income (Loss) Per Share
(Yen)



Dividend Per Share
(Yen)



The cost of sales increased 1.7% from ¥476.4 billion in fiscal 2004 to ¥484.3 billion ($4,526 million) in fiscal 2005 due to higher sales. Cost of sales increased from 72.6% to 73.6% of net sales, respectively. This reflected the negative effects on earnings of strong discounting pressure in all segments and foreign exchange movements, mainly the appreciation of the yen relative to the U.S. dollar. These factors outweighed positive influences such as cost reductions from structural reforms and numerous other actions to cut costs, including the receipt of discounts on purchased materials. As a result, gross profit decreased 3.3% year over year.

Selling, general and administrative expenses decreased ¥3.0 billion from ¥122.9 billion in fiscal 2004 to ¥119.9 billion ($1,120 million) in fiscal 2005, and decreased from 18.8% to 18.2% of net sales, respectively. Selling, general and administrative expenses decreased despite a 0.3% rise in net sales due to efforts to strictly manage fixed expenses, such as by lowering personnel expenses through greater operational efficiency. The main components of this decrease were reductions in personnel expenses of ¥3.1 billion and marketing expenses of ¥1.3 billion. Research and development expenses included in selling, general and administrative expenses increased ¥3.4 billion from ¥32.9 billion in fiscal 2004 to ¥36.3 billion ($340 million) in fiscal 2005, and increased from 5.0% to 5.5% of net sales, respectively.

In addition, pursuant to the newly enacted Contributed Benefit Pension Plan Law, the Company received an exemption from the Minister of Health, Labor and Welfare, effective September 25, 2003, from the obligation to pay benefits related to future employee services with respect to the substitutional portion of its Employees' Pension Fund (EPF). The Company was also granted an exemption from the obligation to pay benefits in relation to past employee services in October 2004 with respect to the substitutional portion of its domestic contributory plan. The transfer of the substitutional portion of the Company's EPF liabilities to the government was completed on January 31, 2005. As a result of the transfer, the Company recognized as a subsidy from the Japanese government an amount equal to the difference between the fair value of the obligation deemed "settled" with the Japanese government and the assets required to be transferred to the government. The subsidy that the Company recognized amounted to ¥33.5 billion ($313 million). In addition, the Company recognized a settlement loss in an amount equal to the product of (i) the ratio of the obligation settled to the total EPF obligation outstanding immediately prior to settlement, both of which exclude the effect of future salary progression relating to the substitutional portion of the EPF obligation, and (ii) the net unrecognized gain/loss immediately prior to settlement, which amounted to ¥27.3 billion ($256 million). This gain and loss is included in operating income in the accompanying consolidated statements of income for the year ended March 31, 2005.

Other income (deductions) improved ¥1.6 billion from the previous fiscal year, reflecting a ¥2.2 billion decline in foreign exchange losses and a ¥1.0 billion decrease in loss on securities, net, as well as other factors.

The ratio of income taxes to income from continuing operations before income taxes (the effective tax rate) increased from 21.7% in fiscal 2004 to 38.3% in fiscal 2005. The increase reflects mainly the fact that the Company received a notification and assessment of additional tax from the Tokyo Regional Tax Bureau (Nihonbashi Tax Office) asserting that prices charged and paid by the Company in connection with sales and purchases of products involving its overseas subsidiaries have not been commensurate with the prices of similar transactions involving unrelated third parties. The period of additional assessments covers tax years ending March 1999 through March 2003. The additional tax assessed by the Tokyo Regional Tax Bureau amounted to ¥12.0 billion including interest and penalty, which has been

reflected as additional tax expense and other expense, net of deferred income tax benefits, in the accompanying consolidated statements of income for the year ended March 31, 2005.

The Company posted net income of ¥33.3 billion ($311 million), resulting in net income per diluted share of ¥251.56 ($2.35), compared with ¥317.69 in the previous fiscal year. Return on equity (ROE) decreased from 7.5% to 5.5%. This was due to an approximate ¥62.8 billion increase in stockholders' equity, which reflected a decrease of about ¥38.7 billion in accumulated other comprehensive loss due to such factors as a decrease of about ¥32.9 billion in minimum pension liability adjustments following the transfer of the substitutional portion of EPF liabilities, as well as an increase in retained earnings.

Cash dividends per share paid during the fiscal year totaled ¥60 ($0.56). This dividend is the sum of the June 2004 year-end dividend of ¥30 and the December 2004 interim dividend of ¥30. Shareholders of record on March 31, 2005 received a cash dividend of ¥40 per share at the end of June 2005.

In fiscal 2005, consolidated net income included loss from discontinued operations of ¥3.7 billion related to TDK Semiconductor Corporation. See discussion at Discontinued Operations.

FISCAL 2004 VS. FISCAL 2003

SEGMENT SALES

Consolidated net sales increased 8.4% to ¥655.8 billion in fiscal 2004, the year ended March 31, 2004, from ¥604.9 billion one year earlier.

The Japanese economy in fiscal 2004 tended toward recovery, led by IT-related production and exports. However, with no upturn evident in household incomes, consumer spending failed to rebound. Meanwhile, the U.S. economy, the driving force for the world economy, expanded compared with the previous year, with consumer spending, housing investment and capital expenditures all rising, as the government eased fiscal and monetary policy.

In the electronics industry, the year was characterized by the rising popularity of LCD and plasma flat-screen TVs, digital cameras and DVD recorders, as well as by the increasing sophistication of mobile phones, replacement demand for PCs, and the growing use of electronics in automobiles. However, deflationary trends in world markets affected these finished products, placing unrelenting pricing pressure on electronic materials and components and recording media & systems, the Company's main products.

The Company saw orders drop in the first quarter (April-June 2003) of fiscal 2004 due to factors such as the Severe Acute Respiratory Syndrome (SARS) outbreak and fallout from the Iraq war. Nevertheless, the Company remained focused on implementing cost structure reforms, carrying on initiatives from fiscal 2003 to improve asset productivity and concentrate resources on strategic businesses.

In the electronic materials and components segment, net sales increased 10.9% from ¥468.5 billion to ¥519.8 billion.

Sales in the electronic materials sector decreased 1.3% from ¥168.9 billion to ¥166.8 billion. Sales of multilayer chip capacitors, a mainstay of capacitor products, increased. Higher orders for capacitors, which reflected growing demand for communications products, offset falling sales prices and the negative effect of exchange rate movements. In ferrite cores, deflection yoke cores and flyback transformer cores saw sales drop due to falling demand and sales prices. The drop in orders for these cores was a reflection of a rapid shift in consumer demand from CRT TVs to LCD, plasma and other flat-panel models. Higher sales of small coils and transformer cores, a category where demand increased, failed to offset this decrease, resulting in a decline in overall sales of ferrite cores. Magnet sales declined as the effect of falling sales prices outweighed higher sales volumes.

In the electronic devices sector, sales decreased 4.2% from ¥112.7 billion to ¥108.0 billion. Inductive devices, the largest product category in this sector, posted higher sales as demand for communications applications increased in line with advances in the performance of mobile phones. However, sales growth was held back by lower sales prices and foreign currency movements. Sales of high-frequency components decreased despite an upswing in shipment volumes that resulted from strong demand for components used in mobile phones, the main market for these components, and successful activities to win new orders. The decrease reflected the continuing glut in the supply of high-frequency components in the market as a whole, which prompted customers to demand price reductions that were greater than in other electronic component categories. Sensors and actuators recorded higher sales due to growth in demand for communications applications and PCs and peripherals. However, sales of power systems declined due to lackluster demand associated with the amusement field, a sector where demand was strong in the previous fiscal year.

Recording devices sales climbed 30.8% from ¥176.0 billion to ¥230.1 billion. Sales of HDD heads, the main product in this sector, were up sharply. This was primarily because of continuing expansion in the HDD market and the resulting robust HDD sales by major Company customers. Sales of other heads also increased.

Sales in the semiconductors and others sector climbed 37.1% from ¥10.9 billion to ¥14.9 billion. Growth reflected higher sales of anechoic chambers for noise control and equipment used in these chambers.

Operating income of the electronic materials and components segment in fiscal 2004 was ¥58.7 billion, up ¥35.7 billion from fiscal 2003. This increase was due to significantly higher sales of recording devices and cost reductions such as reduced depreciation from reforms to the profit structure. This increase offset declines in profit due to lower sales of other products and the negative effect of the appreciation of the yen.

In the recording media & systems segment, sales edged down 0.3% from ¥136.4 billion to ¥136.0 billion.

While the Company continued to command a high share of the audiotape and videotape markets, sales in these two categories decreased as demand continued to shrink due to structural changes. Optical media products posted increased sales, with higher sales volumes of CD-Rs and DVDs in an expanding market offsetting lower sales prices. Sales of other products decreased. Higher sales of LTO-standard* (Linear Tape-Open) tape-based data storage media for computers failed to offset lower sales of PC software, recording equipment and other products.

The recording media & systems segment saw some increased profits due to higher sales of optical media products. However, the segment experienced losses of ¥2.2 billion in fiscal 2004, down ¥3.7 billion from fiscal 2003, due to falling sales prices of other products and significantly reduced profits from the negative effect of the appreciation of the yen.

*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

By region, sales in Japan increased 1.9% to ¥168.6 billion in fiscal 2004 from ¥165.5 billion in fiscal 2003. There was a 10.9% rise in overseas sales year over year to ¥487.2 billion from ¥439.4 billion in fiscal 2003. Overseas sales accounted for 74.3% of consolidated net sales.

In Japan, sales edged up from the previous fiscal year as higher sales in the recording devices sector offset sales decreases caused by lower orders for DC-DC converters for the amusement field and falling demand for audiotapes. The electronic materials and components segment saw its operating income increase by ¥7.2 billion due to ongoing cutbacks in expenses and improvements in cost categories mainly in raw materials price reductions resulting from structural reforms. This increase offset losses in the recording media & systems segment. Accordingly, operating income for fiscal 2004 increased to ¥8.5 billion, up ¥3.3 billion from fiscal 2003.

In Asia (excluding Japan) and Oceania, sales increased due to higher sales of recording devices, as the Company regained market share, and strong sales of electronic materials and electronic devices. The operating income of the electronic materials and components segment significantly increased by ¥22.2 billion. This increase accounted for almost the entire increase in operating income across the region, which was due mainly to increased sales of recording devices. The profits of the recording media & systems segment remained practically unchanged, resulting in operating income for fiscal 2004 of ¥42.9 billion, ¥22.3 billion more than fiscal 2003.

In the Americas, sales decreased due to the effect of foreign exchange translation resulting from the appreciation of the yen. Other factors were lower sales in the recording media & systems segment despite higher sales of optical media products, including DVDs, due to lower sales of other products; and lower sales in the electronic materials and components segment. The operating income of the electronic materials and components segment increased by ¥5.7 billion. This increase resulted mainly from an increase in sales of recording devices. This increase offset losses in the recording media & systems segment, which resulted from reduced sales of PC software and recording equipment. Accordingly, operating income for fiscal 2004 was ¥5.0 billion, up ¥3.6 billion from fiscal 2003.

In Europe, sales increased. Sales were sluggish in the electronic materials and components segment, but rose in the recording media & systems segment as sharply higher sales of DVDs and other optical media products countered falling demand for audiotapes. The operating income of the recording media & systems segment increased by ¥2.3 billion, due mainly to increased sales of optical media, which, when combined with increased profits in the electronic materials and components segment, resulted in operating losses for fiscal 2004 of ¥0.1 billion, an improvement of ¥3.4 billion on fiscal 2003.

EFFECT OF FOREIGN EXCHANGE MOVEMENTS

In fiscal 2004, overseas sales accounted for 74.3% of consolidated net sales, up 1.7 percentage points. As a result, fluctuations in foreign exchange rates have a significant effect on the Company's consolidated sales and income. During fiscal 2004, the yen appreciated 7.2% in relation to the U.S. dollar and depreciated 9.7% in relation to the euro, based on the Company's average internal exchange rates. Overall, the Company estimates that each ¥1 movement in exchange rates during fiscal 2004 had the net effect of reducing net sales by about ¥4.0 billion and operating income by about ¥1.5 billion, in relation to the prior fiscal year.

By region, foreign exchange fluctuations reduced sales in Japan by about ¥11.0 billion, sales in Asia (excluding Japan) and Oceania by about ¥31.0 billion and sales in the Americas by about ¥9.3 billion, but increased sales in Europe by about ¥4.5 billion. The negative effect of foreign exchange fluctuations on consolidated net sales after the elimination of intersegment transactions was about ¥25.8 billion.

The Company conducts a large share of business activities outside Japan as one way to offset the impact of exchange-rate fluctuations. Such activities include manufacturing and sales, as well as research, design and procurement. In-region production in fiscal 2004 represented 111.6% of sales in Asia (excluding Japan) and Oceania, 22.5% in the Americas, and 23.8% in Europe. Overseas production accounted for 58.6% of total sales in fiscal 2004, compared with 55.8% one year earlier, and for 78.9% of overseas sales, compared with 76.8% one year earlier. The rise in the percentage of overseas production in fiscal 2004 is mainly due to higher production in Asia in the electronic materials and components segment primarily as a result of an increase in overseas production, which rose in line with sales growth resulting from a recovery in market share in recording devices.

The Company and certain overseas subsidiaries hedge exposure to foreign exchange movements by entering into forward foreign exchange contracts and swaps for some foreign currency-denominated obligations. Foreign exchange risk arising in operating activities is hedged by using forward foreign exchange contracts. In principle, the Company's policy is to hedge up to 50% of expected foreign currency-denominated accounts receivable for each month for the next six months. Due to the global nature of operations, management realizes that currency movements continue to have the potential to exert a material influence on consolidated performance.

EXPENSES AND NET INCOME

Cost of sales increased 3.7% from ¥459.6 billion in fiscal 2003 to ¥476.4 billion in fiscal 2004 due to higher sales. Cost of sales decreased from 76.0% to 72.6% of net sales, respectively. This reflected both an improvement in the capacity utilization rate accompanying higher sales, and cutbacks in expenses and improvements in various cost categories resulting from structural reforms. These benefits outweighed strong downward pressure on prices and the adverse effects of foreign exchange movements. As a result, gross profit increased 23.4%.

Selling, general and administrative expenses increased ¥7.3 billion from ¥115.6 billion in fiscal 2003 to ¥122.9 billion in fiscal 2004, and decreased from 19.1% to 18.8% of net sales, respectively. Selling, general and administrative expenses rose in line with the 8.4% rise in net sales as the Company prevented further growth in these expenses by strictly managing fixed expenses. Personnel, which is the payment of salaries, bonuses and retirement payments, freight charges, marketing expenses and outsourcing expenses increased ¥2.6 billion, ¥0.9 billion, ¥0.7 billion, and ¥0.4 billion, respectively. Research and development expenses represented 5.0% of net sales, the same as in the previous fiscal year.

Other income (deductions) improved ¥3.3 billion from the previous fiscal year. While there was a ¥1.6 billion increase in foreign exchange losses, there was a ¥2.2 billion decrease in loss on securities, net and increase of ¥1.3 billion in equity in earnings of affiliates.

The ratio of income taxes to income from continuing operations before income taxes (the effective tax rate) decreased from 30.1% in fiscal 2003 to 21.7% in fiscal 2004. The decrease reflects decrease in additional valuation allowance provided during the year and the higher amounts of income earned in China, etc. during fiscal 2004, which were taxed at rates lower than the Company's effective rate for all other jurisdictions in which it pays income taxes.

The Company posted a net income of ¥42.1 billion, resulting in net income per diluted share of ¥317.69, compared with ¥90.56 in the previous fiscal year. The return on equity increased from 2.1% to 7.5%. Cash dividends per share paid during the fiscal year totaled ¥50. This dividend is the sum of the June 2003 year-end dividend of ¥25 and the December 2003 interim dividend of ¥25. Shareholders of record on March 31, 2004 received a cash dividend of ¥30 per share at the end of June 2004.

In fiscal 2004, consolidated net income included loss from discontinued operations of ¥1.3 billion related to TDK Semiconductor Corporation. See discussion at Discontinued Operations.

Discontinued Operations

On March 31, 2005, the Company entered into an agreement to sell all outstanding stock of its wholly owned subsidiary, TDK Semiconductor Corporation ("TSC") for ¥1.5 billion ($14 million) to Golden Gates Capital ("Buyer"). The sale of TSC is part of the Company's continuing shift away from non-core products and technologies. The sale agreement also includes earn-out payments, to be made by the Buyer to the Company, of up to ¥3.5 billion ($33 million). The payments are contingent upon certain milestones being met related to future revenue targets extending through 2007. The transaction was completed on April 8, 2005. The Company has accounted for the sale of TSC as a discontinued operation. The results of operations for this subsidiary have been reported as discontinued operations for all periods presented and selected financial information for the years ended March 31, 2005, 2004 and 2003 for the discontinued operations, are summarized as follows:

	Yen (Millions)			U.S. Dollars (Thousands)
	2005	2004	2003	**2005**
Net sales	**¥ 2,242**	3,070	4,015	**$20,953**
Loss from operations before income taxes (including loss on disposal of ¥454 million in 2005)	**3,509**	244	2,471	**32,794**
Income tax expense (benefit)	**156**	1,010	(897)	**1,458**
Loss from discontinued operations	**¥ 3,665**	1,254	1,574	**$34,252**
Loss from discontinued operations per share:				
Basic	**¥(27.70)**	(9.47)	(11.86)	**$ (0.26)**
Diluted	**(27.69)**	(9.46)	(11.86)	**(0.26)**

See Note 20 to the Consolidated Financial Statements for further discussion.

Liquidity and Capital Resources

OPERATING CAPITAL REQUIREMENTS

The Company's requirements for operating capital primarily are for the purchase of raw materials and parts for use in the manufacture of its products. These expenses are booked as manufacturing expenses and selling, general and administrative expenses. The payment of payroll expenses, marketing expenses accompanying sales activities, and distribution-related expenses account for a significant portion of operating expenses. Personnel expenses account for a significant portion of R&D expenses. The necessary funds for these expenses are provided from cash generated by operations.

CAPITAL EXPENDITURES

In fiscal 2005, capital expenditures on a cash basis rose ¥16.5 billion from ¥44.5 billion to ¥61.0 billion ($570 million). This was the result of aggressive investment in IT home electronics appliances; high-speed, large-capacity networks; and car electronics, which are fields the Company regards as strategically important for growth.

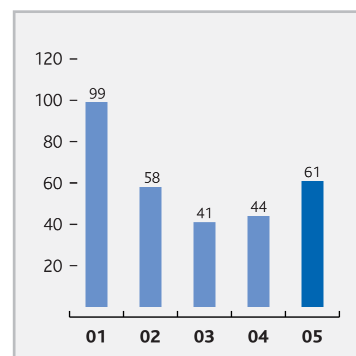
In the electronic materials and components segment, capital expenditures totaled ¥57.2 billion. The Company invested in the expansion of production capacity of HDD heads, facilities for rationalizing these activities and the development of technology for coping with increasing areal density. These investments centered mainly on China, the U.S. and the Philippines. Furthermore, investments were made to increase production and rationalize operations in multilayer chip capacitors and inductors, where growth in sales is expected due to acceleration in the pace at which electronics are being incorporated in automobiles, the increasingly sophisticated nature of mobile phones and other factors. These investments were made mainly in Japan and China.

In the recording media & systems segment, capital expenditures totaled ¥3.8 billion, mainly for facilities to increase DVD production.

The funds for these capital expenditures are provided from cash generated by operations.

Capital expenditures for fiscal 2004, which are described in detail on the following page increased by ¥3.5 billion, from ¥41.0 billion for fiscal 2003 to ¥44.5 billion.

Capital Expenditures
(Yen in billions)



In the electronic materials and components segment, due to the expansion of the market for recording devices, the Company has made investments principally in Asia, but also in the Americas and Japan, to increase production and rationalization for its recording devices. Other major expenditures include investments to increase production and rationalization for electronic materials and electronic devices (principally capacitors), and investments into the development of new products. Capital expenditures for fiscal 2004 of this segment increased by ¥1.7 billion from ¥38.4 billion to ¥40.1 billion.

In the recording media & systems segment, investments have been made in Europe and Japan to increase production and develop optical media products, whose market is expanding. Capital expenditures of this segment increased by ¥1.8 billion from ¥2.6 billion to ¥4.4 billion.

In principle, the funds for these capital expenditures are provided from cash generated by operations.

OFF-BALANCE SHEET ARRANGEMENTS

As part of its ongoing business, the Company does not conduct transactions with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which have been established for the purpose of facilitating off-balance sheet arrangements or other limited purposes.

On March 31, 2005, commitments outstanding for the purchase of property, plant and equipment approximated ¥12.3 billion ($115 million). The Company has entered into several purchase agreements with certain suppliers whereby the Company is committed to purchase a minimum amount of raw materials to be used in the manufacture of its products. Future minimum purchases remaining under the agreements approximated ¥3.8 billion ($36 million) at March 31, 2005. Contingent liabilities for guarantees of loans of the Company's employees and affiliates amounted to approximately ¥6.3 billion ($59 million).

The Company has various pension plans covering its employees. The unfunded amount as of March 31, 2005 was ¥42.3 billion ($396 million). The unfunded amount decreased by ¥47.7 billion as compared with last year mainly due to the transfer of the substitutional portion of EPF liabilities. As of March 31, 2005, ¥28.8 billion was accrued on the balance sheet as retirement and severance benefits, ¥44.7 billion less than a year ago.

Regarding loans, the Company essentially uses group funds, based on a policy of, in principle, not borrowing from banks or other outside sources. However, certain of the Company's overseas subsidiaries have their own credit facilities based on commercial paper issuing programs, allowing them to raise short-term funds should they be required.

Regarding the Company's capital expenditure plans, the Company's policy is to invest actively in targeted strategic fields to drive growth. Capital expenditures will be funded using internally generated funds.

The Company is planning capital expenditures of ¥65.0 billion in fiscal 2006, primarily for the expansion of production facilities and upgrading of facilities. Actual capital expenditures could differ from this forecast as a result of factors such as shifts in technology, demand, prices, competition, economic environments and foreign exchange rates.

Contractual obligations on March 31, 2005 are summarized as follows:

	Payments Due by Period (Yen in millions)				
	Total	Less than 1 year	1 to 3 years	3 to 5 years	After 5 years
Contractual obligations:					
Long-term debt	¥ 184	103	74	7	–
Operating leases	6,808	2,355	2,830	900	723
Purchase commitment of raw materials	3,841	3,247	291	177	126
Purchase commitment of property, plant and equipment	12,292	12,292	–	–	–
Total	¥23,125	17,997	3,195	1,084	849

FINANCIAL MANAGEMENT

Operating capital and capital expenditures are, in principle, funded by cash generated through operating activities. To improve capital efficiency, to the extent possible, the Company centralizes financial management in the Head Office, having introduced a cash management system (CMS) in Japan, the U.S. and Europe. Surplus funds are invested with an emphasis on low risk and liquidity. Funds from within the group will be utilized, to the extent possible, to extend financing to subsidiaries that cannot procure operating capital or funds for capital expenditures themselves.

CASH FLOWS

Years ended March 31	Yen in millions		
	2005	2004	2003
Income from continuing operations	**¥ 36,965**	43,355	13,593
Adjustments to reconcile net income to net cash provided by operating activities	**56,617**	70,465	92,323
Net cash provided by operating activities	**93,582**	113,820	105,916
Net cash used in investing activities	**(60,863)**	(37,647)	(46,220)
Net cash used in financing activities	**(9,458)**	(9,661)	(7,925)
Net cash provided by (used in) discontinued operations	**(1,625)**	761	(1,983)
Effect of exchange rate changes on cash and cash equivalents	**2,717**	(10,669)	(4,998)
Net change in cash and cash equivalents	**¥ 24,353**	56,604	44,790

Fiscal 2005 cash and cash equivalents increased ¥24.3 billion from ¥227.2 billion to ¥251.5 billion ($2,351 million). Operating activities provided net cash of ¥93.6 billion ($875 million), ¥20.2 billion less than in fiscal 2004. The major component of cash provided by operating activities was depreciation and amortization of ¥52.8 billion, up ¥2.1 billion. In terms of changes in assets and liabilities, inventories decreased ¥11.3 billion, the result of efforts to reduce inventories, while retirement and severance benefits declined ¥6.8 billion due to the transfer of the substitutional portion of EPF liabilities and changes to the pension system. In addition, trade payables and accrued expenses decreased ¥8.0 billion and ¥11.4 billion, respectively, and income taxes payables, net increased ¥8.8 billion.

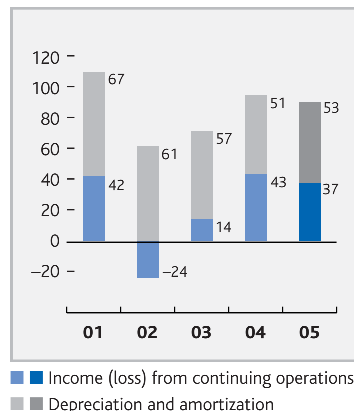
Investing activities used net cash of ¥60.9 billion ($569 million), ¥23.3 billion more than the ¥37.6 billion used in the previous fiscal year. The Company used ¥61.0 billion for capital expenditures, ¥16.5 billion more than in fiscal 2004, as a result of making aggressive investments to drive growth. Furthermore, payment for purchase of investments in securities increased ¥2.4 billion year over year. Regarding research and development expenses, the Company's policy is to focus investments in the strategic fields of IT home electronic appliances, high-speed and large-capacity networks and car electronics. Funds for research and development will be appropriated from internal funds.

Financing activities used net cash of ¥9.5 billion ($88 million), a decrease of ¥0.2 billion from the ¥9.7 billion used in fiscal 2004. There was an increase of ¥1.3 billion in dividends paid due to the increase in the dividend. On the other hand, there was a decline in the repayment of debt because debt has been virtually eliminated.

Regarding procurement costs, the Company has long-term corporate credit ratings of AA- and A1 from Standard & Poor's and Moody's, respectively. Furthermore, Standard & Poor's gives the Company their highest short-term credit rating, A-1+, and the Company's U.S. subsidiaries have been given the highest short-term rating of P-1 by Moody's. These ratings allow the Company to procure funds if needed at low interest rates.

The Company's fundamental policy is to give consideration to a consistent increase in dividends based on factors such as the return on equity (ROE), dividends as a percentage of equity (DOE) and the Company's results of operations on a consolidated basis. Funds for paying dividends are allocated from internal funds.

Net Cash Flows
(Yen in billions)



In the dynamically changing electronics industry, it is necessary to make well-timed investments. Given this need, and the possibility that unstable financial conditions will continue in Japan, the Company's policy is to maintain a high level of liquidity. The Company thus has no immediate plans to repurchase its stock.

The Company estimates that operating cash flows and other internal resources will provide adequate liquidity in fiscal 2006. Regarding cash flows for the fiscal years ending March 31, 2006 and onward, the Company expects to provide the necessary funds from operating cash flows by increasing profitability and improving the return on assets.

Fiscal 2004 cash and cash equivalents increased ¥56.6 billion to ¥227.2 billion from ¥170.6 billion in the previous fiscal year. Operating activities provided net cash of ¥113.8 billion, a year-on-year increase of ¥7.9 billion. This reflected mainly a ¥30.1 billion increase in net income to ¥42.1 billion and a ¥6.4 billion decrease in depreciation and amortization to ¥50.7 billion, as well as decreases in trade receivables and inventories of ¥5.0 billion and ¥21.4 billion, respectively. Regarding the shortfall in pension assets, the Company plans to take action in response to certain recent reforms to the pension system, including transferring the substitutional portion of Employees' Pension Fund ("EPF") liabilities.

Investing activities used net cash of ¥37.6 billion, a decrease of ¥8.6 billion from ¥46.2 billion in the previous fiscal year. The main factor was a ¥6.2 billion decrease in payment for purchase of other investments to ¥0.4 billion. Regarding research and development expenses, the Company's policy is to focus investments in the strategic fields of IT home electronic appliances, high-speed and large-capacity networks and car electronics. Funds for research and development will be appropriated from internal funds.

Financing activities used net cash of ¥9.7 billion, ¥1.8 billion more than the ¥7.9 billion in cash used in the previous fiscal year. This mainly represented an increase of ¥0.8 billion in repayments of short-term debt and a ¥0.7 billion increase in dividends paid.

Fiscal 2003 cash and cash equivalents increased ¥44.8 billion to ¥170.6 billion, from ¥125.8 billion in the previous fiscal year. Operating activities provided net cash of ¥105.9 billion, a year over year increase of ¥61.7 billion. This reflected mainly a ¥37.8 billion increase in net income to ¥12.0 billion; a decrease of ¥3.8 billion in depreciation and amortization to ¥57.1 billion; a decrease in inventories of ¥14.9 billion; and an increase of ¥20.9 billion in trade payables. Regarding the shortfall in pension assets, the Company is currently considering reforms to the pension system, including transferring the substitutional portion of employee pension fund liabilities.

Investing activities used net cash of ¥46.2 billion, a decrease of ¥11.3 billion, from ¥57.5 billion in the previous fiscal year. The main factor was a ¥17.3 billion decrease in capital expenditures to ¥41.0 billion. Regarding research and development expenses, the Company's policy is to focus investments in the strategic fields of IT home electronic appliances, high-speed and large-capacity networks and car electronics. Funds for research and development will be appropriated from internal funds.

Financing activities used net cash of ¥7.9 billion, ¥5.3 billion less than the ¥13.2 billion in cash used in the previous fiscal year. This mainly represented a ¥3.3 billion decrease in repayments of short-term debt and a ¥2.0 billion decrease in dividends paid.

FINANCIAL POSITION

Yen in millions (%)

Years ended March 31	2005		2004		2003	
Short-term debt	**¥ –**	**–**	315	(0.1)	1,431	(0.3)
Current installments of long-term debt	**103**	**(0.0)**	101	(0.0)	488	(0.1)
Long-term debt, excluding current installments	**81**	**(0.0)**	27	(0.0)	94	(0.0)
Stockholders' equity	**639,067**	**(100.0)**	576,219	(99.9)	553,885	(99.6)
Total capital	**¥639,251**	**(100.0)**	576,662	(100.0)	555,898	(100.0)

Total assets amounted to ¥808.0 billion ($7,551 million) as of March 31, 2005, up ¥37.7 billion from ¥770.3 billion at the previous fiscal year-end. As of March 31, 2005, cash and cash equivalents were ¥251.5 billion ($2,351 million), ¥24.3 billion higher than ¥227.2 billion a year ago. Trade receivables were ¥148.0 billion ($1,383 million), ¥9.7 billion higher than ¥138.3 billion a year ago. Property, plant and equipment increased ¥8.1 billion from ¥208.9 billion to ¥217.0 billion ($2,028 million) and noncurrent deferred income taxes decreased ¥25.5 billion from ¥34.1 billion to ¥8.6 billion ($81 million).

Total liabilities decreased ¥27.0 billion from ¥190.8 billion to ¥163.8 billion ($1,531 million). Trade payables rose ¥2.2 billion from ¥59.9 billion to ¥62.1 billion ($580 million), and income taxes payables increased ¥14.6 billion from ¥4.7 billion to ¥19.3 billion ($180 million). However, retirement and severance benefits declined ¥44.7 billion from ¥73.5 billion to ¥28.8 billion ($270 million) due to the transfer of

the substitutional portion of EPF liabilities and changes to the pension system. Accrued expenses decreased ¥2.4 billion from ¥33.4 billion to ¥31.0 billion ($290 million).

Total stockholders' equity increased ¥62.9 billion from ¥576.2 billion to ¥639.1 billion ($5,973 million). Retained earnings increased ¥24.8 billion from ¥560.8 billion to ¥585.6 billion ($5,472 million) and accumulated other comprehensive loss decreased ¥38.7 billion from ¥90.4 billion to ¥51.7 billion ($483 million).

Total assets amounted to ¥770.3 billion as of March 31, 2004, up ¥23.0 billion from ¥747.3 billion at the previous fiscal year-end. As of March 31, 2004, cash and cash equivalents were ¥227.2 billion, ¥56.6 billion higher than ¥170.6 billion a year ago. However, property, plant and equipment decreased ¥17.0 billion to ¥208.9 billion from ¥225.9 billion, and noncurrent deferred income taxes decreased ¥9.8 billion to ¥34.1 billion from ¥43.9 billion.

Total liabilities increased ¥0.7 billion, from ¥190.1 billion to ¥190.8 billion. Trade payables increased ¥2.9 billion, from ¥57.0 billion to ¥59.9 billion, accrued expenses increased ¥5.3 billion from ¥28.1 billion to ¥33.4 billion, and income taxes payables increased ¥3.6 billion, from ¥1.1 billion to ¥4.7 billion. Retirement and severance benefits decreased ¥11.5 billion, from ¥85.0 billion to ¥73.5 billion.

Total stockholders' equity increased ¥22.3 billion, from ¥553.9 billion to ¥576.2 billion. Retained earnings rose ¥34.9 billion, from ¥525.9 billion to ¥560.8 billion, while accumulated other comprehensive loss rose ¥11.6 billion, from ¥78.8 billion to ¥90.4 billion.

Research and development, patents and licenses, etc.

R&D expenditures amounted to ¥36.3 billion ($340 million), 5.5% of net sales in fiscal 2005; ¥32.9 billion, 5.0% of net sales in fiscal 2004; and ¥30.1 billion, 5.0% of net sales in fiscal 2003.

In its R&D activities, the group continues to work on strengthening and expanding development of new products that respond to diversification in the electronics market. In particular, the group is concentrating on next-generation recording-related products, micro electronics modules for mobile communications-related applications, and energy-efficient, environmentally friendly devices based on materials and design technologies. Furthermore, the group is using its reservoir of technologies to conduct efficient R&D activities concentrating in three strategic areas: IT home electronic appliances; high-speed and large-capacity networks and car electronics.

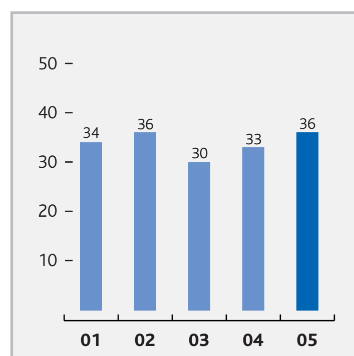
In the electronic materials and components field, development themes include commercialization of optimum ferrite materials for transformers and choke coils that possess both a high saturation magnetic flux density and a low core loss, commercialization of 100Gbpsi GMR heads for HDDs, development of next-generation magnetic recording technology and development of high-frequency-related components for mobile communications applications. In the recording media & systems field, the group has made progress with research on next-generation DVD-related products, including commercialization of Blu-ray discs. Furthermore, in EMC-related areas, which draw on the Company's materials technologies, the Company is working toward the commercialization of products designed for the increasingly higher frequencies used in electronic devices.

R&D at the Company is conducted by the Materials R&D Center, Advanced Process Technology Center, Devices Development Center, Production Engineering Development Center, Materials Analysis Center, Application Center, Silicon System Development Dept., New Business Development Dept. and the R&D functions of each operating group. Each facility is developing new products and technologies in its respective area of responsibility. The Application Center devises the necessary application technologies with the aim of keeping the Company in step with market trends and customer needs. The Materials R&D Center is responsible for research in magnetic and dielectric materials that use powder metallurgy. The Advanced Process Technology Center facilitates the use of cutting-edge process technologies. The Devices Development Center conducts research in next-generation recording and communications technologies as well as new devices.

In terms of overseas R&D activities, the Company is conducting R&D in collaboration with leading universities in the U.S. and U.K., and overseas R&D subsidiaries are making use of local technological resources. In China, where the Company is aiming to establish and develop an operating base capable of supporting growth, R&D activities are being carried out in the area of electronic components and materials. In addition, consolidated subsidiary Headway Technologies, Inc. is developing next-generation HDD heads.

Although the Company has a variety of patents in Japan and other countries, and licenses from other companies,

Research and Development
(Yen in billions)



it believes that expiration of any one of its patents or licenses or related group of patents or licenses would not materially adversely affect its business activities. Total income from patents and licenses was ¥0.5 billion ($5 million) in fiscal 2005, ¥0.1 billion in fiscal 2004 and ¥0.2 billion in fiscal 2003. The Company paid ¥9.3 billion ($87 million) in fiscal 2005, ¥8.1 billion in fiscal 2004 and ¥7.9 billion in fiscal 2003 for patents and licenses, mainly royalties for licenses related to the recording devices business. The Company does not believe that acquisition of new proprietary patents or other companies' patents would have a material effect on operating results in the future.

MARKET RISK MANAGEMENT

MARKET RISK EXPOSURE

The Company is subject to market risk associated with changes in stock prices, interest rates and foreign currency exchange rates. Foreign exchange risk is considered as the primary market risk exposure. The Company has a policy for the procedures and controls to manage market risk sensitive instruments. In order to hedge interest rate risk and foreign currency exchange rate risk, the Company uses derivative financial instruments. The Company does not hold or issue derivative financial instruments for trading purposes.

FOREIGN EXCHANGE AND INTEREST RATE RISK

Forward exchange contracts and currency swap contracts have been entered into to hedge adverse effects of foreign currency exchange rate fluctuations mainly on foreign-currency-denominated trade receivables and foreign-currency-denominated forecasted transactions.

At March 31, 2005 and 2004, the Company and certain of its subsidiaries had forward exchange contracts to sell and buy foreign currencies (principally U.S. dollars and Japanese Yen) and currency option contracts for a contract amount of ¥29.0 billion ($271 million) and ¥35.0 billion, respectively.

The Company and one of its subsidiaries have currency swaps and interest rate and currency swaps with certain financial institutions to limit their exposure to fluctuations in foreign exchange rates and interest rates involved mainly with loans made by the Company to its subsidiaries in a total amount of ¥11.1 billion ($103 million) and ¥12.6 billion at March 31, 2005 and 2004, respectively. These swaps require the Company and the subsidiary to pay principally euros and U.S. dollars and to receive Japanese yen at a specified rate on specific dates. The remaining term of these swaps is one month as of March 31, 2005.

The Company's exposure to market risk related to changes in interest rates relates primarily to its debt securities. The Company has debt securities with fixed rates. The Company, to the extent possible, plans to limit debt securities to short-term debt securities. The Company believes that the fair values of interest rate sensitive instruments as of March 31, 2005 and 2004, and potential, near-term losses affecting future earnings, fair values, and/or cash flows from reasonable near-term changes in interest rates are immaterial.

STOCK PRICE RISK

The Company's exposure to market risk involving changes in stock prices relates only to its equity securities categorized as available-for-sale securities. The Company purchases equity securities for the purpose of acquiring technological information and as part of its sales strategy, and not as a means of investing surplus funds. The aggregate cost and fair value of these equity securities were ¥6.0 billion ($56 million) and ¥7.0 billion ($65 million) as of March 31, 2005, and ¥2.8 billion and ¥3.8 billion as of March 31, 2004, respectively. As of March 31, 2005, these securities mainly represented investments in companies in the transportation, communications and electronic equipment industries, and the cost and fair value of these equity securities were ¥5.6 billion ($53 million) and ¥6.5 billion ($61 million), respectively. As of March 31, 2004, these securities mainly represented investments in companies in the communications and electronic equipment industries, and the cost and fair value of the equity securities were ¥2.4 billion and ¥3.3 billion, respectively.

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are those that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

The following is not intended to be a comprehensive list of all of the Company's accounting policies. The Company's significant accounting policies are more fully described in Note 1 to the Consolidated Financial Statements. In many cases, the accounting treatment of a particular transaction is specifically dictated by U.S. generally accepted accounting principles, with no need for management's judgment in their application. There are also areas in which management's judgment in selecting an available alternative would not produce a materially different result.

The Company has identified the following as critical accounting policies: impairment of long-lived assets, valuation of inventories, goodwill and other intangible assets, pension benefit costs, and deferred tax assets.

IMPAIRMENT OF LONG-LIVED ASSETS

As of March 31, 2005 and 2004, the aggregate of the Company's property, plant and equipment and amortized intangible assets was ¥229.6 billion and ¥223.1 billion, which accounted for 28.4% and 29.0% of the total assets, respectively. The Company believes that impairment of long-lived assets are critical to the Company's financial statements

because the recoverability of the amounts or lack thereof, could significantly affect its results of operations.

The Company's long-lived assets and certain identifiable intangibles are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. This review is performed using estimates of future cash flows. If the carrying amount of the asset is considered to be impaired, an impairment charge is recorded for the amount by which the carrying value of an asset exceeds its fair value. Management believes that the estimates of future cash flows and fair values are reasonable; however, changes in estimates resulting in lower future cash flows and fair value due to unforeseen changes in business assumptions could negatively affect the valuation of those long-lived assets and significantly affect the Company's financial position and results of operations. These unforeseen changes include a possible further decline in demand and price for optical media products due to a shift in demand from CD-Rs to DVD related products including Blu-ray discs. The Company makes investments with due prudence, taking sufficiently into consideration the future profitability of products and the recoverability of investments.

VALUATION OF INVENTORIES

Inventories are stated at the lower of cost or market, with cost determined on the average cost method. The carrying value of inventory is reduced for estimated obsolescence by the difference between its cost and the estimated market value based upon assumptions about future demand. The Company evaluates the inventory carrying value for potential excess and obsolete inventory exposures by analyzing historical and anticipated demand. In addition, known and anticipated engineering change orders are evaluated against on-hand quantities for their potential obsolescence affects. As fluctuations in estimates, which become a standard in recognizing adjustments in the carrying values of inventory for expected obsolescence, are influential to business results of the Company, we conclude it as a critical accounting policy. If actual demand were to be substantially lower than estimated, additional inventory adjustments for excess or obsolete inventory may be required, which could have a material adverse effect on the Company's business, financial condition and results of operations.

Regarding the appropriateness of estimates in the past, the Company does not take a method to assume various scenarios, but a method to reconsider every quarter by comparing estimate and actual results. For example, in the operation management of product sector with rapid development in technological innovation such as the recording devices sector, the Company revises the estimates of valuation of obsolete inventories arising from the timely response to customers' demands for high-efficiency products on a quarterly basis.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets that are determined to have an indefinite life are not amortized and are tested for impairment on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of these assets below their carrying amount. Fair value for these assets is determined using a discounted cash flow analysis, which is based on an authorized business plan. Management believes that the estimates of future cash flows and fair value are reasonable; however, changes in estimates resulting in lower future cash flows and fair value due to unforeseen changes in business assumptions could negatively affect the valuations.

PENSION BENEFIT COSTS

Employee pension benefit costs and obligations are dependent on assumptions used by actuaries in calculating such amounts. These assumptions include discount rates, retirement rates and mortality rates which are based upon current statistical data, as well as salary growth, long-term return on plan assets and other factors. Actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect the Company's recognized expense and recorded obligation in future periods. While the Company believes that its assumptions used are appropriate, differences in actual experience or changes in assumptions may affect the Company's benefit obligations and future expense.

In preparing its financial statements for fiscal 2005, the Company established a discount rate of 2.1% and an expected long-term rate of return of 2.2% on plan assets. In estimating the discount rate, the Company uses available information about rates of return on long-term risk free governmental and corporate bonds currently available and expected to be available during the period to the maturity of the pension benefits. The Company established the expected long-term rate of return on plan assets based on management's expectations in respect of the long-term returns of the various plan asset categories in which it invests. Management developed expectations with respect to each plan asset category based on actual historical returns and its current expectations for future returns.

A decrease in the discount rate leads to an increase in actuarial pension benefit obligations that could lead to an increase in net periodic pension cost through amortization of unrecognized actuarial gain or losses. A 50 basis point decrease in the discount rate would increase the projected benefit obligation by approximately 10%.

An increase in the expected return on plan assets may decrease net periodic pension cost in the current year. For fiscal 2005, a 50 basis point decrease in the long-term rate of return would increase net benefit cost by approximately ¥0.7 billion. However, the difference between the expected

return and the actual return on those assets could negatively affect net income in future years.

DEFERRED TAX ASSETS

The Company has significant deferred tax assets, which are subject to realizability assessment. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the planned reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes that it is more likely than not that all of the deferred tax assets less valuation allowance, will be realized. However, in the event future projections for income are not realized or are realized in lesser amounts, or in cases where management revises the assessment of the potential for realization of deferred tax assets based on other factors, deferred tax assets may be determined not to be realizable, which then would require the Company to increase a valuation allowance against the deferred tax assets resulting in additional income tax expenses.

New Accounting Standards

In March 2004, the Emerging Issues Task Force reached a consensus on Issue 03-1 ("EITF 03-1"), "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments". EITF 03-1 provides guidance on other-than-temporary impairment models for marketable debt and equity securities accounted for under Statement of Financial Accounting Standards No. 115 ("SFAS 115"), "Accounting for Certain Investments in Debt and Equity Securities", and nonmarketable equity securities accounted for under the cost method. The EITF developed a basic three-step model to evaluate whether an investment is other-than-temporarily impaired. The FASB issued a FASB Staff Position EITF 03-1-1 in September 2004 which delayed the effective date of the recognition and measurement provisions of EITF 03-1. The adoption of EITF 03-1 is not expected to have a material effect on the Company's consolidated results of operations and financial position.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004), "Share Based Payment" ("SFAS 123R"). SFAS 123R is a revision of SFAS 123, "Accounting for Stock Based Compensation", and supersedes APB 25. SFAS 123R requires the Company to measure the cost of employee services received in exchange for equity awards based on the grant date fair value of the awards. The cost will be recognized as compensation expense over the vesting period of the awards. In April 2005, the Securities and Exchange Commission deferred the effective date of SFAS 123R to the beginning of the first annual period after June 15, 2005. The Company is currently evaluating the effect that the adoption of SFAS 123R will have on the Company's consolidated financial position and results of operations.

In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151 ("SFAS 151"), "Inventory Costs – an amendment of Accounting Research Bulletin No. 43 ("ARB 43"), Chapter 4". SFAS 151 amends the guidance in ARB 43, Chapter 4, "Inventory Pricing", to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). SFAS 151 requires that items such as idle facility expense, excessive spoilage, double freight and rehandling costs be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal" as stated in ARB 43. In addition, SFAS 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS 151 is effective for inventory costs incurred in fiscal periods beginning after June 15, 2005. The Company does not expect the adoption of SFAS 151 to have a material effect on the Company's consolidated financial position and results of operations.

Forward-Looking Statements

This report contains forward-looking statements, including projections, plans, policies, management strategies, targets, schedules, understandings and evaluations, about the Company and its subsidiaries 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 report was prepared.

In preparing forecasts and estimates, the Company and its subsidiaries have used as their basis, 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. The Company therefore wishes to caution readers that these statements, facts and certain assumptions contained in this report are subject to a number of risks and uncertainties and may prove to be inaccurate.

The electronics markets in which the Company and its subsidiaries operate are highly susceptible to rapid changes. Furthermore, the Company and its subsidiaries 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.

SEGMENT INFORMATION

The following industry and geographic segment information is required by the Japanese Securities Exchange Law. Segment information is unaudited.

Industry Segment Information

Years ended March 31	Yen (Millions) 2005		2004		U.S. Dollars (Thousands) 2005		Change (%)
ELECTRONIC MATERIALS AND COMPONENTS							
Net sales							
Unaffiliated customers	**¥545,214**		519,792		**$5,095,458**		4.9
Intersegment	**–**		–		**–**		
Total revenue	**545,214**	**(100.0%)**	519,792	(100.0%)	**5,095,458**	**(100.0%)**	4.9
Operating expenses	**477,694**	**(87.6%)**	461,077	(88.7%)	**4,464,430**	**(87.6%)**	3.6
Operating income	**¥ 67,520**	**(12.4%)**	58,715	(11.3%)	**$ 631,028**	**(12.4%)**	15.0
Identifiable assets	**537,593**		505,178		**5,024,233**		
Depreciation and amortization	**47,409**		46,293		**443,075**		
Capital expenditures	**57,192**		40,084		**534,505**		
RECORDING MEDIA & SYSTEMS							
Net sales							
Unaffiliated customers	**¥112,639**		136,000		**$1,052,701**		–17.2
Intersegment	**–**		–		**–**		
Total revenue	**112,639**	**(100.0%)**	136,000	(100.0%)	**1,052,701**	**(100.0%)**	–17.2
Operating expenses	**120,329**	**(106.8%)**	138,205	(101.6%)	**1,124,570**	**(106.8%)**	–12.9
Operating income (loss)	**¥ (7,690)**	**(–6.8%)**	(2,205)	(–1.6%)	**$ (71,869)**	**(–6.8%)**	–248.8
Identifiable assets	**84,160**		97,186		**786,542**		
Depreciation and amortization	**5,397**		4,433		**50,439**		
Capital expenditures	**3,813**		4,387		**35,635**		
ELIMINATIONS AND CORPORATE							
Corporate assets	**¥186,248**		167,955		**$1,740,636**		
TOTAL							
Net sales							
Unaffiliated customers	**¥657,853**		655,792		**$6,148,159**		0.3
Intersegment	**–**		–		**–**		
Total revenue	**657,853**	**(100.0%)**	655,792	(100.0%)	**6,148,159**	**(100.0%)**	0.3
Operating expenses	**598,023**	**(90.9%)**	599,282	(91.4%)	**5,589,000**	**(90.9%)**	–0.2
Operating income	**¥ 59,830**	**(9.1%)**	56,510	(8.6%)	**$ 559,159**	**(9.1%)**	5.9
Identifiable and corporate assets	**808,001**		770,319		**7,551,411**		
Depreciation and amortization	**52,806**		50,726		**493,514**		
Capital expenditures	**61,005**		44,471		**570,140**		

Note: In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", certain amounts in the segment information do not reflect discontinued operations, fiscal 2004's segment information has been reclassified to conform to the fiscal 2005 presentation.

Geographic Segment Information

Years ended March 31	Yen (Millions) 2005	2004	U.S. Dollars (Thousands) 2005	Change (%)
JAPAN				
Net sales	**¥339,493**	329,782	**$3,172,832**	2.9
Operating income	**26,382**	8,538	**246,561**	209.0
Identifiable assets	**305,717**	316,695	**2,857,168**	–3.5
AMERICAS				
Net sales	**87,594**	100,971	**818,636**	–13.2
Operating income	**5,496**	4,985	**51,364**	10.3
Identifiable assets	**70,844**	65,584	**662,093**	8.0
EUROPE				
Net sales	**71,682**	80,641	**669,925**	–11.1
Operating income (loss)	**(5,125)**	(115)	**(47,897)**	–
Identifiable assets	**44,961**	51,797	**420,196**	–13.2
ASIA AND OTHERS				
Net sales	**400,866**	380,781	**3,746,411**	5.3
Operating income	**33,551**	42,912	**313,561**	–21.8
Identifiable assets	**263,621**	228,058	**2,463,748**	15.6
ELIMINATIONS AND CORPORATE				
Net sales	**241,782**	236,383	**2,259,645**	
Operating income (loss)	**474**	(190)	**4,430**	
Identifiable assets	**122,858**	108,185	**1,148,206**	
TOTAL				
Net sales	**¥657,853**	655,792	**$6,148,159**	0.3
Operating income	**59,830**	56,510	**559,159**	5.9
Identifiable and corporate assets	**808,001**	770,319	**7,551,411**	4.9

Overseas Sales	Yen 2005	%	2004	%	U.S. Dollars 2005	%	Change (%)
Americas	**¥ 77,813**	**(11.8%)**	88,734	(13.5%)	**$ 727,224**	**(11.8%)**	–12.3
Europe	**71,702**	**(10.9%)**	80,710	(12.3%)	**670,112**	**(10.9%)**	–11.2
Asia and others	**324,313**	**(49.3%)**	317,725	(48.5%)	**3,030,963**	**(49.3%)**	2.1
Overseas sales total	**¥473,828**	**(72.0%)**	487,169	(74.3%)	**$4,428,299**	**(72.0%)**	–2.7

Note: In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", certain amounts in the segment information do not reflect discontinued operations, fiscal 2004's segment information has been reclassified to conform to the fiscal 2005 presentation.

FIVE-YEARS FINANCIAL SUMMARY

Years ended March 31

	Yen (Millions)				
	2005	2004	2003	2002	2001
Net sales	**¥657,853**	655,792	604,865	564,286	665,867
Electronic materials and components	**545,214**	519,792	468,514	426,661	538,853
Recording media & systems	**112,639**	136,000	136,351	137,625	127,014
(Overseas sales)	**473,828**	487,169	439,381	399,508	444,588
Cost of sales	**484,323**	476,407	459,552	463,331	493,068
Selling, general and administrative expenses	**119,886**	122,875	115,569	115,696	123,965
Transfer to the government of the substitutional portion of Employees' Pension Fund:					
Subsidy from the government	**(33,533)**	–	–	–	–
Loss on settlement	**27,347**	–	–	–	–
Restructuring cost	**–**	–	5,197	25,489	–
Income (loss) from continuing operations before income taxes	**60,728**	55,847	20,552	(40,230)	61,223
Income taxes	**23,284**	12,133	6,193	(15,679)	18,268
Income (loss) from continuing operations	**36,965**	43,355	13,593	(23,619)	42,214
Loss (income) from discontinued operations, net of tax	**3,665**	1,254	1,574	2,152	(1,769)
Net income (loss)	**33,300**	42,101	12,019	(25,771)	43,983
Per common share (yen):					
Income (loss) from continuing operations:					
Basic	**279.41**	327.27	102.42	(177.72)	317.25
Diluted	**279.25**	327.15	102.42	(177.72)	317.25
Loss (income) from discontinued operations, net of tax:					
Basic	**(27.70)**	(9.47)	(11.86)	(16.19)	13.29
Diluted	**(27.69)**	(9.46)	(11.86)	(16.19)	13.29
Net income (loss):					
Basic	**251.71**	317.80	90.56	(193.91)	330.54
Diluted	**251.56**	317.69	90.56	(193.91)	330.54
Cash dividends	**60.00**	50.00	45.00	60.00	60.00
Working capital	**379,746**	360,555	315,948	288,865	306,771
Stockholders' equity	**639,067**	576,219	553,885	583,927	637,749
Total assets	**808,001**	770,319	747,337	749,910	820,177
Capital expenditures	**61,005**	44,471	41,026	58,347	98,659
Depreciation and amortization	**52,806**	50,726	57,132	60,981	67,235
Research and development	**36,348**	32,948	30,099	35,530	34,112
Number of employees	**37,115**	36,804	31,705	32,249	37,251

CONSOLIDATED STATEMENTS OF INCOME

TDK Corporation and Subsidiaries years ended March 31, 2005, 2004 and 2003

	Yen (Millions)			U.S. Dollars (Thousands) (Note 2)
	2005	2004	2003	**2005**
Net sales (Note 19)	**¥657,853**	655,792	604,865	**$6,148,159**
Cost of sales	**484,323**	476,407	459,552	**4,526,383**
Gross profit	**173,530**	179,385	145,313	**1,621,776**
Selling, general and administrative expenses	**119,886**	122,875	115,569	**1,120,430**
Transfer to the government of the substitutional portion of Employees' Pension Fund (Note 8):				
Subsidy from the government	**(33,533)**	–	–	**(313,392)**
Loss on settlement	**27,347**	–	–	**255,579**
Restructuring cost (Note 16)	**–**	–	5,197	**–**
Operating income	**59,830**	56,510	24,547	**559,159**
Other income (deductions):				
Interest and dividend income	**1,692**	1,189	1,379	**15,813**
Interest expense	**(967)**	(323)	(577)	**(9,037)**
Equity in earnings of affiliates	**1,765**	1,639	361	**16,495**
Loss on securities, net (Note 4)	**(142)**	(1,093)	(3,298)	**(1,327)**
Foreign exchange gain (loss)	**(856)**	(3,064)	(1,479)	**(8,000)**
Other – net	**(594)**	989	(381)	**(5,552)**
	898	(663)	(3,995)	**8,392**
Income from continuing operations before income taxes	**60,728**	55,847	20,552	**567,551**
Income taxes (Note 7)	**23,284**	12,133	6,193	**217,607**
Income from continuing operations before minority interests	**37,444**	43,714	14,359	**349,944**
Minority interests, net of tax	**479**	359	766	**4,477**
Income from continuing operations	**36,965**	43,355	13,593	**345,467**
Discontinued operations (Note 20):				
Loss from operations of discontinued TSC (including loss on disposal of ¥454 million in 2005)	**3,509**	244	2,471	**32,794**
Income tax expense (benefit)	**156**	1,010	(897)	**1,458**
Loss from discontinued operations	**3,665**	1,254	1,574	**34,252**
Net income	**¥ 33,300**	42,101	12,019	**$ 311,215**

	Yen (except number of common shares outstanding)			U.S. Dollars
Amounts per share:				
Income from continuing operations per share (Note 18):				
Basic	**¥ 279.41**	327.27	102.42	**$ 2.61**
Diluted	**279.25**	327.15	102.42	**2.61**
Loss from discontinued operations per share (Note 18):				
Basic	**¥ (27.70)**	(9.47)	(11.86)	**$(0.26)**
Diluted	**(27.69)**	(9.46)	(11.86)	**(0.26)**
Net income per share (Note 18):				
Basic	**¥ 251.71**	317.80	90.56	**$ 2.35**
Diluted	**251.56**	317.69	90.56	**2.35**
Weighted average basic common shares outstanding (in thousands) (Note 18)	**132,293**	132,475	132,716	
Weighted average diluted common shares outstanding (in thousands) (Note 18)	**132,376**	132,523	132,716	
Cash dividends paid during the year (Note 9)	**¥ 60.00**	50.00	45.00	**$ 0.56**

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

TDK Corporation and Subsidiaries March 31, 2005 and 2004

	Yen (Millions)		U.S. Dollars (Thousands) (Note 2)
ASSETS	**2005**	2004	**2005**
Current assets:			
Cash and cash equivalents	**¥ 251,508**	227,155	**$ 2,350,542**
Marketable securities (Note 4)	**1,609**	402	**15,037**
Trade receivables (Note 19):			
Notes	**6,133**	6,431	**57,317**
Accounts	**144,426**	133,900	**1,349,776**
Allowance for doubtful receivables	**(2,560)**	(2,000)	**(23,925)**
Net trade receivables	**147,999**	138,331	**1,383,168**
Inventories (Note 5)	**74,924**	77,301	**700,224**
Income tax receivables (Note 7)	**204**	763	**1,907**
Assets held for sale (Note 20)	**993**	–	**9,280**
Prepaid expenses and other current assets (Note 7)	**33,366**	31,821	**311,832**
Total current assets	**510,603**	475,773	**4,771,990**
Investments in securities (Note 4)	**22,698**	18,381	**212,131**
Property, plant and equipment, at cost:			
Land	**20,097**	20,464	**187,822**
Buildings	**181,581**	176,256	**1,697,019**
Machinery and equipment	**445,636**	471,247	**4,164,823**
Construction in progress	**15,206**	10,312	**142,112**
	662,520	678,279	**6,191,776**
Less accumulated depreciation	**(445,551)**	(469,334)	**(4,164,028)**
Net property, plant and equipment	**216,969**	208,945	**2,027,748**
Goodwill (Note 17)	**9,210**	10,029	**86,075**
Intangible assets (Note 17)	**13,247**	15,027	**123,804**
Deferred income taxes (Note 7)	**8,633**	34,140	**80,682**
Other assets (Notes 8 and 12)	**26,641**	8,024	**248,981**
	¥ 808,001	770,319	**$ 7,551,411**

See accompanying notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	Yen (Millions)		U.S. Dollars (Thousands) (Note 2)
	2005	2004	2005
Current liabilities:			
Short-term debt (Note 6)	¥ –	315	$ –
Current installments of long-term debt (Note 6)	103	101	963
Trade payables:			
Notes	638	635	5,963
Accounts	61,454	59,282	574,336
Accrued salaries and wages	12,915	12,085	120,701
Accrued expenses	31,065	33,449	290,327
Income taxes payables (Note 7)	19,283	4,689	180,215
Liabilities held for sale (Note 20)	92	–	860
Other current liabilities (Note 7)	5,307	4,662	49,598
Total current liabilities	130,857	115,218	1,222,963
Long-term debt, excluding current installments (Note 6)	81	27	757
Retirement and severance benefits (Note 8)	28,839	73,521	269,523
Deferred income taxes (Note 7)	751	215	7,019
Other noncurrent liabilities	3,244	1,843	30,318
Commitments and contingent liabilities (Notes 12 and 13)	–	–	–
Total liabilities	163,772	190,824	1,530,580
Minority interests	5,162	3,276	48,242
Stockholders' equity:			
Common stock			
Authorized 480,000,000 shares; issued 133,189,659 shares in 2005 and 2004; outstanding 132,244,587 shares in 2005 and 132,409,452 shares in 2004	32,641	32,641	305,056
Additional paid-in capital	63,051	63,051	589,262
Legal reserve (Note 9)	16,918	16,497	158,112
Retained earnings (Note 9)	585,557	560,756	5,472,495
Accumulated other comprehensive income (loss) (Notes 7, 8 and 11)	(51,657)	(90,387)	(482,776)
Treasury stock at cost; 945,072 shares in 2005 and 780,207 shares in 2004 (Note 10)	(7,443)	(6,339)	(69,560)
Total stockholders' equity	639,067	576,219	5,972,589
	¥808,001	770,319	$7,551,411

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

TDK Corporation and Subsidiaries years ended March 31, 2005, 2004, and 2003

	Yen (Millions)			U.S. Dollars (Thousands) (Note 2)
	2005	2004	2003	**2005**
Common stock:				
Balance at beginning of period	**¥ 32,641**	32,641	32,641	**$ 305,056**
Balance at end of period	**32,641**	32,641	32,641	**305,056**
Additional paid-in capital:				
Balance at beginning of period	**63,051**	63,051	63,051	**589,262**
Balance at end of period	**63,051**	63,051	63,051	**589,262**
Legal reserve (Note 9)**:**				
Balance at beginning of period	**16,497**	15,953	15,683	**154,177**
Transferred from retained earnings	**421**	544	270	**3,935**
Balance at end of period	**16,918**	16,497	15,953	**158,112**
Retained earnings (Note 9)**:**				
Balance at beginning of period	**560,756**	525,919	520,143	**5,240,710**
Net income	**33,300**	42,101	12,019	**311,215**
Cash dividends	**(7,938)**	(6,625)	(5,973)	**(74,187)**
Losses on sales of treasury stock	**(140)**	(95)	–	**(1,308)**
Transferred to legal reserve	**(421)**	(544)	(270)	**(3,935)**
Balance at end of period	**585,557**	560,756	525,919	**5,472,495**
Accumulated other comprehensive income (loss) (Notes 7, 8 and 11)**:**				
Balance at beginning of period	**(90,387)**	(78,824)	(43,999)	**(844,738)**
Other comprehensive income (loss) for the period, net of tax	**38,730**	(11,563)	(34,825)	**361,962**
Balance at end of period	**(51,657)**	(90,387)	(78,824)	**(482,776)**
Treasury stock (Note 10)**:**				
Balance at beginning of period	**(6,339)**	(4,855)	(3,592)	**(59,243)**
Acquisition of treasury stock	**(1,672)**	(1,865)	(1,263)	**(15,626)**
Exercise of stock option	**568**	381	–	**5,309**
Balance at end of period	**(7,443)**	(6,339)	(4,855)	**(69,560)**
Total stockholders' equity	**¥639,067**	576,219	553,885	**$5,972,589**
Disclosure of comprehensive income (loss):				
Net income for the period	**¥ 33,300**	42,101	12,019	**$ 311,215**
Other comprehensive income (loss) for the period, net of tax (Note 11)	**38,730**	(11,563)	(34,825)	**361,962**
Total comprehensive income (loss) for the period	**¥ 72,030**	30,538	(22,806)	**$ 673,177**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

TDK Corporation and Subsidiaries years ended March 31, 2005, 2004 and 2003

	Yen (Millions)			U.S.Dollars (Thousands) (Note 2)
	2005	2004	2003	**2005**
Cash flows from operating activities:				
Net income	**¥ 33,300**	42,101	12,019	**$ 311,215**
Loss from discontinued operations, net of tax	**3,665**	1,254	1,574	**34,252**
Income from continuing operations	**36,965**	43,355	13,593	**345,467**
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	**52,806**	50,726	57,132	**493,514**
Loss on disposal of property and equipment	**1,190**	1,363	4,589	**11,121**
Deferred income taxes	**(5,532)**	1,858	4,913	**(51,701)**
Loss (gain) on securities, net	**142**	1,093	3,298	**1,327**
Gain on sale of a subsidiary	**(1,799)**	(567)	–	**(16,813)**
Changes in assets and liabilities:				
Increase in trade receivables	**(7,343)**	(7,680)	(2,654)	**(68,626)**
Decrease (increase) in inventories	**3,461**	(7,868)	13,533	**32,346**
Increase in trade payables	**245**	8,200	6,742	**2,290**
Increase (decrease) in accrued expenses	**(2,496)**	8,878	(5,226)	**(23,327)**
Increase (decrease) in income taxes payables, net	**14,464**	5,704	2,901	**135,178**
Increase (decrease) in retirement and severance benefits, net	**2,519**	9,285	7,639	**23,542**
Other – net	**(1,040)**	(527)	(544)	**(9,720)**
Net cash provided by operating activities	**93,582**	113,820	105,916	**874,598**
Cash flows from investing activities:				
Capital expenditures	**(61,005)**	(44,471)	(41,026)	**(570,140)**
Proceeds from sale and maturities of investments in securities	**1,788**	1,814	1,511	**16,710**
Payment for purchase of investments in securities	**(2,424)**	(1)	(700)	**(22,654)**
Payment for purchase of other investments	**(221)**	(442)	(6,606)	**(2,065)**
Proceeds from sales of property, plant and equipment	**999**	4,299	4,590	**9,336**
Acquisition of minority interests	**–**	(366)	(3,967)	**–**
Proceeds from sale of a subsidiary	**–**	1,523	–	**–**
Other – net	**–**	(3)	(22)	**–**
Net cash used in investing activities	**(60,863)**	(37,647)	(46,220)	**(568,813)**
Cash flows from financing activities:				
Proceeds from long-term debt	**218**	69	211	**2,037**
Repayment of long-term debt	**(164)**	(479)	(646)	**(1,533)**
Increase (decrease) in short-term debt, net	**(330)**	(1,047)	(254)	**(3,084)**
Sale (purchase) of treasury stock, net	**(1,244)**	(1,579)	(1,263)	**(11,626)**
Dividends paid	**(7,938)**	(6,625)	(5,973)	**(74,187)**
Net cash used in financing activities	**(9,458)**	(9,661)	(7,925)	**(88,393)**
Net cash provided by (used in) discontinued operations	**(1,625)**	761	(1,983)	**(15,187)**
Effect of exchange rate changes on cash and cash equivalents	**2,717**	(10,669)	(4,998)	**25,393**
Net increase in cash and cash equivalents	**24,353**	56,604	44,790	**227,598**
Cash and cash equivalents at beginning of period	**227,155**	170,551	125,761	**2,122,944**
Cash and cash equivalents at end of period	**¥251,508**	227,155	170,551	**$2,350,542**

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TDK Corporation and Subsidiaries

1. Nature of Operations and Summary of Significant Accounting Policies

(a) Nature of Operations

The Company is a multinational manufacturer of ferrite products and a producer of inductor, ceramic capacitors, magnetic head and other components and recording media and systems. The Company, a Tokyo-based company founded in 1935 to commercialize ferrite, now manufactures and sells a broad range of products. The Company's two business segments are electronic materials and components, and recording media and systems, which accounted for 83% and 17% of net sales, respectively, for the year ended March 31, 2005. The main products which are manufactured and sold by the two business segments are as follows:

a) *Electronic materials and components products:*
Ferrite cores, Ceramic capacitors, High-frequency components, Inductors, and GMR heads

b) *Recording media and systems products:*
Audiotapes, Videotapes, CD-Rs, MDs, and DVDs

The Company sells electronic materials and components products to electric and communication equipment manufacturers and audio equipment manufacturers, mainly in Asia and Japan, and recording media and systems products to distribution agents and audio equipment manufacturers, mainly in Japan, Europe, and North America.

(b) Basis of Presentation

The Company and its domestic subsidiaries maintain their books of account in conformity with financial accounting standards of Japan, and its foreign subsidiaries in conformity with those of the countries of their domicile.

The consolidated financial statements presented herein reflect certain adjustments, not recorded on the primary books of the Company and subsidiaries, to present the financial position, results of operations, and cash flows in conformity with U.S. generally accepted accounting principles (the "U.S. GAAP"). Such adjustments relate principally to accounting for retirement and severance benefits and impairment of long-lived assets.

(c) Consolidation Policy

The consolidated financial statements include the accounts of the Company, its subsidiaries and those variable interest entities where the Company is the primary beneficiary under FASB Interpretation No. 46 (revised December 2003) ("FIN 46R"), "Consolidation of Variable Interest Entities". All significant intercompany accounts and transactions have been eliminated in consolidation.

The investments in affiliates in which the Company's ownership is 20% to 50% and where the Company exercises significant influence over their operating and financial policies are accounted for by the equity method. All significant intercompany profits from these affiliates have been eliminated.

(d) Cash Equivalents

Cash equivalents include all highly liquid debt instruments purchased with an original maturity of three months or less.

(e) Allowance for Doubtful Receivables

The allowance for doubtful receivables is the Company's best estimate of the amount of probable credit losses in the Company's existing trade receivables. An additional reserve for individual receivables is recorded when the Company becomes aware of a customer's inability to meet its financial obligations, such as in the case of bankruptcy filings or deterioration in a customer's operating results or financial position. If customer circumstances change, estimates of the recoverability of receivables would be further adjusted.

(f) Investments in Securities

The Company classifies its debt and equity securities into one of three categories: trading, available-for-sale, or held-to-maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Held-to-maturity securities are those securities in which the Company has the ability and intent to hold the security until maturity. All securities not included in trading or held-to-maturity are classified as available-for-sale.

Trading and available-for-sale securities are recorded at fair value. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts. Unrealized holding gains and losses on trading securities are included in earnings. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of accumulated other comprehensive income (loss) until realized. As of March 31, 2005 and 2004, the Company did not hold any trading or held-to-maturity securities. Available-for-sale securities, which mature or are expected to be sold in less than one year, are classified as current assets.

A decline in the fair value of any available-for-sale security below cost that is deemed to be other-than-temporary results in a reduction in carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. To determine whether an impairment is other-than-temporary, the Company periodically reviews the fair value of available-for-sale securities for possible impairment by taking into consideration the financial and operating conditions of the issuer, the general market conditions in the issuer's industry, degree and period of the decline in fair value and other relevant factors.

Nonmarketable securities are recorded at cost, as fair value is not readily determinable. The Company periodically evaluates whether an event or change in circumstances that may have a significant adverse effect on the fair value of the investment. Factors considered in accessing whether an indication of impairment exists include the financial and operating conditions of the issuer, the general market conditions in the issuer's industry and other relevant factors. If an indication of impairment is present, the Company estimates the fair value of nonmarketable securities. If the fair value is less than cost and the impairment is determined to be other-than-temporary, a nonmarketable security is written down to its impaired value through a charge to earnings.

(g) Inventories

Inventories are stated at the lower of cost or market. Cost is determined principally by the average cost method.

(h) Property, Plant and Equipment

Depreciation of property, plant and equipment is principally computed by the declining-balance method for assets located in Japan and of certain foreign subsidiaries and by the straight-line method for assets of other foreign subsidiaries based on the following estimated useful lives:

Buildings .... 3 to 60 years
Machinery and equipment .... 2 to 22 years

(i) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company uses a specific identification method to release the residual tax effects associated with components of accumulated other comprehensive income resulting from a change in tax law or rate.

(j) Stock Option Plan

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148 ("SFAS 148"), "Accounting for Stock-Based Compensation—Transition and Disclosure", which amends FASB Statement No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation". SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. However, it gives an entity a choice of recognizing related compensation expense by adopting the fair value method or to continue to measure compensation using the intrinsic value-based method prescribed under Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees", the former standard. The Company has chosen to use the measurement principle prescribed by APB 25. As such, stock-based compensation cost is recognized by the Company only if the market price of the underlying common stock exceeds the exercise price on the date of grant. Accordingly, no stock option related compensation cost has been recognized in fiscal 2005, fiscal 2004 and fiscal 2003 for the Company's stock based compensation plan.

The following table illustrates the effects on both income from continuing operations and net income if the fair-value-based method had been applied to all outstanding and unvested stock based awards with such costs recognized ratably over the vesting period of the underlying instruments.

	Yen (Millions)			U.S. Dollars (Thousands)
	2005	2004	2003	**2005**
Income from continuing operations, as reported	**¥36,965**	43,355	13,593	**$345,467**
Deduct total stock-based employee compensation expense determined under fair-value-based method for all awards, net of tax	**(438)**	(330)	(239)	**(4,093)**
Pro forma income from continuing operations	**¥36,527**	43,025	13,354	**$341,374**
	Yen			U.S. Dollars
Basic income from continuing operations per share:				
As reported	**¥279.41**	327.27	102.42	**$2.61**
Pro forma	**276.11**	324.78	100.62	**2.58**
Diluted income from continuing operations per share:				
As reported	**¥279.25**	327.15	102.42	**$2.61**
Pro forma	**275.98**	324.74	100.62	**2.58**

	Yen (Millions)			U.S. Dollars (Thousands)
	2005	2004	2003	**2005**
Net income, as reported	**¥33,300**	42,101	12,019	**$311,215**
Deduct total stock-based employee compensation expense determined under fair-value-based method for all awards, net of tax	**(438)**	(330)	(239)	**(4,093)**
Pro forma net income	**¥32,862**	41,771	11,780	**$307,122**
	Yen			U.S. Dollars
Basic net income per share:				
As reported	**¥251.71**	317.80	90.56	**$2.35**
Pro forma	**248.40**	315.31	88.76	**2.32**
Diluted net income per share:				
As reported	**¥251.56**	317.69	90.56	**$2.35**
Pro forma	**248.29**	315.27	88.76	**2.32**

(k) Research and Development Expenses

Research and development costs are expensed as incurred.

(l) Advertising Costs

Advertising costs are expensed as incurred.

(m) Shipping and Handling Fees and Costs

Shipping and handling costs amounted to ¥13,397 million ($125,206 thousand), ¥12,163 million and ¥11,305 million for the years ended March 31, 2005, 2004 and 2003, respectively, and are included in selling, general and administrative expenses in the consolidated statements of income.

(n) Foreign Currency Translation

Foreign currency financial statements have been translated in accordance with Statement of Financial Accounting Standards No. 52 (“SFAS 52”), “Foreign Currency Translation”. Under SFAS 52, the assets and liabilities of the Company’s subsidiaries located outside Japan are translated into Japanese yen at the rates of exchange in effect at the balance sheet date. Revenue and expense items are translated at the average exchange rates prevailing during the year. Gains and losses resulting from foreign currency transactions are included in other income (deductions), and those resulting from translation of financial statements are excluded from the statements of income and are accumulated in stockholders’ equity as a component of accumulated other comprehensive income (loss).

(o) Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with the U.S. GAAP. Significant items subject to such estimates and assumptions include the valuation of intangible assets, property, plant and equipment, trade receivables, inventories, and deferred income tax assets, and assumptions related to the estimation of actuarial determined employee benefit obligations. Actual results could differ from those estimates.

(p) Accounting for the Impairment or Disposal of Long-Lived Assets

Property, plant and equipment and certain identifiable intangibles with finite useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows (undiscounted and without interest charges) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(q) Goodwill and Other Intangible Assets

Goodwill is not amortized, but instead is tested for impairment at least annually or more frequently if certain indicators arise. Intangible assets with finite useful lives are amortized over their respective estimated useful lives. Intangible assets determined to have an indefinite useful life are not amortized, but instead are tested for impairment until the life is determined to no longer be indefinite.

The Company conducts its annual impairment test at the end of each fiscal year.

(r) Derivative Financial Instruments

The Company has elected not to apply hedge accounting. Accordingly, changes in the fair value of derivatives are recognized in earnings in the period of the changes.

(s) Net Income per Share

Basic net income per share has been computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding during each year. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock of the Company. Stock options were not included in the calculation of diluted earnings per share for the year ended March 31, 2003 as their effect would be antidilutive. For the years ended March 31, 2005 and 2004, stock options to purchase 404,700 shares and 170,400 shares, respectively, were excluded from the calculation of diluted earnings per share as the effect would have been antidilutive.

(t) Revenue Recognition

The Company generates revenue principally through the sale of electronic materials & components and recording media & systems under separate contractual arrangements for each. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred and title and risk of loss have been transferred to the customer, the sales price is fixed or determinable, and collectibility is probable.

Revenue from sales of electronic materials & components including electronic materials, electronic devices and recording devices is recognized when the products are received by customers based on the free-on board destination sales term. With regards to sales of electronic materials & components, the Company's policy is not to accept product returns unless the products are defective. The conditions of acceptance are governed by the terms of the contract or customer arrangement and those not meeting the predetermined specification are not recorded as revenue.

Revenue from sales of recording media & systems products such as videotape and DVDs is also recognized when the products are received by customers based on the free-on board destination sales term.

The Company offers sales incentives through various programs to certain resellers and retailers. These sales incentives include product discounts, volume-based discounts, marketing development funds ("MDFs"), rebates and coupons, and are accounted for in accordance with the Emerging Issues Task Force issue 01-9 "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of Vendor's Product)". These sales incentives totaled to ¥14,292 million, ¥15,089 million, and ¥15,031 million for the years ended March 31, 2005, 2004 and 2003, respectively.

A number of product discounts are based on a certain percentage off the invoice price predetermined by spot contracts or based on contractually agreed upon amounts with resellers and retailers. Product discounts are recognized as a reduction of revenue at the time the related revenue is recognized and amounted to ¥7,194 million, ¥5,993 million and ¥5,214 million for the years ended March 31, 2005, 2004 and 2003, respectively.

Volume-based discounts are provided only if the resellers and retailers achieve a specified cumulative level of revenue transactions in a year or less period. Liabilities are recognized as a reduction of revenue for the expected sales incentive at the time the related revenue is recognized and are initially based on the estimation of sales volume by using historical experience on an individual customer basis. Estimates of expected sales incentives are evaluated and adjusted periodically based on actual revenue transactions and forecasts for the balance of the year or incentive period. Volume-based discounts recognized as a reduction of revenue amounted to ¥3,005 million, ¥2,982 million and ¥2,918 million for the years ended March 31, 2005, 2004 and 2003, respectively.

MDFs are provided to certain resellers and retailers as a contribution to or a sponsored fund for customers' marketing programs, such as customers' coupons, catalog, sales contests and advertisements, mostly in the form of a subsidy. Under this program, we do not receive an identifiable benefit sufficiently separable from our customers. Accordingly, MDFs are accounted for as a reduction of revenue based on the annual contract or at the time the Company has incurred the obligation, if earlier, and amounted to ¥2,631 million, ¥2,923 million and ¥3,114 million for the years ended March 31, 2005, 2004 and 2003, respectively.

Consumer promotions mainly consist of coupons and mail-in rebates offered to end users, who are reimbursed by the Company to retailers or end users for the coupons or mail-in rebates redeemed. Liabilities are recognized at the time related revenue is recognized (or at the time of the offer if the sale to retailers occurs before the offer) for the expected number of coupons or mail-in rebates to be redeemed. The Company uses historical rates of redemption on similar offers for similar products to estimate redemption rates for current incentive offerings. Consumer promotions recognized as a reduction of revenue amounted to ¥1,061 million, ¥2,446 million and ¥2,830 million for the years ended March 31, 2005, 2004 and 2003, respectively.

The Company also provides slotting fees paid to certain retailers for putting the Company products at attractive areas or shelves in the store. Slotting fees are recognized as a reduction of revenue at the time the Company has incurred the obligation. Slotting fees recognized as a reduction of revenue amounted to ¥205 million, ¥451 million and ¥598 million for the years ended March 31, 2005, 2004 and 2003, respectively.

Additionally, the Company has advertising programs with certain resellers and retailers where the Company agrees to reimburse them for advertising cost incurred by them to put the Company products on their flyers, catalogs and billboards. The Company receives an identifiable benefit (advertising) in return for the consideration and that benefit is sufficiently separable because the Company could have purchased that advertising from other parties. Also, the Company can reasonably estimate the fair value of the benefit through obtaining sufficient evidence from the resellers and retailers in the form of the invoice issued by the third party providing the service to the resellers and retailers. Therefore, such advertising programs are expensed as selling, general and administrative expenses at the time the Company has incurred the obligation and amounted to ¥196 million, ¥293 million and ¥357 million for the years ended March 31, 2005, 2004 and 2003, respectively.

The Company allows limited right of returns in certain cases and reduces revenue for estimated future returns based upon historical experience at the time the related revenue is recorded.

No warranties are offered on the Company's products.

(u) New Accounting Standards Not Yet Adopted

In March 2004, the Emerging Issues Task Force reached a consensus on Issue 03-1 ("EITF 03-1"), "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments". EITF 03-1 provides guidance on other-than-temporary impairment models for marketable debt and equity securities accounted for under Statement of Financial Accounting Standards No. 115 ("SFAS 115"), "Accounting for Certain Investments in Debt and Equity Securities", and nonmarketable equity securities accounted for under the cost method. The EITF developed a basic three-step model to evaluate whether an investment is other-than-temporarily impaired. The FASB issued FASB Staff Position EITF 03-1-1 in September 2004 which delayed the effective date of the recognition and measurement provisions of EITF 03-1. The adoption of EITF 03-1 is not expected to have a material effect on the Company's consolidated results of operations and financial position.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004), "Share Based Payment" ("SFAS 123R"). SFAS 123R is a revision of SFAS 123, "Accounting for Stock Based Compensation", and supersedes APB 25. SFAS 123R requires the Company to measure the cost of employee services received in exchange for equity awards based on the grant date fair value of the awards. The cost will be recognized as compensation expense over the vesting period of the awards. In April 2005, the Securities and Exchange Commission deferred the effective date of SFAS 123R to the beginning of the first annual period after June 15, 2005. The Company is currently evaluating the effect that the adoption of SFAS 123R will have on the Company's consolidated financial position and result of operations.

In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151 (“SFAS 151”), “Inventory Costs—an amendment of Accounting Research Bulletin No. 43 (“ARB 43”), Chapter 4”. SFAS 151 amends the guidance in ARB 43, Chapter 4, “Inventory Pricing”, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). SFAS 151 requires that items such as idle facility expense, excessive spoilage, double freight and rehandling costs be recognized as current-period charges regardless of whether they meet the criterion of “so abnormal” as stated in ARB 43. In addition, SFAS 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS 151 is effective for inventory costs incurred in fiscal periods beginning after June 15, 2005. The Company does not expect the adoption of SFAS 151 to have a material effect on the Company’s consolidated financial position and result of operations.

(v) Reclassifications

Certain reclassifications principally relating to discontinued operations, have been made to the prior year’s consolidated financial statements to conform to the presentation used for the year ended March 31, 2005.

2. Financial Statement Translation

The consolidated financial statements are expressed in Japanese yen, the functional currency of the Company. Supplementally, the Japanese yen amounts as of and for the year ended March 31, 2005, have also been translated into U.S. dollar amounts, solely for the convenience of the reader, at the rate of ¥107=U.S.$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 31, 2005. This translation should not be construed as a representation that the amounts shown could be converted into U.S. dollars at such rate.

3. Foreign Operations

Amounts included in the consolidated financial statements relating to subsidiaries operating in foreign countries are summarized as follows:

	Yen (Millions)			U.S. Dollars (Thousands)
	2005	2004	2003	**2005**
Net assets	**¥360,925**	318,915	304,645	**$3,373,131**
Net sales	**498,366**	494,184	432,048	**4,657,626**
Net income	**17,362**	38,731	10,675	**162,262**

4. Marketable Securities and Investments in Securities

Marketable securities and investments in securities at March 31, 2005 and 2004, are as follows:

	Yen (Millions)		U.S. Dollars (Thousands)
	2005	2004	**2005**
Short-term marketable securities	**¥ 1,609**	402	**$ 15,037**
Long-term marketable securities	**7,094**	4,535	**66,299**
Nonmarketable securities	**1,555**	419	**14,533**
Investments in affiliates	**14,049**	13,427	**131,299**
	¥24,307	18,783	**$227,168**

Marketable securities and investments in securities include available-for-sale securities. Information with respect to such securities at March 31, 2005 and 2004, is as follows:

	2005				2004			
	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Yen (Millions):								
Equity securities	**¥ 5,951**	**1,054**	**–**	**7,005**	2,782	1,054	–	3,836
Debt securities	**1,698**	**–**	**–**	**1,698**	1,101	–	–	1,101
	¥ 7,649	**1,054**	**–**	**8,703**	3,883	1,054	–	4,937
U.S. Dollars (Thousands):								
Equity securities	**$55,617**	**9,850**	**–**	**65,467**				
Debt securities	**15,869**	**–**	**–**	**15,869**				
	$71,486	**9,850**	**–**	**81,336**				

Debt securities classified as available-for-sale at March 31, 2005 mature in fiscal 2006 through 2008 (weighted average remaining term of 1.9 years).

The proceeds from sale and settlement of available-for-sale securities are ¥1,788 million ($16,710 thousand), ¥1,814 million and ¥1,511 million for the years ended March 31, 2005, 2004 and 2003, respectively. The gross realized gains on the sale and settlement of available-for-sale securities are ¥377 million ($3,523 thousand), ¥135 million and ¥4 million for the years ended March 31, 2005, 2004 and 2003, respectively. The Company recorded a write-down of ¥519 million ($4,850 thousand), ¥1,228 million and ¥3,302 million on certain available-for-sale securities and nonmarketable securities representing other-than-temporary declines in the fair value of the available-for-sale securities for the years ended March 31, 2005, 2004 and 2003, respectively.

The aggregate cost of nonmarketable securities accounted for under the cost method at March 31, 2005 and 2004 totaled ¥1,555 million ($14,533 thousand) and ¥419 million, respectively, and, as of March 31, 2005 and 2004, those securities were not evaluated for impairment because (a) the Company did not estimate the fair value of those investments as it was not practicable to estimate the fair value of the investment and (b) the Company did not identify any events or changes in circumstances that might have had significant adverse effect on the fair value of those investments.

Investments in affiliates accounted for by the equity method consist of 26.1% of the common stock of Semiconductor Energy Laboratory Co., Ltd., a research and development company, 50.0% of the common stock of Tokyo Magnetic Printing Co., Ltd., a magnetic products manufacturing company, and four other affiliated companies, collectively, which are not significant. The unamortized amounts of goodwill related to affiliated companies were ¥1,231 million ($11,505 thousand) as of both March 31, 2005 and 2004. This equity-method goodwill is not amortized, but is analyzed for impairment at least annually.

As of March 31, 2005 and 2004, certain debt securities in the amount of ¥1,695 million and ¥699 million, respectively were pledged as collateral for extended custom duty payments to Tokyo Customs.

5. Inventories

Inventories at March 31, 2005 and 2004, are summarized as follows:

	Yen (Millions)		U.S. Dollars (Thousands)
	2005	2004	2005
Finished goods	**¥30,819**	34,104	**$288,028**
Work in process	**21,633**	21,351	**202,177**
Raw materials	**22,472**	21,846	**210,019**
	¥74,924	77,301	**$700,224**

The cost elements for finished goods and work in process include direct costs for materials such as primary materials and purchased semi-finished products, direct labor costs such as basic salaries, bonuses, and legal welfare expenses, direct costs such as expenses paid to subcontractors, and indirect manufacturing costs comprising material costs, labor costs and other overhead costs.

6. Short-Term and Long-Term Debt

Short-term debt and weighted average interest rates at March 31, 2005 and 2004, are as follows:

	Yen (Millions)		U.S. Dollars (Thousands)	Weighted average interest rate	
	2005	2004	**2005**	**2005**	2004
Short-term bank loans	**–**	315	**–**	**–**	1.36%

At March 31, 2005, unused short-term credit facilities for issuance of commercial paper amounted to ¥32,485 million ($303,598 thousand).

Long-term debt at March 31, 2005 and 2004, is set forth below:

	Yen (Millions)		U.S. Dollars (Thousands)
	2005	2004	**2005**
Lease obligation (weighted average: 2005 4.05%, 2004 4.25%)	**¥184**	128	**$1,720**
	184	128	**1,720**
Less current installments	**103**	101	**963**
	¥ 81	27	**$ 757**

The aggregate annual maturities of long-term debt outstanding at March 31, 2005, are as follows:

	Yen (Millions)	U.S. Dollars (Thousands)
Year ending March 31,		
2006	¥103	$ 963
2007	53	495
2008	21	196
2009	6	56
2010	1	10
	¥184	$1,720

Short-term and long-term bank loans were made under general agreements that provide that under certain circumstances security and guarantees for present and future indebtedness will be given upon the request of the bank, and that the bank shall have the right, as the obligations become due, or in the event of their default, to offset cash deposits against such obligations due to the bank.

The Company's short-term and long-term debts placed with financial institutions were unsecured. Further, no assets of the Company were subject to mortgage, pledge or lien pursuant to our short-term and long-term debt agreements.

There were no debt covenants, or cross-default provisions under the Company's financing arrangements. Furthermore, there were no subsidiary level dividend restrictions under the financing arrangements.

7. Income Taxes

The Company and its domestic subsidiaries are subject to a national corporate tax of 30%, an inhabitants tax of between 5.2% and 6.2% and a deductible enterprise tax of between 7.7% and 8.0 %, which in the aggregate resulted in a statutory rate of approximately 40% for the year ended March 31, 2005. For the years ended March 31, 2004 and 2003, the deductible enterprise tax rate was between 9.6% and 10.1%, which in the aggregate resulted in a statutory rate of approximately 41%.

Amendments to Japanese tax regulations were enacted into law on March 24, 2003. As a result of this amendment, the statutory income tax rate was reduced from approximately 41% to 40% effective from April 1, 2004. Current income taxes were calculated at the rate of 40%, in effect for the year ended March 31, 2005, and 41% in the years 2004 and 2003, respectively.

The effects of the income tax rate reduction on deferred income tax balances as of March 31, 2003 reduced the net deferred tax asset by approximately ¥1,044 million.

For the year ended March 31, 2005, residual tax effects of ¥4,571 million previously recorded in accumulated other comprehensive income (minimum pension liability adjustments) were released and recorded as a reduction to income tax expense in the consolidated statements of income as a result of the elimination of the minimum pension liability adjustment.

The effective tax rates of the Company for the years ended March 31, 2005, 2004 and 2003, are reconciled with the Japanese statutory tax rate in the following table:

	2005	2004	2003
Japanese statutory tax rate	40.4%	41.0%	41.0%
Expenses not deductible for tax purposes	1.1	1.2	0.4
Non taxable income	(0.2)	0.0	(2.1)
Difference in statutory tax rates of foreign subsidiaries	(10.5)	(23.0)	(19.9)
Change in the valuation allowance	3.8	4.5	13.1
Change in enacted tax laws and rates	–	0.3	5.1
Currency translation adjustment	0.0	0.0	(2.9)
Investment tax credit	(1.2)	(1.6)	(4.0)
Research and development tax credit	(3.6)	(1.3)	–
Residual tax effect in minimum pension liability adjustments	(7.5)	–	–
Additional tax related to prior years income	17.0	–	–
Other	(1.0)	0.6	(0.6)
Effective tax rate	38.3%	21.7%	30.1%

Total income taxes for the years ended March 31, 2005, 2004 and 2003 are allocated as follows:

	Yen (Millions)			U.S. Dollars (Thousands)
	2005	2004	2003	2005
Income from continuing operations	¥23,284	12,133	6,193	$217,607
Loss from discontinued operations	156	1,010	(897)	1,458
Stockholders' equity, accumulated other comprehensive income (loss):				
Foreign currency translation adjustments	8	245	(242)	75
Net unrealized gains (losses) on securities	(148)	348	(166)	(1,383)
Minimum pension liability adjustments	29,538	9,422	(10,950)	276,056
Total income taxes	¥52,838	23,158	(6,062)	$493,813

Income from continuing operations before income taxes and income taxes for the years ended March 31, 2005, 2004 and 2003, are summarized as follows:

		Income From Continuing Operations Before Income Taxes	Income Taxes		
			Current	Deferred	Total
Yen (Millions):	2005				
	Japanese	**¥ 36,836**	**22,261**	**(5,026)**	**17,235**
	Foreign	**23,892**	**6,555**	**(506)**	**6,049**
		¥ 60,728	**28,816**	**(5,532)**	**23,284**
	2004				
	Japanese	8,611	4,411	(7)	4,404
	Foreign	47,236	5,864	1,865	7,729
		55,847	10,275	1,858	12,133
	2003				
	Japanese	6,932	(1,929)	5,977	4,048
	Foreign	13,620	3,209	(1,064)	2,145
		20,552	1,280	4,913	6,193
U.S. Dollars (Thousands):	2005				
	Japanese	**$344,261**	**208,047**	**(46,972)**	**161,075**
	Foreign	**223,290**	**61,261**	**(4,729)**	**56,532**
		$567,551	**269,308**	**(51,701)**	**217,607**

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31, 2005 and 2004, are as follows:

	Yen (Millions)		U.S. Dollars (Thousands)
	2005	2004	**2005**
Deferred tax assets:			
Trade accounts receivable, principally due to allowance for doubtful receivables	**¥ 332**	217	**$ 3,103**
Inventories	**894**	251	**8,355**
Accrued business tax	**1,330**	344	**12,430**
Accrued expenses	**3,863**	3,605	**36,103**
Retirement and severance benefits	**10,648**	12,334	**99,514**
Net operating loss carryforwards	**14,631**	12,427	**136,738**
Tax credit carryforwards	**208**	559	**1,944**
Minimum pension liability adjustments	**4,174**	29,133	**39,009**
Property, plant, and equipment, principally due to differences in depreciation	**2,523**	1,219	**23,579**
Other	**1,493**	1,276	**13,954**
Total gross deferred tax assets	**40,096**	61,365	**374,729**
Less valuation allowance	**(15,409)**	(11,028)	**(144,009)**
Net deferred tax assets	**¥ 24,687**	50,337	**$230,720**
Deferred tax liabilities:			
Investments, principally due to differences in valuation	**(6,034)**	(7,329)	**(56,393)**
Undistributed earnings of foreign subsidiaries	**(2,656)**	(2,773)	**(24,822)**
Net unrealized gains on securities	**(272)**	(420)	**(2,542)**
Other	**(1,220)**	(1,068)	**(11,402)**
Total gross deferred tax liabilities	**(10,182)**	(11,590)	**(95,159)**
Net deferred tax assets	**¥ 14,505**	38,747	**$135,561**

The net changes in the total valuation allowance for the years ended March 31, 2005, 2004 and 2003, are an increase of ¥4,381 million ($40,944 thousand), ¥1,338 million and ¥2,246 million, respectively. The valuation allowance primarily relates to deferred tax assets associated with net operating loss carryforwards incurred by certain foreign subsidiaries. The decrease in the valuation allowance attributable to preacquisition tax benefits recognized during the years ended March 31, 2005 and 2004 amounted to ¥119 million and ¥1,122 million, respectively. The reversal of the valuation allowance upon realization of tax benefits resulted in a reduction of goodwill. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and tax carryforwards are utilized. Management considered the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences and tax carryforwards, net of the existing valuation allowance at March 31, 2005.

At March 31, 2005, the Company and certain subsidiaries have net operating loss carryforwards for income tax purposes of ¥48,135 million ($449,860 thousand) which are available to offset future taxable income, if any.

Periods available to offset future taxable income vary in each tax jurisdiction and range from one year to an indefinite period as follows:

	Yen (Millions)	U.S. Dollars (Thousands)
Within 1 year	¥ 159	$ 1,486
1 to 5 years	6,440	60,187
5 to 20 years	15,242	142,449
Indefinite periods	26,294	245,738
	¥48,135	$449,860

At March 31, 2005, certain subsidiaries had tax credit carryforwards for income tax purposes of ¥208 million ($1,944 thousand) which are available to reduce future income taxes, if any. Approximately ¥143 million ($1,336 thousand) of the tax credit carryforwards expire through 2019, while the remainder have an indefinite carryforward period.

Net deferred income tax assets and liabilities at March 31, 2005 and 2004, are reflected in the accompanying consolidated balance sheets under the following captions:

	Yen (Millions)		U.S. Dollars (Thousands)
	2005	2004	**2005**
Prepaid expenses and other current assets	**¥ 6,654**	5,105	**$ 62,187**
Deferred income taxes (noncurrent assets)	**8,633**	34,140	**80,682**
Other current liabilities	**(31)**	(283)	**(289)**
Deferred income taxes (noncurrent liabilities)	**(751)**	(215)	**(7,019)**
	¥14,505	38,747	**$135,561**

As of March 31, 2005 and 2004, the Company did not recognize deferred tax liabilities of approximately ¥61,663 million ($576,290 thousand) and ¥50,714 million, respectively, for certain portions of undistributed earnings of foreign subsidiaries because the Company currently does not expect those unremitted earnings to reverse and become taxable to the Company in the foreseeable future. A deferred tax liability will be recognized when the Company expects that it will recover those undistributed earnings in a taxable manner, such as through receipt of dividends or sale of the investments. As of March 31, 2005 and 2004, the undistributed earnings of these subsidiaries are approximately ¥244,341 million ($2,283,561 thousand) and ¥208,991 million, respectively.

8. Retirement and Severance Benefits

The Company and certain of its subsidiaries sponsor noncontributory retirement and severance plans that provide for pension or lump-sum benefit payments, based on length of service and certain other factors, to employees who retire or terminate their employment for reasons other than for dismissal for cause. Corporate statutory auditors participate in an unfunded retirement plan sponsored by the Company.

The Company also sponsors a contributory defined benefit pension plan for which a majority of its employees are covered. Pension benefits under the plan are based on length of service and certain other factors. The contributory plan in Japan consists of the Employees' Pension Fund plan ("EPF"), comprised of the substitutional portion based on the pay related part of the old age pension benefits prescribed by the Welfare Pension Insurance Law (similar to Social Security benefits in the United States) and the corporate portion based on contributory defined pension arrangements established at the discretion of the Company. The substitutional portions of the EPF represent a welfare pension plan carried out on behalf of the Japanese government.

These contributory and noncontributory plans are funded in conformity with the funding requirements of the applicable Japanese governmental regulations.

The Company had been exempted from contributing to the Japanese Pension Insurance ("JPI") program that would otherwise have been required if it had not elected to fund the government substitutional portion of the benefit through an EPF arrangement. The plan assets of the EPF were invested and managed as a single portfolio for the entire EPF and were not separately attributed to the substitutional and corporate portions.

In June 2001, the Contributed Benefit Pension Plan Law was newly enacted. This law permits an employer to elect to transfer the entire substitutional portion benefit obligation from the EPF to the government together with a specified amount of plan assets pursuant to a government formula. After such transfer, the employer would be required to make periodic contributions to JPI, and the Japanese government would be responsible for all benefit payments.

Pursuant to the new law, the Company received an approval of exemption from the Minister of Health, Labor and Welfare, effective September 25, 2003, from the obligation for benefits related to future employee service with respect to the substitutional portion of its EPF. The Company received governmental approval of exemption from the obligation for benefits related to past employee service in October 2004 with respect to the substantial portion of its domestic contributory plan. The transfer to the government was completed on January 31, 2005.

The Company accounted for the transfer in accordance with EITF Issue No. 03-2, "Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities" ("EITF 03-2"). As specified in EITF03-2, the entire separation process is to be accounted for at the time of completion of the transfer to the government of the substitutional portion of the benefit obligation and related plan assets as a settlement in accordance with SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits". As a result of the transfer, the Company recognized as a subsidy from the Japanese government an amount equal to the difference between the fair value of the obligation deemed "settled" with the Japanese government and the assets required to be transferred to the government. The subsidy that the Company recognized amounted to ¥33,533 million ($313,392 thousand). In addition, the Company recognized a settlement loss equal to the amount calculated as the ratio of the obligation settled to the total EPF obligation immediately prior to settlement, both of which exclude the effect of future salary progression relating to the substitutional portion, times the net unrecognized gain/loss immediately prior to settlement, which amounted to ¥27,347 million ($255,579 thousand). This gain and loss is included in operating income in the accompanying consolidated statements of income for the year ended March 31, 2005.

Effective October 1, 2004, the corporate portion of the EPF was amended by a new defined benefit plan that provides benefits based on length of service and other factors in a manner similar to the predecessor corporate defined benefit plan but, at a reduced rate. The reduction in the pension benefit obligation as of the effective date in the amount of ¥10,925 million ($102,103 thousand) has been accounted for as a negative plan amendment and included in prior service cost and will be amortized into net periodic benefit cost over the weighted average remaining service period of the plan participants.

The Company and its subsidiaries use a January 1 measurement date for the majority of the plans.

Net periodic benefit cost for the Company's employee retirement and severance defined benefit plans for the years ended March 31, 2005, 2004 and 2003 consisted of the following components:

	Yen (Millions)			U.S. Dollars (Thousands)
	2005	2004	2003	**2005**
Service cost-benefits earned during the year	**¥ 6,806**	10,341	9,383	**$ 63,607**
Interest cost on projected benefit obligation	**5,359**	6,271	5,985	**50,084**
Expected return on plan assets	**(3,180)**	(2,640)	(3,678)	**(29,720)**
Amortization of transition assets	**(1,331)**	(1,331)	(1,331)	**(12,439)**
Recognized actuarial loss	**5,696**	7,480	5,963	**53,234**
Amortization of unrecognized prior service benefit	**(1,522)**	(1,353)	(1,342)	**(14,224)**
Settlement gain, net	**(6,186)**	–	–	**(57,813)**
	¥ 5,642	18,768	14,980	**$ 52,729**

Reconciliations of beginning and ending balances of the benefit obligations and the fair value of the plan assets are as follows:

	Yen (Millions)		U.S. Dollars (Thousands)
	2005	2004	**2005**
Change in benefit obligations:			
Benefit obligations at beginning of period	**¥258,991**	250,625	**$2,420,477**
Service cost	**6,806**	10,341	**63,607**
Interest cost	**5,359**	6,271	**50,084**
Plan participants' contributions	**–**	405	**–**
Plan amendments	**(10,925)**	68	**(102,103)**
Actuarial loss (gain)	**(727)**	(1,223)	**(6,794)**
Benefits paid	**(6,646)**	(6,692)	**(62,112)**
Transfer of substitutional portion	**(67,862)**	–	**(634,224)**
Others	**(437)**	–	**(4,084)**
Translation adjustment	**438**	(804)	**4,093**
Benefit obligations at end of period	**184,997**	258,991	**1,728,944**
Change in plan assets:			
Fair value of plan assets at beginning of period	**168,913**	146,573	**1,578,626**
Actual return on plan assets	**8,053**	21,458	**75,262**
Employer contributions	**3,596**	6,434	**33,608**
Plan participants' contributions	**–**	405	**–**
Benefits paid	**(6,046)**	(5,588)	**(56,505)**
Transfer of substitutional portion	**(31,985)**	–	**(298,925)**
Translation adjustment	**117**	(369)	**1,093**
Fair value of plan assets at end of period	**142,648**	168,913	**1,333,159**
Funded status	**(42,349)**	(90,078)	**(395,785)**
Unrecognized net transition obligation being recognized over 18 years	**(2,607)**	(5,046)	**(24,365)**
Unrecognized net actuarial loss	**72,650**	113,550	**678,972**
Unrecognized prior service benefit	**(28,295)**	(18,891)	**(264,439)**
Net amount recognized	**(601)**	(465)	**(5,617)**
Amounts recognized in consolidated balance sheets consist of:			
Prepaid pension cost	**17,669**	–	**165,131**
Retirement and severance benefits	**(28,839)**	(73,521)	**(269,523)**
Intangible assets	**56**	64	**523**
Accumulated other comprehensive loss	**10,513**	72,992	**98,252**
Net amount recognized	**(601)**	(465)	**(5,617)**
Actuarial present value of accumulated benefit obligations at end of period	**¥167,834**	237,868	**$1,568,542**

The projected benefit obligations and the fair value of plan assets for the pension plans with projected benefit obligations in excess of plan assets, and the accumulated benefit obligations and the fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets are as follows.

	Yen (Millions)		U.S. Dollars (Thousands)
	2005	2004	**2005**
Plans with projected benefit obligations in excess of plan assets:			
Projected benefit obligations	**¥184,997**	¥258,991	**$1,728,944**
Fair value of plan assets	**142,648**	168,913	**1,333,159**
Plans with accumulated benefit obligations in excess of plan assets:			
Accumulated benefit obligations	**54,504**	237,364	**509,383**
Fair value of plan assets	**28,531**	168,316	**266,645**

Assumptions

Weighted-average assumptions used to determine benefit obligations at March 31:	**2005**	2004
Discount rate	**2.2%**	2.1%
Assumed rate of increase in future compensation levels	**3.0%**	3.0%

Weighted-average assumptions used to determine net periodic benefit cost for the years ended March 31:	**2005**	2004	2003
Discount rate	**2.1%**	2.1%	2.6%
Assumed rate of increase in future compensation levels	**3.0%**	3.0%	3.0%
Expected long-term rate of return on plan assets	**2.2%**	2.2%	2.6%

The Company determines the expected long-term rate of return based on the expected long-term return of the various asset categories in which it invests. The Company considers the current expectations for future returns and the actual historical returns of each plan asset category.

Plan assets

The weighted-average asset allocations of the Company's benefit plans at March 31, 2005 and 2004 by asset category are as follows:

	2005	2004
Equity securities	**26.2%**	54.4%
Debt securities	**6.9%**	19.9%
Cash	**62.5%**	19.9%
Other	**4.4%**	5.8%
	100.0%	100.0%

The Company's investment policies are designed to ensure adequate plan assets are available to provide future payments of pension benefits to eligible participants. Taking into account the expected long-term rate of return on plan assets, the Company formulates a "model" portfolio comprised of the optimal combination of equity securities and debt securities. Plan assets are invested in individual equity and debt securities using the guidelines of the "model" portfolio in order to produce a total return that will match the expected return on a mid-term to long-term basis. The Company evaluates the gap between expected return and actual return of invested plan assets on an annual basis to determine if such differences necessitate a revision in the formulation of the "model" portfolio. The Company revises the "model" portfolio when and to the extent considered necessary to achieve the expected long-term rate of return on plan assets.

During the year ended March 31, 2005, the EPF sold certain assets to facilitate the funding of the payment to the Japanese government for the transfer of the substitutional portion of the plan. In addition, the strategic mix for domestic pension plans has increased asset allocation to cash based on the unclear outlook for the bond and equity market in Japan at the middle of 2004. As a result, the relative portion of cash in pension assets at March 31, 2005 increased compared to March 31, 2004.

Contributions

The Company expects to contribute ¥4,882 million ($45,626 thousand) to its defined benefit plans for the year ending March 31, 2006.

Estimated future benefit payments

The benefits expected to be paid from the pension plans in each year 2006 through 2015 are as follows:

	Yen (Millions)	U.S. Dollars (Thousands)
Year ending March 31,		
2006	¥ 6,075	$ 56,776
2007	5,828	54,467
2008	6,806	63,607
2009	7,346	68,654
2010	8,227	76,888
2011 – 2015	¥41,146	$384,542

9. Legal Reserve and Dividends

The Japanese Commercial Code provides that an amount equal to at least 10% of cash dividends and other distributions from retained earnings paid by the Company and its Japanese subsidiaries be appropriated as a legal reserve. No further appropriations are required when the total amount of the additional paid-in capital and the legal reserve equals 25% of their respective stated capital. The Japanese Commercial Code also provides that to the extent that the sum of the additional paid-in capital and the legal reserve exceeds 25% of the stated capital, the amount of the excess (if any) is available for appropriations by resolution of the shareholders. Certain foreign subsidiaries are also required to appropriate their earnings to legal reserves under the laws of the respective countries. Cash dividends and appropriations to the legal reserve charged to retained earnings for the years ended March 31, 2005, 2004 and 2003 represent dividends paid out during those years and the related appropriations to the legal reserve. The accompanying consolidated financial statements do not include any provision for the dividend proposed by the Board of Directors of ¥40 ($0.37) per share aggregating ¥5,290 million ($49,439 thousand) in respect of the year ended March 31, 2005.

Cash dividends per common share are computed based on dividends paid for the year.

10. Stock Option Plan

The Company obtained approval of the Ordinary General Meeting of Shareholders held on June 29, 2004 regarding the issuance of stock acquisition rights as stock options (the Stock Acquisition Rights) to Board members, Corporate Officers and select senior executives, pursuant to Articles 280-20 and 280-21 of the Japanese Commercial Code. Upon approval, the Board of Directors adopted resolutions to issue at no charge an aggregate of 2,343 Stock Acquisition Rights, each representing a stock option to purchase 100 shares of common stock of the Company, to the then 187 Directors, Corporate Officers and select senior executives of the Company, and the Directors and select senior executives of affiliates. The Stock Acquisition Rights issued on August 6, 2004 are exercisable during the period from August 1, 2006 to July 31, 2010. The amount to be paid by qualified persons upon the exercise of each Stock Acquisition Rights is set at ¥8,147 ($76.14) per share of common stock, which was calculated by a formula approved by shareholders at the said annual shareholders meeting and is subject to an adjustment in certain events, including but not limited to a stock split, stock dividend and issue of new shares at a price less than the current market price of the shares of the Company. The exercise price of each Stock Acquisition Rights was equal to or greater than the fair market value of the Company's common stock on the date of grant. To cover these options the Company purchased on the Tokyo Stock Exchange ("TSE") a total of 234,300 common shares with an aggregate purchase price of ¥1,656 million ($15,472 thousand) from August 9, 2004 through August 16, 2004.

The Company obtained approval of the Ordinary General Meeting of Shareholders held in June 2003 and 2002 regarding the issuance of stock acquisition rights as stock options, pursuant to Articles 280-20 and 280-21 of the Japanese Commercial Code. Upon approval, the Board of Directors adopted resolutions to issue at no charge an aggregate of 2,547 and 2,236 Stock Acquisition Rights, each representing a stock option to purchase 100 shares of common stock of the Company, to the then 179 and 197 Directors, Corporate Officers and selected senior executives of the Company, and the Directors and selected senior executives of

its affiliates. The amount to be paid by qualified persons upon the exercise of each Stock Acquisition Rights was set at ¥6,954 and ¥5,909 per share of common stock. The exercise price of each Stock Acquisition Right was equal to or greater than the fair market value of the Company's common stock on the date of grant.

The Ordinary General Meeting of Shareholders held in June 2001 and 2000 approved to implement the Company's stock option plan for Directors and certain employees of the Company, and the purchase of the Company's own shares for transfer to them under the plan, pursuant to Article 210-2 of Japanese Commercial Code. Stock options were provided to the then 196 and 204 Directors on the Board and associate directors and officials in amounts ranging from 500 to 10,000 common shares each, at an exercise price of ¥6,114 and ¥15,640 per share. The exercise price of each Stock Acquisition Rights was equal to or greater than the fair market value of the Company's common stock on the date of grant.

The Company currently accounts for these stock option plans as fixed plans pursuant to APB 25.

A summary of the status of the Company's stock option plans as of March 31, 2005, 2004 and 2003, and of the activity during the years ending on those dates, is as follows:

	2005		2004		2003		**2005**
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price	Weighted average exercise price
		Yen		Yen		Yen	U.S. Dollars
Outstanding at beginning of year	**739,300**	**¥ 8,358**	548,000	¥ 8,967	327,900	¥11,050	**$ 78.11**
Granted	**234,300**	**8,147**	254,700	6,954	223,600	5,909	**76.14**
Exercised	**71,700**	**5,979**	46,900	6,114	–	–	**55.88**
Forfeited or Expired	**33,300**	**13,695**	16,500	13,276	3,500	8,777	**127.99**
Outstanding at end of year	**868,600**	**8,293**	739,300	8,358	548,000	8,967	**77.50**
Exercisable at end of year	**380,600**	**9,275**	264,300	11,755	168,900	15,640	**86.68**

Information about stock options outstanding at March 31, 2005 is as follows:

	Options Outstanding			
Range of exercise prices	Number outstanding at March 31, 2005	Weighted average remaining contractual life (years)	Weighted average exercise price	
Yen			Yen	U.S. Dollars
8,147	**234,300**	5.3	¥ 8,147	$ 76.14
6,954	**253,700**	4.3	6,954	64.99
5,909	**171,600**	3.3	5,909	55.22
6,114	**79,000**	2.1	6,114	57.14
15,640	**130,000**	1.1	15,640	146.17
5,909 to 15,640	**868,600**	3.2	8,293	77.50

The fair value of these stock options was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	2005	2004	2003
Grant-date fair value	**¥1,910 ($17.85)**	¥1,849	¥1,569
Expected life	**4.0 years**	4.0 years	4.0 years
Risk-free interest rate	**0.59%**	0.47%	0.35%
Expected volatility	**35.05%**	39.65%	39.96%
Expected dividend yield	**0.77%**	0.75%	0.80%

11. Other Comprehensive Income (Loss)

Change in accumulated other comprehensive income (loss) for the years ended March 31, 2005, 2004 and 2003, are as follows:

	Yen (Millions)			U.S. Dollars (Thousands)
	2005	2004	2003	**2005**
Foreign currency translation adjustments:				
Balance at beginning of period	**¥(52,807)**	(26,520)	(7,773)	**$(493,523)**
Adjustments for period	**5,636**	(26,287)	(18,747)	**52,672**
Balance at end of period	**(47,171)**	(52,807)	(26,520)	**(440,851)**
Net unrealized gains (losses) on securities:				
Balance at beginning of period	**648**	110	379	**6,056**
Adjustments for period	**153**	538	(269)	**1,430**
Balance at end of period	**801**	648	110	**7,486**
Minimum pension liability adjustments:				
Balance at beginning of period	**(38,228)**	(52,414)	(36,605)	**(357,271)**
Adjustments for period	**32,941**	14,186	(15,809)	**307,860**
Balance at end of period	**(5,287)**	(38,228)	(52,414)	**(49,411)**
Total accumulated other comprehensive income (loss):				
Balance at beginning of period	**(90,387)**	(78,824)	(43,999)	**(844,738)**
Adjustments for period	**38,730**	(11,563)	(34,825)	**361,962**
Balance at end of period	**¥(51,657)**	(90,387)	(78,824)	**$(482,776)**

Tax effects allocated to each component of other comprehensive income (loss) and reclassification adjustments for the years ended March 31, 2005, 2004 and 2003, are as follows:

	Yen (Millions)		
	Before tax amount	Tax (expense) or benefit	Net-of-tax amount
2005			
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities held at end of period	**¥ 5,203**	**(8)**	**5,195**
Reclassification adjustments for the portion of gains and losses realized upon liquidation and sale of investments in foreign entities	**441**	**–**	**441**
Net foreign currency translation adjustments	**5,644**	**(8)**	**5,636**
Unrealized gains (losses) on securities:			
Unrealized holding gains arising for period	**676**	**(119)**	**557**
Reclassification adjustments for (gains) losses realized in net income	**(671)**	**267**	**(404)**
Net unrealized gains (losses)	**5**	**148**	**153**
Minimum pension liability adjustments	**62,479**	**(29,538)**	**32,941**
Other comprehensive income (loss)	**¥ 68,128**	**(29,398)**	**38,730**
2004			
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities held at end of period	¥ (26,464)	(245)	(26,709)
Reclassification adjustments for the portion of gains and losses realized upon liquidation and sale of investments in foreign entities	422	–	422
Net foreign currency translation adjustments	(26,042)	(245)	(26,287)
Unrealized gains (losses) on securities:			
Unrealized holding gains arising for period	886	(348)	538
Minimum pension liability adjustments	23,608	(9,422)	14,186
Other comprehensive income (loss)	¥ (1,548)	(10,015)	(11,563)
2003			
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities held at end of period	¥ (19,751)	242	(19,509)
Reclassification adjustments for the portion of gains and losses realized upon liquidation of investments in foreign entities	762	–	762
Net foreign currency translation adjustments	(18,989)	242	(18,747)
Unrealized gains (losses) on securities:			
Unrealized holding gains arising for period	104	(41)	63
Reclassification adjustments for (gains) losses realized in net income	(539)	207	(332)
Net unrealized gains (losses)	(435)	166	(269)
Minimum pension liability adjustments	(26,759)	10,950	(15,809)
Other comprehensive income (loss)	¥ (46,183)	11,358	(34,825)

	U.S. Dollars (Thousands)		
	Before tax amount	Tax (expense) or benefit	Net-of-tax amount
2005			
Foreign currency translation adjustments:			
Amount arising during the year on investments in foreign entities held at end of period	**$ 48,626**	**(75)**	**48,551**
Reclassification adjustments for the portion of gains and losses realized upon liquidation and sale of investments in foreign entities	**4,121**	**–**	**4,121**
Net foreign currency translation adjustments	**52,747**	**(75)**	**52,672**
Unrealized gains (losses) on securities:			
Unrealized holding gains arising for period	**6,318**	**(1,112)**	**5,206**
Reclassification adjustments for (gains) losses realized in net income	**(6,271)**	**2,495**	**(3,776)**
Net unrealized gains (losses)	**47**	**1,383**	**1,430**
Minimum pension liability adjustments	**583,916**	**(276,056)**	**307,860**
Other comprehensive income (loss)	**$636,710**	**(274,748)**	**361,962**

12. Leases

The Company and its subsidiaries occupy offices and other facilities under various cancellable lease agreements expiring in fiscal 2006 through 2007. Lease deposits made under such agreements, aggregating ¥1,900 million ($17,757 thousand) and ¥2,079 million, at March 31, 2005 and 2004, respectively, are included in other assets on the accompanying consolidated balance sheets.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of March 31, 2005:

	Yen (Millions)	U.S. Dollars (Thousands)
Year ending March 31,		
2006	¥2,355	$22,009
2007	1,697	15,860
2008	1,133	10,589
2009	595	5,561
2010	305	2,850
Later years	723	6,757
	¥6,808	$63,626

13. Commitments and Contingent Liabilities

At March 31, 2005, commitments outstanding for the purchase of property, plant and equipment approximated ¥12,292 million ($114,879 thousand). The Company has entered into several purchase agreements with certain suppliers whereby the Company committed to purchase a minimum amount of raw materials to be used in the manufacture of its products. Future minimum purchases remaining under the agreements approximated ¥3,841 million ($35,897 thousand) at March 31, 2005.

The Company and certain of its subsidiaries provide guarantees to third parties on bank loans of its employees. The guarantees on behalf of the employees are made for their housing loans. For each guarantee issued, in the event the employee defaults on payment, the Company would be required to make payments under its guarantee. The maximum amount of undiscounted payments the Company would have to make in the event of default is ¥6,296 million ($58,841 thousand) and ¥6,605 million at March 31, 2005 and 2004, respectively. As of March 31, 2005, the liability recognized for the Company's obligation under the guarantee arrangement is not material.

Several claims against the Company and certain subsidiaries are pending. Provision has been made for the estimated liabilities for the items. In the opinion of management, based upon discussion with counsel, any additional liability not currently provided for will not materially affect the consolidated financial position and results of operations of the Company.

14. Risk Management Activities and Derivative Financial Instruments

The Company and its subsidiaries operate internationally which exposes them to the risk of changes in foreign exchange rates and interest rates; derivative financial instruments are utilized to reduce these risks. The Company and its subsidiaries do not hold or issue financial instruments for trading purposes. The Company and its subsidiaries are exposed to credit related losses in the event of nonperformance by the counterparties to those financial instruments, but does not expect any counterparties to fail to meet their obligations given their high credit ratings. The credit exposure of currency swaps, interest rate and currency swaps, forward foreign exchange contracts and currency option contracts is represented by the fair values of contracts.

The Company and one of its subsidiaries have currency swaps and interest rate and currency swaps with certain financial institutions to limit their exposure to fluctuations in foreign exchange rates and interest rates involved mainly with loans made by the Company to its subsidiaries in a total amount of ¥11,067 million ($103,430 thousand) and ¥12,605 million at March 31, 2005 and 2004, respectively. These swaps require the Company and the subsidiary to pay principally euros and U.S. dollars and to receive Japanese yen at a specified rate on specific dates. The remaining term of these swaps is one month as of March 31, 2005. Gains or losses on interest and currency swaps and currency swaps are included in interest expense and foreign exchange gain (loss) in the consolidated statements of income, respectively. The swap contracts are measured at fair value and are included in prepaid expenses and other current assets or other current liabilities, as the case may be, in the consolidated balance sheets.

Forward exchange contracts and currency option contracts have been entered into to hedge adverse effects of foreign currency exchange rate fluctuations mainly on foreign-currency-denominated trade receivables and foreign-currency-denominated forecasted transactions.

At March 31, 2005 and 2004, the Company and certain of its subsidiaries had forward exchange contracts to sell and buy foreign currencies (principally U.S. dollars and Japanese Yen) and currency option contracts for a contract amount of ¥28,990 million ($270,935 thousand) and ¥34,978 million, respectively. Gains or losses on forward exchange contracts and currency option contracts are included in foreign exchange gain (loss) in the consolidated statements of income. These contracts are measured at fair value and are included in prepaid expenses and other current assets or other current liabilities, as the case maybe, in the consolidated balance sheets.

15. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of financial instruments in cases for which it is practicable:

(a) Cash and cash equivalents, Trade receivables, Other current assets, Short-term debt, Trade payables, Accrued salaries and wages, Accrued expenses, Income taxes payables and Other current liabilities.

The carrying amount approximates fair value because of the short maturity of these instruments.

(b) Marketable securities and Investments in securities

The fair values of marketable securities and investments in securities are estimated based on quoted market prices for these instruments. For other securities for which there are no quoted market prices, a reasonable estimate of fair values could not be made without incurring excessive costs. Additional information pertinent to the value of unquoted investments is provided below.

(c) Long-term debt

The fair value of the Company's long-term debt is estimated based on the amount of future cash flows associated with the instrument discounted using the Company's current borrowing rate for similar debt of comparable maturity, or based on the quoted market prices for the same or similar issues.

(d) Currency Swaps, Currency and Interest Rate Swaps, Forward Foreign Exchange Contracts and Foreign Currency Option Contracts

The fair values of currency swaps, currency and interest rate swaps, forward foreign exchange contracts and foreign currency option contracts are estimated by obtaining quotes from financial institutions.

The carrying amounts and estimated fair values of the Company's financial instruments at March 31, 2005 and 2004, are summarized as follows:

	Yen (Millions)				U.S. Dollars (Thousands)	
	2005		2004		2005	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Nonderivatives:						
Assets:						
Investments in securities and other assets for which it is:						
Practicable to estimate fair value	¥12,684	12,684	8,259	8,259	$118,542	118,542
Not practicable to estimate fair value	1,741	–	1,135	–	16,271	–
Liability:						
Long-term debt, including current portion	(184)	(184)	(128)	(128)	(1,720)	(1,720)
Derivatives:						
Currency and interest rate swaps in a:						
Gain position	–	–	287	287	–	–
Loss position	(312)	(312)	(35)	(35)	(2,916)	(2,916)
Forward foreign exchange contracts in a:						
Gain position	–	–	403	403	–	–
Loss position	(88)	(88)	(7)	(7)	(822)	(822)
Currency option contracts in a:						
Gain position	–	–	91	91	–	–
Loss position	(366)	(366)	–	–	(3,421)	(3,421)

The carrying amounts of the nonderivative assets and liabilities are included in the consolidated balance sheets under the indicated captions. The carrying amounts of the currency swaps, the currency and interest rate swaps, forward foreign exchange contracts and foreign currency option contracts in a gain position are included in prepaid expenses and other current assets, while those in a loss position are included in other current liabilities.

It is not practicable to estimate the fair value of investments in untraded companies. Management believes that the carrying amounts approximate fair value.

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

16. Restructuring Charges

The downturn in the U.S. economy from the fourth quarter ended March 31, 2001 and the reduction in IT investment volume on a world-wide basis had an adverse effect on the Company. Under the circumstances, the Company believes offering competitive pricing is essential to maintaining its advantageous position in the market of electronic components. Additionally, many of the Company's customers who manufacture consumer products have transferred their manufacturing facilities to Asian countries, in particular China. As a result, the Company, as a supplier of electronic components to these customers, will be required to transfer certain of its factories to these Asian countries in order to meet the customers' logistical needs.

During the year ended March 31, 2003, the Company recorded a restructuring charge of ¥5,345 million. The Company recorded a workforce reduction charge of approximately ¥2,346 million relating primarily to severances. As a result of the restructuring, a total of 1,302 regular employees were terminated through March 31, 2003. The Company recorded a restructuring charge of ¥2,999 million mainly relating to losses on the disposal of property, plant and equipment in Japan, the Americas and Europe.

Through March 31, 2003, the Company had paid ¥5,119 million of the ¥5,345 million restructuring charges. The Company paid all of the remaining restructuring costs by the end of first quarter of fiscal 2004.

17. Goodwill and Other Intangible Assets

The components of acquired intangible assets excluding goodwill at March 31, 2005 and 2004, are as follows:

	Yen (Millions)						U.S. Dollars (Thousands)		
	2005			2004			**2005**		
	Gross Carrying Amount	Accumu-lated Amorti-zation	Net Amount	Gross Carrying Amount	Accumu-lated Amorti-zation	Net Amount	Gross Carrying Amount	Accumu-lated Amorti-zation	Net Amount
Amortized intangible assets:									
Patent	**¥10,347**	**2,242**	**8,105**	10,349	1,259	9,090	**$ 96,701**	**20,953**	**75,748**
Software	**7,271**	**4,399**	**2,872**	7,359	4,207	3,152	**67,953**	**41,112**	**26,841**
Other	**2,346**	**715**	**1,631**	2,739	870	1,869	**21,926**	**6,683**	**15,243**
Total	**19,964**	**7,356**	**12,608**	20,447	6,336	14,111	**186,580**	**68,748**	**117,832**
Unamortized intangible assets	**¥ 639**		**639**	916		916	**$ 5,972**		**5,972**

Intangible assets subject to amortization are amortized using the straight-line method over their estimated useful lives to their estimated residual value of zero. The useful lives are 11 years for the Patents, 3 to 5 years for Internal-use Software, and 10 years for Other intangible assets.

Aggregate amortization expense for the years ended March 31, 2005, 2004 and 2003 was ¥2,467 million ($23,056 thousand), ¥2,626 million and ¥1,762 million, respectively. Estimated amortization expense for the next five years is: ¥2,342 million in 2006, ¥1,869 million in 2007, ¥1,521 million in 2008, ¥1,331 million in 2009, and ¥1,211 million in 2010.

The change in the carrying amount of goodwill by segment for the year ended March 31, 2005 is as follows:

	Yen (Millions)			U.S. Dollars (Thousands)		
	Electronic materials and components	Recording media & systems	Total	Electronic materials and components	Recording media & systems	Total
April 1, 2003	¥ 13,634	497	14,131			
Additions	76	–	76			
Deductions	(2,128)	(497)	(2,625)			
Translation adjustment	(1,553)	–	(1,553)			
March 31, 2004	**10,029**	**–**	**10,029**	**$ 93,729**	**–**	**93,729**
Additions	**991**	**–**	**991**	**9,262**	**–**	**9,262**
Deductions	**(1,975)**	**–**	**(1,975)**	**(18,458)**	**–**	**(18,458)**
Translation adjustment	**165**	**–**	**165**	**1,542**	**–**	**1,542**
March 31, 2005	**¥ 9,210**	**–**	**9,210**	**$ 86,075**	**–**	**86,075**

Goodwill additions during the year ended March 31, 2005 principally represent the excess of purchase price over the fair value of assets acquired and liabilities assumed for a certain immaterial acquisition made during the year. Goodwill deductions during the year ended March 31, 2005 primarily consist of an impairment loss from discontinued operations in the amount of ¥1,856 million in connection with the discontinuation of the Company's semiconductor business (note 20) and a reclassification to deferred income taxes in the amount of ¥119 million related to the post-acquisition adjustment resulting from recognition of preacquisition tax benefits.

Goodwill deductions during the year ended March 31, 2004 consist of a reclassification to intangible assets in the amount of ¥1,006 million resulting from the finalization of the purchase price allocation of a subsidiary acquired in 2003, a reclassification to deferred income taxes in the amount of ¥1,122 million related to post-acquisition adjustment resulting from recognition of preacquisition tax benefits, and the sale of a certain subsidiary in the amount of ¥497 million.

18. Net Income per Share

A reconciliation of the numerators and denominators of the basic and diluted net income per share computations is as follows:

	Yen (Millions)			U.S. Dollars (Thousands)
	2005	2004	2003	**2005**
Income from continuing operations available to common stockholders	**¥36,965**	43,355	13,593	**$345,467**
Loss from discontinued operations available to common stockholders	**3,665**	1,254	1,574	**34,252**
Net income available to common stockholders	**¥33,300**	42,101	12,019	**$311,215**

	Number of shares (Thousands)		
	2005	2004	2003
Weighted average common shares outstanding – Basic	**132,293**	132,475	132,716
Effect of dilutive stock options	**83**	48	–
Weighted average common shares outstanding – Diluted	**132,376**	132,523	132,716

	Yen			U.S. Dollars
	2005	2004	2003	**2005**
Income from continuing operations per share:				
Basic	**¥279.41**	327.27	102.42	**$ 2.61**
Diluted	**279.25**	327.15	102.42	**2.61**
Loss from discontinued operations per share:				
Basic	**¥ (27.70)**	(9.47)	(11.86)	**$(0.26)**
Diluted	**(27.69)**	(9.46)	(11.86)	**(0.26)**
Net income per share:				
Basic	**¥251.71**	317.80	90.56	**$ 2.35**
Diluted	**251.56**	317.69	90.56	**2.35**

19. Business and Credit Concentrations

One significant customer related to the electronic materials and components business accounted for 12.6%,12.1% and 8.5% of the Company's net sales for the year ended March 31, 2005, 2004 and 2003, respectively, and 13.2% and 10.2% of trade receivables at March 31, 2005 and 2004, respectively.

20. Discontinued Operations

On March 31, 2005, the Company entered into an agreement to sell all outstanding stock of its wholly owned subsidiary, TDK Semiconductor Corporation ("TSC") for ¥1,509 million ($14,103 thousand) to Golden Gates Capital ("Buyer"). The sale of TSC is part of the Company's continuing shift away from non-core products and technologies. The sale agreement also includes earn-out payments, to be made by the Buyer to the Company, of up to ¥3,478 million ($32,505 thousand). The payments are contingent upon certain milestones being met related to future revenue targets extending through 2007. The transaction was completed on April 8, 2005. The Company has accounted for the sale of TSC as a discontinued operation pursuant to FASB Statement No.144, "Accounting for the Impairment or Disposal of Long-Lived Assets", as TSC meets the definition of a "component of an entity". The results of operations for this subsidiary have been reported as discontinued operations for all periods presented. Accordingly, certain financial statement information and related footnote disclosures related to prior periods have been reclassified.

Selected financial information for the years ended March 31, 2005, 2004 and 2003 for the discontinued operations, are summarized as follows:

	Yen (Millions)			U.S. Dollars (Thousands)
	2005	2004	2003	**2005**
Net sales	**¥2,242**	3,070	4,015	**$20,953**
Loss from operations before income taxes (including loss on disposal of ¥454 million in 2005)	**3,509**	244	2,471	**32,794**
Income tax expense (benefit)	**156**	1,010	(897)	**1,458**
Loss from discontinued operations	**¥3,665**	1,254	1,574	**$34,252**

Included in loss from discontinued operations for the year ended March 31, 2004, is patent infringement settlement income in the amount of ¥1,933 million which, prior to being reclassified, was previously included in income before income taxes for the year. This patent infringement settlement income has been reflected as a component of loss from discontinued operations as it directly relates to the TSC business being disposed.

On August 6, 2001, TSC filed suit against Silicon Laboratories, Inc. ("SiLabs") alleging infringement by SiLabs of U.S. Patent No. 5,654,984 entitled "Signal Modulation Across Capacitors" ("the '984 patent") owned by TSC. The patent relates to novel methods and circuitry for communicating a signal across an isolation barrier using capacitors. The patented technology is principally useful in modem applications. The Company's lawsuit alleged that SiLabs integrated the patented technology into its competing modem products. SiLabs counterclaimed alleging (1) unfair competition and (2) intentional and negligent interference with economic relations.

In April 2003, the parties resolved the dispute with the execution of a Settlement Agreement wherein both parties agreed to dismiss all litigation between them without admitting any liability. In exchange for the payment of $17 million to TSC, SiLabs was granted a fully paid-up, exclusive perpetual license to use the '984 patent, as well as three ancillary patents owned by TSC. Pursuant to the Settlement Agreement, the Company has no further obligation to provide additional services, product deliverables or enhancements to the licensed technology. TSC did reserve for itself and other TDK companies the right to use the patents with regard to TDK-branded products. In addition, TSC agreed that neither it or any TDK entity would pursue a claim against SiLabs for a period of 20 years for patent infringement related to any SiLabs product in existence at the time of the settlement or any capacitive-based digital access arrangement ("DAA") product subsequently introduced by SiLabs.

The components of the assets and liabilities held for sale as of March 31, 2005 are as follows:

	Yen (Millions)	U.S. Dollars (Thousands)
Assets held for sale		
Current assets	¥548	$5,121
Net property, plant and equipment	430	4,019
Other assets	15	140
	993	9,280
Liabilities held for sale		
Current liabilities	¥ 92	$ 860

21. Sale of a Subsidiary

On October 1, 2004, TDK Logistics Corporation ("TDK Logistics"), a wholly owned subsidiary which provided warehousing and transportation services to only the Company, was acquired in a share for share exchange by Alps Logistics Co., Ltd. ("ALPS"), a third party listed company on the Tokyo Stock Exchange. The share exchange ratio was 0.82 of an ALPS share for one TDK Logistics share. The fair value of shares issued to effect this transaction was determined based on the market value of ALPS common shares at the consummation date and amounted to ¥3,365 million. As a result of the acquisition, the Company owns approximately 7.9% of the outstanding common stock of ALPS. The Company continues to use warehousing and transportation services which are now provided by ALPS. The sale of TDK Logistics does not meet the criteria for reporting as

discontinued operations as the operations and cash flows of the former subsidiary will not be eliminated from the cash flows of the Company. The Company recorded a gain on sale of ¥1,799 million ($16,813 thousand) which is included in operating income in the consolidated statements of income for the year ended March 31, 2005.

22. Subsequent Events

On May 17, 2005, the Company acquired 100% of the issued and outstanding shares of Amperex Technology Limited ("ATL"), a Hong Kong based company engaged in the production and sale of Polymer Lithium Batteries with about 3,000 employees, for the total purchase price of approximately $100 million, net of cash acquired. ATL was founded in July 1999 and has a manufacturing plant in Dongguan, China. The acquisition was made for the purpose of obtaining an operating base on which to develop the Company's materials technology in the field of energy, where growth is expected in the future. ATL specializes in the compact and flexible polymer lithium battery business, and has established a production system of stable quality based on its special know-how in materials technology and production engineering technology.

On June 29, 2005, the Company received a notification and assessment of additional tax from the Tokyo Regional Tax Bureau (Nihonbashi Tax Office) asserting that prices charged and paid by the Company in connection with sales and purchases of products involving its overseas subsidiaries have not been commensurate with the prices of similar transactions involving unrelated third parties. The period of additional assessments covers the tax years ending from March 1999 through March 2003. The additional tax assessed by the Tokyo Regional Tax Bureau amounts to ¥11,960 million including interest and penalty, which has been reflected as additional tax expense and other expense, net of deferred income tax benefits in the accompanying consolidated statements of income for the year ended March 31, 2005. The Company intends to appeal the assessment with the Tokyo Regional Tax Bureau. However, no assurances can be provided as to whether the Company will be successful or the ultimate outcome of the appeal.

On July 19, 2005, the Company entered into an agreement with Invensys plc ("Seller"), a London based manufacturer listed on the London Stock Exchange, to purchase the Lambda Power division of the Seller for the aggregate purchase price of approximately $235 million, net of cash acquired. The division consists of Lambda USA, Lambda Europe, Densei-Lambda KK and other entities, and conducts business primarily related to development, production and sales of power supplies in thirteen countries around the world. Under the terms of the agreement, the Company will be the sole owner of Lambda Power businesses in the U.S. and Europe and acquire approximately 58% of the shares of Densei-Lambda KK. The Company conducts its power supply business based on expertise in electronic materials, particularly ferrite. The acquisition is intended to establish a more resilient operating base in the power supply field, which is expected to continue to grow in the years ahead, by combining the Company's strengths with those of the various businesses of the Lambda Power division.

23. Supplementary Information

	Yen (Millions)			U.S. Dollars (Thousands)
	2005	2004	2003	**2005**
(a) Statement of Income				
Research and development	**¥36,348**	32,948	30,099	**$339,701**
Rent	**7,349**	8,037	9,194	**68,682**
Maintenance and repairs	**11,090**	11,875	11,111	**103,645**
Advertising costs	**4,926**	6,261	5,521	**46,037**
(b) Statement of Cash Flows				
Cash paid during year for:				
Interest	**¥ 331**	350	646	**$ 3,093**
Income taxes	**¥13,740**	4,299	(1,270)	**$128,411**

Noncash activities

In fiscal 2005, the Company received a 7.9% ownership interest in ALPS having a fair value of ¥3,365 million in exchange for all issued and outstanding shares of TDK Logistics in a share-to-share exchange transaction.

In fiscal 2004 and fiscal 2003, there were no material noncash investing and financing activities.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
TDK Corporation:

We have audited the accompanying consolidated balance sheets of TDK Corporation and subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended March 31, 2005, all expressed in yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Company declined to present segment information for each of the years in the three-year period ended March 31, 2005. In our opinion, disclosures of segment and related information about the different types of business activities in which the company engages and the different economic environments in which it operates is required by U.S. generally accepted accounting principles. The omission of segment information results in an incomplete presentation of the Company's consolidated financial statements.

In our opinion, except for the omission of the segment information as discussed in the preceding paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of TDK Corporation and subsidiaries as of March 31, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2005, in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated financial statements as of and for the year ended March 31, 2005, have been translated into United States dollars solely for the convenience of the reader. We have audited the translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into United States dollars on the basis set forth in Note 2 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 15, 2005, except for the second paragraph of Note 22 which is June 29, 2005, and the third paragraph of Note 22 which is as of July 19, 2005.

INVESTOR INFORMATION (As of March 31, 2005)

CORPORATE HEADQUARTERS

TDK CORPORATION
1-13-1, Nihonbashi, Chuo-ku,
Tokyo 103-8272, Japan

DATE OF ESTABLISHMENT
December 7, 1935

CAPITAL
¥32,641,976,312

AUTHORIZED NUMBER OF SHARES
480,000,000 shares

ISSUED NUMBER OF SHARES
133,189,659 shares

NUMBER OF SHAREHOLDERS
23,295

SECURITIES TRADED
Common stock: Tokyo Stock Exchange
Osaka Securities Exchange
London Stock Exchange
ADRs: New York Stock Exchange
DRs: Brussels Stock Exchange (Euronext)

TRANSFER AGENT
The Chuo Mitsui Trust & Banking Co., Ltd.
3-33-1, Shiba, Minato-ku, Tokyo 105-8574, Japan

DEPOSITARY FOR AMERICAN DEPOSITARY RECEIPTS (ADRs)
Citibank, N.A.
111 Wall Street, 20th Floor, Zone 7
New York, NY 10005, U.S.A.

INDEPENDENT AUDITORS
KPMG AZSA & Co.

QUARTERLY RESULTS AND STOCK PRICE DATA

Yen in millions, except per share amounts and stock price data

Fiscal 2004	I	II	III	IV
Net sales	¥152,397	¥162,277	¥181,088	¥160,030
Net income	8,025	11,232	14,132	8,712
Net income per share (basic) (Yen)	60.51	84.76	106.75	65.78
(diluted) (Yen)	60.51	84.76	106.69	65.73
Stock price (Tokyo Stock Exchange) (Yen):				
High	6,020	7,890	7,800	8,350
Low	3,810	5,860	6,470	7,020
Fiscal 2005	**I**	**II**	**III**	**IV**
Net sales	¥157,227	¥160,265	¥174,218	¥166,143
Net income	10,163	9,706	12,209	1,222
Net income per share (basic) (Yen)	76.75	73.36	92.35	9.24
(diluted) (Yen)	76.69	73.31	92.29	9.24
Stock price (Tokyo Stock Exchange) (Yen):				
High	8,630	8,390	7,910	7,880
Low	7,130	6,790	7,160	7,050

Note: All quarterly data are unaudited and have not been reviewed by the independent auditors.

FURTHER INFORMATION
For further information and additional copies of this report and other publications, please contact:

☐ **TDK Corporation**
MICHINORI KATAYAMA
Corporate Communications Dept.
1-13-1, Nihonbashi, Chuo-ku, Tokyo 103-8272, Japan
Tel: +81 (3) 5201-7102 Fax: +81 (3) 5201-7114

☐ **TDK U.S.A. Corporation**
FRANCIS J. SWEENEY
901 Franklin Avenue, Garden City N.Y. 11530, U.S.A.
Tel: +1 (516) 535-2600

☐ **TDK Marketing Europe GmbH**
MARCO DONADONI
Halskestraße 38, D-40880 Ratingen, Germany
Tel: +49(2102)4870

☐ **E-MAIL**
tdkhqir@mb1.tdk.co.jp

INTERNET ADDRESS
http://www.tdk.co.jp/
TDK provides various investor information, including its latest earnings results, in the IR Information section of its website.

For inquiries concerning ADRs, please contact:
Citibank, N.A. Shareholder Services
P.O. Box 43077
Providence, Rhode Island 02940-3077
U.S.A.

Tel: 1-877-248-4237 CITI-ADR (toll free)
Tel: 1-816-843-4281 (out of U.S.)
Fax: 1-201-324-3284
Internet: www.citigroup.com/adr
E-mail: citibank@shareholders-online.com

TDK Corporation
1-13-1, Nihonbashi, Chuo-ku, Tokyo, 103-8272, Japan
Tel: +81 (3) 5201-7102 Fax: +81 (3) 5201-7114
http://www.tdk.co.jp/

This booklet is printed on recycled paper with soy ink.
Printed in Japan