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	Income Taxes Deferred	Income Taxes 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) 2005	Yen (Millions) 2004	U.S. Dollars (Thousands) 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	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	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.