

2) Business Results and Financial Position

1. Summary

Consolidated results for the first quarter of fiscal 2006, the three-month period from April 1, 2005 through June 30, 2005, were as follows:

Consolidated net sales were ¥167,422 million (U.S.\$1,508,306 thousand), 6.5% higher than the ¥157,227 million recorded in the corresponding period of the previous fiscal year. Operating income declined 10.3% from ¥14,362 million to ¥12,889 million (U.S.\$116,117 thousand). Income from continuing operations before income taxes decreased 6.7% from ¥15,292 million to ¥14,275 million (U.S.\$128,604 thousand). Net income rose 7.0% from ¥10,163 million to ¥10,874 million (U.S.\$97,964 thousand), and basic net income per common share was ¥82.22 (U.S.\$0.74), up from ¥76.75.

Average first-quarter yen exchange rates for the U.S. dollar and euro were ¥107.73 and ¥135.47, respectively, as the yen appreciated 1.7% from ¥109.63 versus the U.S. dollar and depreciated 2.5% from ¥132.15 against the euro, compared with the first quarter of the previous fiscal year. This lowered net sales by approximately ¥1.3 billion and operating income by approximately ¥0.6 billion.

(Sales by Segment)

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

Effective from the current fiscal year, there have been changes in segment names. However, this resulted in no reclassifications of sales. Specifically, "Semiconductors & others" has been renamed "Electronic components & others," while "Recording media & systems segment" is now called the "Recording media segment."

(1) Electronic materials and components segment

This segment is made up of four product sectors: (1-1) electronic materials, (1-2) electronic devices, (1-3) recording devices, and (1-4) electronic components & others. Segment net sales rose 10.4% to ¥143,328 million (U.S.\$1,291,243 thousand), from ¥129,804 million, while segment operating income edged up 0.8% to ¥15,397 million (U.S.\$138,712 thousand), from ¥15,268 million. Looking at the electronics market, in the first quarter of fiscal 2005, strong demand driven by the Athens Summer Olympic Games was short-lived. By comparison, in the first quarter of fiscal 2006, demand for finished products was generally sluggish. However, amid this softness, growth in demand for PCs, HDDs and flat-screen TVs was steady, making market conditions a bit easier. Sector sales of TDK's electronic components framed against this market backdrop were as follows.

(1-1) Electronic materials

This sector is broken down into two product categories: capacitors and ferrite cores and & magnets.

Sales in the electronic materials sector declined 8.3% from ¥44,763 million to ¥41,047 million (U.S.\$369,793 thousand).

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

[Ferrite cores and magnets] Sales of ferrite cores and magnets rose slightly year on year. In ferrite cores, sales were down due to lower sales of ferrite cores for power choke coils used in digital home appliances. However, magnet sales increased as rising HDD demand spurred higher sales of metal magnets.

(1-2)Electronic devices

This sector has three product categories: inductive devices, high-frequency components and other products.

Sales in the electronic devices sector rose 1.6% from ¥28,248 million to ¥28,687 million (U.S.\$258,441 thousand).

[Inductive devices] Sales increased year on year. Sales rose of power line coils for mobile phones and HDDs.

[High-frequency components] Sales decreased year on year, due to continuing declines in sales prices of components for mobile phones and lower shipment volumes of some products.

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

(1-3)Recording devices

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

Sector sales rose 31.3% from ¥52,163 million to ¥68,464 million (U.S.\$616,793 thousand).

[HDD heads] Sales increased year on year. Amid rising demand for HDDs, HDD head shipments increased, absorbing lower sales caused by falling prices.

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

(1-4)Electronic components & others

Sector sales rose 10.8% from ¥4,630 million to ¥5,130 million (U.S.\$46,216 thousand), as higher sales of other electronic components outweighed lower sales of semiconductor manufacturing equipment.

(2)Recording media segment

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

Segment sales declined 12.1% from ¥27,423 million to ¥24,094 million (U.S.\$217,063 thousand). The segment recorded an operating loss of ¥2,508 million (U.S.\$22,595 thousand), an increase of 176.8% from last year's operating loss of ¥906 million.

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

[Optical media] Sales of optical media increased year on year, with higher DVD sales volumes driven by increasing demand offsetting lower CD-R sales.

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

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

(Sales by Region)

Detailed geographic segment information can be found in the segment information on page 11 of the consolidated results.

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

[Americas] Sales were down in all product sectors, except electronic devices.

[Europe] Sales were down in all product sectors.

[Asia (excluding Japan) and other areas] Sales in the electronic devices, recording devices and electronic components & others sectors were up as customers continued to shift manufacturing bases to this region.

2. Financial Position

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

Total assets	¥823,097 million	1.9% increase
Total stockholders' equity	¥650,730 million	1.8% increase
Equity ratio	79.1%	

At the end of the first quarter of fiscal 2006, net trade receivables were ¥4,345 million higher, inventories were ¥8,813 million higher and net property, plant and equipment was ¥3,294 million higher than March 31, 2005. As a result of these and other changes, total assets increased ¥15,096 million compared with March 31, 2005.

Total liabilities increased ¥3,257 million due mainly to a ¥3,370 million increase in trade payables.

Total stockholders' equity increased ¥11,663 million due to a ¥5,417 million increase in retained earnings and a ¥5,938 million decrease in accumulated other comprehensive loss.

(2-2) Cash Flows

	(¥ millions)		
	FY 2006 1Q	FY 2005 1Q	Change
Net cash provided by operating activities	10,026	18,951	(8,925)
Net cash used in investing activities	(21,905)	(13,993)	(7,912)
Net cash used in financing activities	(5,168)	(3,856)	(1,312)
Net cash provided by (used in) discontinued operations	405	(193)	598
Effect of exchange rate changes on cash and cash equivalents	2,936	2,553	383
Net (decrease) increase in cash and cash equivalents	(13,706)	3,462	(17,168)
Cash and cash equivalents at beginning of period	251,508	227,155	24,353
Cash and cash equivalents at end of period	237,802	230,617	7,185

Operating activities provided net cash of ¥10,026 million (U.S.\$90,324 thousand), a year-on-year decrease of ¥8,925 million. Income from continuing operations increased ¥182 million to ¥10,687 million (U.S.\$96,279 thousand) and depreciation and amortization increased ¥825 million to ¥13,036 million (U.S.\$117,441 thousand). In changes in assets and liabilities, inventories rose ¥3,514 million and income taxes payables, net decreased ¥6,547 million.

Investing activities used net cash of ¥21,905 million (U.S.\$197,342 thousand), ¥7,912 million more than a year earlier. Capital expenditures decreased ¥1,705 million to ¥12,573 million (U.S.\$113,270 thousand). Outflows of ¥10,571 million for the purchase of a subsidiary was the main reason for the increase in cash used in investing activities.

Financing activities used net cash of ¥5,168 million (U.S.\$46,559 thousand), ¥1,312 million more than a year earlier. Dividends paid increased ¥1,318 million due to a ¥10 per share increase in the dividend.

3. Business Risks

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

4. Fiscal 2006 Projections

TDK's consolidated projections for fiscal 2006, the year ending March 31, 2006, are as follows:

[Consolidated Projections for Fiscal 2006]

	FY 2006 (¥ millions)	% change from FY2005	Projections as of April 2005 (¥ millions)
Net sales	690,000	4.9	690,000
Operating income	67,000	12.0	67,000
Income before income taxes	69,000	13.6	69,000
Net income	50,000	50.2	50,000

Notes:

- The above projections for fiscal 2006 are the same as those announced on April 27, 2005.
- The projections are based principally on the following assumptions:
 - # An average exchange rate of ¥100=US\$1 for fiscal 2006 from the second quarter onward.
 - # Market conditions for electronic components (electronic materials and electronic devices) are expected to remain a little weak in the second quarter. However, projections are predicated on increasing demand for electronic components beginning in about September this year because of higher demand for finished products in the second half of fiscal 2006.

- # In recording devices, strong demand for HDD heads that continued through the first quarter of fiscal 2006 is expected to taper off in the second quarter. However, projections are predicated on rebound in demand in the second half due to seasonal factors. At present, it is difficult to procure some key components for HDDs. Consequently, while there is a risk that unexpected restrictions on the procurement of materials may hamper growth of TDK's recording devices, this is not expected to develop into a significant risk for the business as a whole.
- # The forecast for the recording media segment is largely unchanged because of no changes in the premises for this forecast. TDK expects sales of audiotapes and videotapes to fall. On the other hand, sales of optical media products are expected to increase on higher volumes. However, because this increase is unlikely to fully offset lower sales in other products, the recording media segment is forecast to post lower sales year on year.
- # On July 19, TDK announced the acquisition of the Lambda Power Division. At present, because it is uncertain when this division will be consolidated, TDK has not added the sales and earnings of this division to its current projections of operating results.

[Non-Consolidated Projections]

	FY 2006 (¥ millions)	% change from FY2005	Projections as of April 2005 (¥ millions)
Net sales	334,900	2.0	334,900
Operating income	17,300	99.9	17,300
Current income	28,500	-6.7	39,800
Net income	30,700	-22.3	27,000

(Note)

In the first quarter of fiscal 2006, TDK received correction notices based on transfer pricing taxation regulations from the Tokyo Regional Taxation Bureau (Nihonbashi Tax Office). This resulted in tax expenses of approximately ¥10.3 billion and non-operating expenses of approximately ¥1.3 billion more than projected when TDK announced its previous forecasts in April this year, having a detrimental effect on earnings. An amount, which is similar to the incremental income as a result of the correction by the authorities, will be transferred from the subsidiaries overseas, involved in the transfer price taxation, and thus, it is to be booked as earnings from the overseas businesses concerned. On the other hand, because these companies will lack funds as a result of having to pay additional sums, TDK will cease to receive dividends that TDK had planned from these businesses. These consequences are reflected in the above projections.

The tax and other expenses resulting from the correction notices have been included in revisions to prior-year consolidated business results and therefore have no effect on projections for fiscal 2006 consolidated business results.

Cautionary Statement About Projections

This earnings release contains forward-looking statements, including projections, plans, policies, management strategies, targets, schedules, understandings and evaluations, about TDK and its group companies that are not historical facts. These forward-looking statements are based on current forecasts, estimates, assumptions, plans, beliefs and evaluations in light of information available to management on the date of this earnings release.

In preparing forecasts and estimates, TDK and its group companies have used, as their bases, certain assumptions as necessary, in addition to confirmed historical facts. However, due to their nature, there is no guarantee that these statements and assumptions will prove to be accurate in the future. TDK therefore wishes to caution readers that these statements, facts and certain assumptions contained in this earnings release are subject to a number of risks and uncertainties and may prove to be inaccurate.

The electronics markets in which TDK and its group companies operate are highly susceptible to rapid changes. Furthermore, TDK and its group companies operate not only in Japan, but in many other countries. As such, factors that can have significant effects on its results include, but are not limited to, shifts in technology, demand, prices, competition, economic environments and foreign exchange rates.

The premises and assumptions used in computing the projections in this earnings release include, but are not limited to, those explained above.