

□ TO OUR STAKEHOLDERS



**Hajime Sawabe** *President and CEO*

**Demand Dynamics Change, but Sales Increase**

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

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

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

In the electronic materials and components segment, the four product sectors (electronic materials, electronic devices, recording devices and semiconductors and others) all posted

higher year-on-year sales in spite of changing demand dynamics. With recording devices, initially we had forecast lower sales due to the loss of business of a major customer. However, the negative effect this had on sales was offset by an increase in sales to other customers and the knock-on effect on our operations of higher demand for HDDs used in digital home appliances and other products.

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

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

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

**TDK Products Through the Years**



The world's first ferrite core

**1935**



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

**1951**



Ceramic disk capacitors

**1955**

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

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

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

### Two Cultures Will Support TDK's Growth

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

#### A Culture That Fosters the Ability to Discern Unfailing Value

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

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

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

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

#### A Culture That Fosters the Ability to Instigate Change

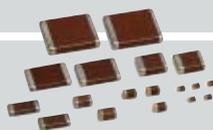
There is another culture at work within TDK. It is a culture that tries to preempt and instigate change by picking up on signs of change from the massive volume of information in our operating environment.

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

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



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



Multilayer ceramic chip capacitors



MLF series of multilayer chip inductors



Switching power supplies

1968

1977

1980

1981

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

**Entering a New Stage of Growth With Cultures That Support Growth**

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

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

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

**(2) Bolster manufacturing capabilities matched to the market**

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

**(3) Expedite development**

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

**(4) Expand in the Chinese market**

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

**(5) Strengthen human resources**

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

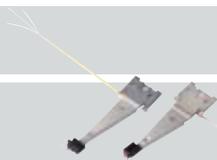
The electronics industry is expanding before our very eyes. It offers enormous business opportunities. We are determined to seize these opportunities and translate them into growth. We will do this by leveraging our materials and process technologies to strengthen our core business. Driving this will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

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

July 2005



**Hajime Sawabe**  
President and CEO



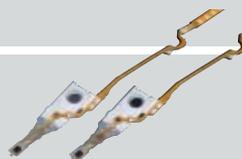
HGA monolithic magnetic head for computers

1986



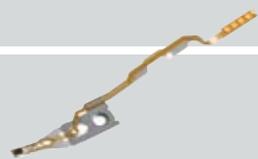
CD-R optical disc

1992



High areal recording density MR head

1994



Tunneling-MR head

2005