

2) Business Results and Financial Position

1. Summary

Consolidated results for the first quarter of fiscal year 2005, or the three-month period from April 1, 2004 through June 30, 2004, were as follows:

Consolidated net sales were ¥157,891 million (U.S.\$1,461,954 thousand), 3.1% higher than the ¥153,216 million recorded in the corresponding period of the previous fiscal year. Operating income rose 37.8% to ¥14,025 million (U.S.\$129,861 thousand), from ¥10,180 million. Income before income taxes increased 33.9% to ¥14,950 million (U.S.\$138,426 thousand), from ¥11,164 million. Net income was ¥10,163 million (U.S.\$94,102 thousand), 26.6% higher than the ¥8,025 million recorded in the first quarter of the previous fiscal year. Consequently, basic net income per common share was ¥76.75 (U.S.\$0.71), up from ¥60.51.

Average first-quarter yen exchange rates for the U.S. dollar and euro were ¥109.63 and ¥132.15, respectively, as the yen appreciated 7.5% from ¥118.50 versus the U.S. dollar and 1.9% from ¥134.66 against the euro, compared with the first quarter of the previous fiscal year. This resulted in lowering net sales by approximately ¥8.0 billion and operating income by approximately ¥3.4 billion.

(Sales by Segment)

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

Segment net sales rose 5.4% to ¥130,468 million (U.S.\$1,208,037 thousand), from ¥123,789 million, while segment operating income climbed 36.3% to ¥14,931 million (U.S.\$138,250 thousand), from ¥10,958 million. The electronics market in the first quarter of fiscal year 2005 saw demand continue to grow for mobile phones and digital home electronics appliances such as flat-screen TVs, digital still cameras and DVD recorders. These robust market conditions supported firm demand for electronic components as a whole. Sector results 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 increased 10.7% to ¥44,763 million (U.S.\$414,472 thousand), from ¥40,420 million.

(Capacitors) Sales of capacitors increased year on year. Multilayer ceramic chip capacitors, the main products in the capacitor sector, recorded growth in sales due to demand for use in digital home electronics appliances and mobile phones, a rising proportion of which have color displays and cameras. This growth absorbed the effect of downward pressure on sales prices and the higher yen.

(Ferrite cores and magnets) Sales of ferrite cores and magnets increased year on year. In ferrite cores, sales were buoyed by healthy demand for use in coils and transformers in digital home electronics appliances and information and communications equipment. Magnet sales rose too on the back of higher shipment volumes.

(1-2) Electronic devices

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

Sales in the electronic devices sector increased 9.4% to ¥28,248 million (U.S.\$261,556 thousand), compared with ¥25,817 million in the first quarter of the previous fiscal year.

(Inductive devices) Sales of inductive devices, the largest product category in the electronic devices sector, rose year on year on higher sales to the communications equipment field, which offset the effect of downward pressure on sales prices and the higher yen.

(High-frequency components) Sales of high-frequency components edged up over the previous fiscal year. There was an upswing in shipment volumes that resulted from strong demand for components used in mobile phones, the main market for these components, and successful activities to win new orders. This growth was largely negated, however, by a continuing overall glut in the supply of high-frequency components, which prompted customers to demand price reductions that were higher than in other electronic component categories.

(Other products) Sales of other products rose year on year, with sensors and actuators and power systems both recording higher sales to the communications equipment market.

(1-3) Recording devices

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

Sector sales declined 3.1% to ¥52,163 million (U.S.\$482,991 thousand), from ¥53,840 million.

(HDD heads) Sales of HDD heads declined from the first quarter of the previous fiscal year due to a decline in orders for TDK's HDD heads, which reflected the effect of a customer producing heads in-house and lower production levels of major HDD manufacturers.

(Other heads) Sales of other heads declined year on year.

(1-4) Semiconductors & others

This sector has two product categories: semiconductors and others.

Sector sales climbed 42.6% to ¥5,294 million (U.S.\$49,018 thousand), from ¥3,712 million.

(Semiconductors) Sales of semiconductors declined due to lower sales to the communications equipment market.

(Others) Others sales increased year on year mainly on higher sales of anechoic chambers for electromagnetic noise control.

(2) Recording media & systems segment

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

Segment sales declined 6.8% to ¥27,423 million (U.S.\$253,917 thousand), from ¥29,427 million. The segment recorded an operating loss of ¥906 million (U.S.\$8,389 thousand), which was 16.5% higher than last year's operating loss of ¥778 million.

(Audiotapes and Videotapes) Sales of audiotapes and videotapes declined year on year. This was because, while TDK maintained a high market share, demand continued to decrease due to structural changes in the market.

(Optical media) Sales of optical media increased, as strong sales of DVDs due to expanding demand absorbed the effect of downward pressure on sales prices.

(Other products) Sales of other products decreased year on year, the result mainly of the sale in the previous fiscal year of a U.S. software development subsidiary and sluggish sales of recording equipment. On a brighter note, 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 10.

By region, sales in Japan increased in all sectors with the exception of electronic devices. The decline in sales in electronic devices was mainly the result of customers shifting production to Asia as their main base. In the Americas, sales decreased, except in electronic devices and semiconductors & others. The major causes of these declines were lower sales to the automotive sector and the effect of the higher yen versus the U.S. dollar. In Europe, sales fell, except in electronic devices and recording devices. In Asia (excluding Japan) and other areas, sales increased in all sectors, except recording devices.

2. Financial Position

(2-1) The following table summarizes TDK's balance sheet at June 30, 2004, compared with March 31, 2004.

Total assets	¥792,179 million	2.8% increase
Total stockholders' equity	¥593,086 million	2.9% increase
Equity ratio	74.9%	0.1 percentage point increase

At the end of the first quarter of fiscal year 2005, cash and cash equivalents were ¥3,462 million higher than at March 31, 2004, net trade receivables were ¥2,737 million higher and inventories were ¥4,842 million higher. Net property, plant and equipment rose ¥4,570 million. As a result of these and other changes, total assets increased ¥21,860 million.

Total liabilities increased ¥4,839 million. While retirement and severance benefits declined ¥7,448 million, other current liabilities increased ¥7,910 million and deferred income taxes rose ¥2,859 million.

Total stockholders' equity increased ¥16,867 million. This reflected a ¥5,849 million increase in retained earnings and a ¥10,616 million decrease in accumulated other comprehensive loss.

(2-2) Cash Flows

	(¥ millions)		
	FY 2005 1Q	FY 2004 1Q	Change
Net cash provided by operating activities	18,825	25,685	(6,860)
Net cash used in investing activities	(14,060)	(8,238)	(5,822)
Net cash used in financing activities	(3,856)	(3,378)	(478)
Effect of exchange rate changes on cash and cash equivalents	2,553	631	1,922
Net increase in cash and cash equivalents	3,462	14,700	(11,238)
Cash and cash equivalents at beginning of period	227,155	170,551	56,604
Cash and cash equivalents at end of period	230,617	185,251	45,366

Operating activities provided net cash of ¥18,825 million (U.S.\$174,306 thousand), ¥6,860 million less than a year earlier. Net income rose ¥2,138 million to ¥10,163 million (U.S.\$94,102 thousand) and depreciation and amortization increased ¥591 million to ¥12,308 million (U.S.\$113,963 thousand). In changes in assets and liabilities, trade receivables increased ¥2,353 million, inventories rose ¥1,262 million and accrued expenses increased ¥1,321 million.

Investing activities used net cash of ¥14,060 million (U.S.\$130,185 thousand), ¥5,822 million more than a year earlier. Capital expenditures increased ¥5,790 million to ¥14,345 million (U.S.\$132,824 thousand).

Financing activities used net cash of ¥3,856 million (U.S.\$35,704 thousand), ¥478 million more than in the first quarter of the previous fiscal year. Dividends paid increased ¥656 million.

3. Fiscal 2005 Projections

TDK's consolidated projections for fiscal year 2005, or the year ending March 31, 2005, are as follows.

[Consolidated Projections for Fiscal 2005]

	Year ending March 2005 (¥ million)	% change from FY2004	Year ended March 2004 (¥ million)
Net sales	680,000	3.2	658,862
Operating income	60,000	10.5	54,322
Income before income taxes	62,000	11.5	55,603
Net income	46,500	10.4	42,101

Notes:

1. The above projections for fiscal year 2005 are the same as those announced on April 28, 2004.
2. The projections are based principally on the following assumptions:
 - An average exchange rate of ¥105=US\$1 for fiscal year 2005 from the second quarter onward.
 - Orders for passive components (electronic materials and electronic devices) as a whole are expected to remain at a comparatively high level, supported by firm demand in the first half of the year. However, this demand may wane by the end of 2004.
 - Orders for recording devices are expected to decline in the first half of fiscal year 2005, but second-half sales of these products should be supported by growth in demand for HDDs used in PCs and consumer electronics.
 - In the recording media & systems segment, lower sales of audiotapes and videotapes are forecast. However, sales may rise year on year in the segment as a whole, with higher sales of optical media products absorbing this decline.

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.