

## I-8) Summary of Significant Accounting Policies

1. The consolidated financial statements are prepared in conformity with the U.S. GAAP.
  - (1) Marketable Securities  
Statement of Financial Accounting Standards ("SFAS") No.115, "Accounting for Certain Investments in Debt and Equity Securities" is adopted.
  - (2) Inventories  
Inventories are stated at the lower of cost or market. Cost is determined principally by the average method.
  - (3) Depreciation  
Depreciation of property, plant and equipment is principally computed by the declining-balance method for assets located in Japan and certain foreign subsidiaries, and by the straight-line method for assets of other foreign subsidiaries based on estimated useful lives.
  - (4) 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 base and operating loss and tax credit carryforwards.
  - (5) Derivatives Financial Instruments  
SFAS No.133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No.138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No.133" are adopted.
  - (6) Goodwill and Other Intangible Assets  
SFAS No.141, "Business Combinations" and SFAS No.142, "Goodwill and Other Intangible Assets" are adopted.
  - (7) Retirement and Severance Benefits  
SFAS No. 87, "Employers' Accounting for Pensions" is adopted.
2. As of March 31, 2006, TDK had 90 subsidiaries (20 in Japan and 70 overseas). TDK also had 7 affiliates (5 in Japan and 2 overseas) whose financial statements are accounted for by the equity method.
3. Comprehensive income comprises net income and other comprehensive income. Other comprehensive income includes changes in foreign currency translation adjustments, minimum pension liability adjustments and net unrealized gains (losses) on securities. The net income, other comprehensive income, net of tax and total comprehensive income for the years ended March 31, 2006 and 2005 were as follows;

| Term<br>Item                                | FY2006<br>(April 1, 2005 - March 31, 2006) |                    | FY2005<br>(April 1, 2004 - March 31, 2005) |
|---|--|--------------------|--|
|   | (Yen millions)                             | (U.S.\$ thousands) | (Yen millions)                             |
|   | Net income                                 | 44,101             | 376,932                                    |
| Other comprehensive income, net of tax:     |  |                    |  |
| Foreign currency translation adjustments    | 26,100                                     | 223,077            | 5,636                                      |
| Minimum pension liability adjustments       | 2,719                                      | 23,239             | 32,941                                     |
| Net unrealized gains (losses) on securities | 892  | 7,624              | 153  |
| Total comprehensive income                  | 73,812                                     | 630,872            | 72,030                                     |

**Note:**

U.S.\$1=Yen 117