

## 2) Business Results and Financial Position

### 1. Summary

Consolidated results for the first quarter of fiscal 2007, the three-month period from April 1, 2006 to June 30, 2006, were as follows:

Consolidated net sales were ¥203,640 million (U.S.\$1,770,783 thousand), 21.6% higher than the ¥167,422 million recorded in the corresponding period of the previous fiscal year. Operating income increased 39.8% from ¥12,889 million to ¥18,015 million (U.S.\$156,652 thousand). Income from continuing operations before income taxes rose 25.7% from ¥14,275 million to ¥17,949 million (U.S.\$156,078 thousand). Net income increased 22.1% from ¥10,874 million to ¥13,276 million (U.S.\$115,443 thousand). Basic net income per common share was ¥100.36 (U.S.\$0.87), up from ¥82.22.

Average first-quarter yen exchange rates for the U.S. dollar and euro were ¥114.50 and ¥143.82, respectively, as the yen depreciated 6.3% versus the U.S. dollar and 6.2% against the euro, compared with the first quarter of the previous fiscal year. This raised net sales by approximately ¥9.5 billion and operating income by approximately ¥2.6 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.

(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) other electronic components.

Segment net sales rose 25.7% from ¥143,328 million to ¥180,131 million (U.S.\$1,566,357 thousand), while segment operating income increased 27.6% from ¥15,397 million to ¥19,653 million (U.S.\$170,896 thousand). The electronics market in the first quarter of fiscal 2007 was generally strong thanks in part to demand stimulated by the 2006 FIFA WORLD CUP™ GERMANY. There was year-on-year growth in demand for plasma and LCD flat-screen TVs, PCs and mobile phones. Another force driving the market was the steadily increasing use of electronics in automobiles. In this market environment, all of the segment's four sectors recorded higher year-on-year sales. Sector sales 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 rose 16.1% from ¥41,047 million to ¥47,666 million (U.S.\$414,487 thousand).

[Capacitors] Although lower sales prices had an impact, sales were higher year on year mainly because of growth in sales to the flat-screen TV, PC and car electronics markets, as well as a weaker yen.

[Ferrite cores and magnets] Sales of ferrite cores and magnets rose year on year. Sales of ferrite cores climbed on an upturn in demand for general-purpose power supply cores used in flat-screen TVs and PCs. Ferrite magnet sales edged up, with higher sales of products to the car electronics market and the positive effect of the weaker yen absorbing lower demand stemming from customer inventory cutbacks. Sales of rare-earth magnets rose on increasing HDD demand.

#### (1-2) Electronic devices

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

Sales in the electronic devices sector leapt 61.6% from ¥28,687 million to ¥46,351 million (U.S.\$403,052 thousand).

[Inductive devices] Sales of inductive devices increased year on year, the result mainly of higher sales of SMD power line coils used in mobile phones and HDDs.

[High-frequency components] Sales of high-frequency components were about the same as a year earlier. Continued declines in sales prices negated higher sales of wireless LAN components and components for third-generation mobile phones.

[Other products] Sales of other products rose year on year. The main factors were growth in sales of DC-AC inverters for amusement equipment and industrial equipment, and of sensors and actuators for IT home electronics appliances. The inclusion of sales of the Lambda Power Division, which has been consolidated since the second half of the previous fiscal year following completion of this acquisition on October 1, 2005, also bolstered sales.

#### (1-3) Recording devices

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

Sector sales rose 7.8% from ¥68,464 million to ¥73,788 million (U.S.\$641,635 thousand).

[HDD heads] Sales increased as HDD head shipments rose amid rising demand for HDDs used in PCs and consumer electronics. This higher volume outweighed a drop in sales prices, resulting in an increase in overall sales.

[Other heads] Sales of other heads declined, mainly because customers reduced their inventories of optical pickups.

#### (1-4) Other electronic components

Sector sales surged 140.3% from ¥5,130 million to ¥12,326 million (U.S.\$107,183 thousand), reflecting increased external sales of manufacturing equipment and higher sales in new businesses.

#### (2) Recording media segment

This segment has three product categories: audiotapes and videotapes, optical media and other products.

Segment sales declined 2.4% from ¥24,094 million to ¥23,509 million (U.S.\$204,426 thousand). The segment recorded an operating loss of ¥1,638 million (U.S.\$14,244 thousand), a 34.7% improvement on the operating loss of ¥2,508 million recorded in the first quarter of fiscal 2006.

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

[Optical media] Sales of optical media were down year on year. CD-R demand has peaked and is now declining slowly. During the first quarter, higher sales of DVDs failed to offset lower CD-R sales caused by the downturn in demand and discounting pressure.

[Other products] Sales of other products increased year on year. Sales of LTO-standard\* (Linear Tape-Open) tape-based data storage media for computers rose on higher demand.

\*Linear Tape-Open, LTO, LTO logo, Ultrium and Ultrium logo are trademarks of HP, IBM and Quantum Corporation in the US and other countries.

### (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, due to lower sales in the recording devices sector and recording media segment.

[Americas] Sales increased, with sales up in all product sectors, except the recording media segment.

[Europe] Sales were up, with sales rising in all product sectors.

[Asia (excluding Japan) and other areas] Sales increased, with sales up in all product sectors, except the recording media segment.

The overall result was a 31.9% increase from ¥123,309 million to ¥162,659 million (U.S.\$1,414,426 thousand). Overseas sales accounted for 79.9% of consolidated net sales, a 6.2 percentage point increase from 73.7% one year earlier.

## 2. Financial Position

(2-1) The following table summarizes TDK's balance sheet at June 30, 2006, compared with March 31, 2006.

Total assets	¥915,632 million	0.9% decrease
Total stockholders' equity	¥704,123 million	0.2% increase
Equity ratio	76.9%	0.8 point increase

At the end of the first quarter of fiscal 2007, cash and cash equivalents were ¥3,708 million higher than on March 31, 2006, and inventories were ¥2,537 million higher. On the other hand, net trade receivables were ¥12,354 million lower, and net property, plant and equipment was ¥1,514 million lower. As a result of these and other changes, total assets decreased ¥7,871 million compared with March 31, 2006.

Total liabilities decreased ¥8,266 million, due mainly to decreases in short-term debt and accrued expenses of ¥2,191 million and ¥7,167 million, respectively. However, trade payables increased ¥1,171 million.

Total stockholders' equity increased ¥1,704 million, reflecting a ¥6,080 million increase in retained earnings and a ¥5,352 million decrease in accumulated other comprehensive loss.

## (2-2) Cash Flows

	(¥ millions)		
	FY2007 1Q	FY2006 1Q	Change
Net cash provided by operating activities	30,575	8,121	22,454
Net cash used in investing activities	(16,477)	(20,000)	3,523
Net cash used in financing activities	(8,576)	(5,168)	(3,408)
Net cash provided by discontinued operations	-	405	(405)
Effect of exchange rate changes on cash and cash equivalents	(1,814)	2,936	(4,750)
Net increase (decrease) in cash and cash equivalents	3,708	(13,706)	17,414
Cash and cash equivalents at beginning of period	239,017	251,508	(12,491)
Cash and cash equivalents at end of period	242,725	237,802	4,923

Operating activities provided net cash of ¥30,575 million (U.S.\$265,869 thousand), a year-on-year increase of ¥22,454 million. Income from continuing operations increased ¥2,589 million to ¥13,276 million (U.S.\$115,443 thousand) and depreciation and amortization increased ¥2,079 million to ¥15,115 million (U.S.\$131,435 thousand). In changes in assets and liabilities, trade receivables decreased ¥10,255 million, inventories decreased ¥3,921 million and income taxes payables, net increased ¥3,470 million.

Investing activities used net cash of ¥16,477 million (U.S.\$143,278 thousand), ¥3,523 million less than a year earlier. Capital expenditures increased ¥3,520 million to ¥16,093 million (U.S.\$139,939 thousand) and payment for purchase of investments in securities increased ¥1,348 million. On the other hand, there was an ¥8,666 million payment for acquisition of business, net of cash acquired, in the first quarter of the previous year.

Financing activities used net cash of ¥8,576 million (U.S.\$74,574 thousand), ¥3,408 million more than in fiscal 2006. There was a ¥2,191 million increase in short-term debt, net and a ¥1,323 million increase in dividends paid due to a ¥10 increase in dividend per common share.

### 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 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; intense price competition and diversifying demands from customers; product quality issues; competition to secure human resources; government regulation; the infringement of intellectual property rights; the inability to procure important raw materials; increasingly stringent environmental regulations internationally; and unavoidable natural disasters.

#### 4. Fiscal 2007 Projections

TDK's consolidated projections for fiscal 2007, the year ending March 31, 2007, are as follows:

[Consolidated Projections for Fiscal 2007]

	FY2007 (Forecasts) (¥ millions)	FY2006 (Actual) (¥ millions)	Change from FY2006 (¥ millions)	% change from FY2006	(ref) Projections as of April 2006 (¥ millions)
Net sales	820,000	795,180	24,820	3.1	820,000
Operating income	82,000	60,523	21,477	35.5	82,000
Income before income taxes	88,000	66,103	21,897	33.1	88,000
Net income	61,000	44,101	16,899	38.3	61,000

Note:

The above projections for fiscal 2007 are the same as those announced in April 2006. The reasons for there being no change are as follows:

##### Business Environment

Looking collectively at information currently available, management believes there will be no change in the business environment that would have a material effect on TDK's business results compared with when the previous forecasts were announced in April.

##### Exchange Rate Forecast

An average exchange rate of ¥110=U.S.\$1 is assumed as before for fiscal 2007 from the second quarter through the fourth quarter.

Projections for main products are as follows:

##### Electronic Materials and Electronic Devices

TDK is projecting a year-on-year increase in sales, supported by higher demand for components mainly from manufacturers of digital home appliances and mobile phones, the main customers for these products.

##### Recording Devices

Regarding HDD heads, the major product in the recording devices sector, realignment of the HDD industry had the effect largely expected, thus there were no signs of change in initial assumptions. Beginning in the second quarter, TDK's forecast factors in a further decline in demand due to this industry realignment. On the other hand, sales plans incorporate projected growth in demand for HDD heads driven by the increasing use of HDDs in consumer electronics and expanding demand for compact HDDs. At the same time, however, TDK is forecasting an overall drop in sales year on year due to expectations that prices of HDD heads will continue to decline throughout the remainder of fiscal 2007.

##### Recording Media

Lower sales of audiotapes and videotapes due to falling demand and of other products are expected to result in lower sales in this segment.

## **Cautionary Statements with Respect to Forward-Looking Statements**

This material contains forward-looking statements, including projections, plans, policies, management strategies, targets, schedules, understandings and evaluations, about TDK and its group companies (TDK Group). These forward-looking statements are based on the current forecasts, estimates, assumptions, plans, beliefs and evaluations of TDK Group in light of information currently available to it, and contain known and unknown risks, uncertainties and other factors. TDK Group therefore wishes to caution readers that, being subject to risks, uncertainties and other factors, TDK Group's actual results, performance, achievements or financial position could be materially different from any future results, performance, achievements or financial position expressed or implied by these forward-looking statements, and TDK Group undertakes no obligation to publicly update or revise any forward-looking statements after the issue of this material except as provided for in laws and ordinances.

The electronics markets in which TDK Group operates are highly susceptible to rapid changes. Risks, uncertainties and other factors that can have significant effects on TDK Group include, but are not limited to, shifts in technology, fluctuations in demand, prices, interest and foreign exchange rates, and changes in economic environments, conditions of competition, laws and regulations.