

2) Business Results and Financial Position

1. Summary

Consolidated results for the third quarter of fiscal 2007, the three-month period from October 1, 2006 to December 31, 2006, were as follows:

TDK posted net sales of ¥223,253 million (U.S.\$1,876,076 thousand), up 0.3% year on year from ¥222,654 million. Operating income increased 8.7% from ¥21,291 million to ¥23,141 million (U.S.\$194,462 thousand). Income from continuing operations before income taxes increased 18.3% from ¥22,011 million to ¥26,048 million (U.S.\$218,891 thousand). Net income increased 18.7% from ¥16,568 million to ¥19,669 million (U.S.\$165,286 thousand). Basic net income per common share was ¥148.69 (U.S.\$1.25), compared with ¥125.31 for the corresponding period of fiscal 2006.

Average third-quarter yen exchange rates for the U.S. dollar and euro were ¥117.83 (previous year ¥117.37) and ¥151.95 (previous year ¥139.46) as the yen depreciated 0.4% and 9.0% against the dollar and euro, respectively. This had the effect of raising net sales by approximately ¥2.4 billion and operating income by approximately ¥0.2 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 1.3% from ¥192,091 million to ¥194,541 million (U.S.\$1,634,799 thousand), while segment operating income increased 3.6% from ¥22,199 million to ¥23,008 million (U.S.\$193,345 thousand). In the electronics market in the third quarter of fiscal 2007, there was strong production of flat-screen TVs, notebook PCs and digital audio players in what is traditionally a period of high demand. Other trends included a steady increase in new demand for mobile phones, particularly from the so-called BRICs nations of Brazil, Russia, India and China, as well as the steadily increasing use of electronics in automobiles. These trends fueled strong demand for electronic components used in these applications. Sector sales of TDK's electronic materials and 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 rose 5.6% from ¥47,613 million to ¥50,295 million (U.S.\$422,647 thousand).

[Capacitors] Sales increased year on year. The main contributor was strong sales of multilayer ceramic chip capacitors, the main products in the capacitors category, primarily for use in PCs.

[Ferrite cores and magnets] Overall, sales of ferrite cores and magnets rose year on year. Sales of ferrite cores decreased as TDK terminated some products. In magnets, sales of both ferrite magnets and rare-earth magnets increased.

(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 7.6% from ¥46,979 million to ¥50,548 million (U.S.\$424,773 thousand).

[Inductive devices] Sales of inductive devices increased year on year, mainly as a result of higher sales of power line coils and multilayer products used in mobile phones.

[High-frequency components] Sales of high-frequency components declined year on year, resulting mainly from lower sales volumes and falling sales prices.

[Other products] Sales of other products rose year on year mainly due to higher sales of power systems. On the other hand, sales of sensors and actuators declined as sales prices fell.

(1-3) Recording devices

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

Sector sales dropped 10.4% from ¥85,736 million to ¥76,784 million (U.S.\$645,244 thousand).

[HDD heads] Sales decreased year on year. TDK's HDD head sales volume increased as growing demand not only for HDDs used in PCs but also for applications such as consumer electronics countered the detrimental effects of HDD industry restructuring. However, a fall in sales prices due to a competition for market share among HDD manufacturers outweighed the benefits of the higher sales volume, leading to the overall drop in HDD head sales.

[Other heads] Sales of other heads declined.

(1-4) Other electronic components

Sector sales climbed 43.8% from ¥11,763 million to ¥16,914 million (U.S.\$142,135 thousand), reflecting higher sales of new products such as semiconductor production equipment.

(2) Recording media segment

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

Segment sales decreased 6.1% from ¥30,563 million to ¥28,712 million (U.S.\$241,277 thousand). The segment recorded operating income of ¥133 million (U.S.\$1,117 thousand), compared with an operating loss of ¥908 million in the same period of the previous fiscal year, a year-on-year improvement of ¥1,041 million.

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

[Optical media] Sales of optical media rose year on year as higher sales volumes of these products outweighed a continued fall in prices of CD-Rs and DVDs.

[Other products] Sales of other products decreased year on year. Sales of LTO-standard* (Linear Tape-Open) tape-based data storage media for computers increased, but the termination of some products brought sales as a whole down.

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

(Sales by Region)

Detailed geographic segment information can be found in the segment information on page 16 of the consolidated results.

[Japan] Sales increased overall, with only the recording devices sector and recording media segment not achieving an increase.

[Americas] Sales increased overall, with only the electronic materials sector and recording media segment not achieving an increase.

[Europe] Sales decreased overall due to falls in the other electronic components sector and recording media segment.

[Asia (excluding Japan) and other areas] Sales decreased overall due to falls in the recording devices sector and recording media segment.

The overall result was a 0.4% decline in overseas sales year on year from ¥179,139 million to ¥178,504 million (U.S.\$1,500,034 thousand). Overseas sales accounted for 80.0% of consolidated net sales, a 0.5 percentage point decrease from 80.5% one year earlier.

2. Financial Position

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

Total assets	¥ 975,996 million	(1.7% increase)
Total stockholders' equity	¥ 744,396 million	(2.7% increase)
Equity ratio	76.3%	0.7 percentage point increase

At December 31, 2006, cash and cash equivalents were ¥3,233 million higher than at September 30, 2006, short-term investments were ¥6,776 million higher, net trade receivables were ¥1,848 million higher and inventories were ¥2,921 million higher. As a result of these and other changes, total assets increased ¥16,584 million from September 30, 2006.

Total liabilities decreased ¥3,200 million from September 30, 2006, with the main changes being a ¥5,612 million decrease in trade payables and a ¥2,061 million increase in income taxes payables.

Total stockholders' equity increased ¥19,239 million, reflecting a ¥13,466 million increase in retained earnings and a ¥5,890 million decrease in accumulated other comprehensive loss.

(2-2) Cash Flows

	(¥ millions)		
	FY 2007 3Q	FY 2006 3Q	Change
Net cash provided by operating activities	28,970	20,058	8,912
Net cash used in investing activities	(21,747)	(44,542)	22,795
Net cash used in financing activities	(6,445)	(4,310)	(2,135)
Net cash used in discontinued operations	-	-	-
Effect of exchange rate changes on cash and cash equivalents	2,455	4,978	(2,523)
Net increase (decrease) in cash and cash equivalents	3,233	(23,816)	27,049
Cash and cash equivalents at beginning of period	264,833	224,645	40,188
Cash and cash equivalents at end of period	268,066	200,829	67,237

Operating activities provided net cash of ¥28,970 million (U.S.\$243,445 thousand), a year-on-year increase of ¥8,912 million. Income from continuing operations increased ¥3,101 million to ¥19,669 million (U.S.\$165,286 thousand) and depreciation and amortization rose ¥1,642 million to ¥16,780 million (U.S.\$141,008 thousand). In changes in assets and liabilities, trade receivables declined ¥18,892 million, while inventories increased ¥2,291 million, and trade payables and accrued expenses decreased ¥7,142 million and ¥5,984 million, respectively.

Investing activities used net cash of ¥21,747 million (U.S.\$182,748 thousand), ¥22,795 million less than a year earlier. Capital expenditures decreased ¥6,231 million to ¥15,122 million (U.S.\$127,076 thousand). In addition, there was a decline of ¥24,202 million for acquisition of businesses, net of cash acquired, paid in the previous fiscal year and a cash inflow of ¥5,016 million from proceeds from sale of short-term investments. On the other hand, there was an outflow of ¥11,704 million for payment for purchase of short-term investments.

Financing activities used net cash of ¥6,445 million (U.S.\$54,159 thousand), ¥2,135 million more than a year earlier. This was mainly the result of a ¥502 million increase in repayment of long-term debt and a ¥1,329 million increase in dividends paid due to a ¥10 increase in dividend per common share.

3. Fiscal 2007 Projections

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

[Consolidated Projections for Fiscal 2007]

(¥ millions, %)	Announced January 2007 FY2007 (Forecasts)	FY2006 (Actual)	Change from FY2006		Announced Oct. 2006 FY2007 (Forecasts)
			Amount	%	
Net sales	853,000	795,180	57,820	7.3	820,000
Operating income	82,000	60,523	21,477	35.5	82,000
Income from continuing operations before income taxes	88,000	66,103	21,897	33.1	88,000
Net income	63,000	44,101	18,899	42.9	61,000

Note:

The reasons for the revised forecasts are as follows:

Business Environment

Demand was strong for passive components (electronic materials and electronic devices) in the third quarter, a reflection of demand during the year-end holiday sales period. Since the beginning of January 2007, data suggests post-New Year industry inventory levels of main products such as digital home appliances and mobile phones, which influence orders for TDK's components, are generally at suitable levels. Accordingly, we believe the possibility of a major reduction in inventories at our customers in the fourth quarter is low and that demand for components will hold up, reflecting demand for finished products. As a result, we have raised our previous full-year net sales forecast.

We have not revised our previous forecast for operating income, however, due to continued strong discounting pressure on main components and in consideration of other factors.

Exchange Rate Forecast

An average exchange rate of ¥118=U.S.\$1 is assumed for the fourth quarter of fiscal 2007.

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, TDK expects to overcome the effects of HDD industry restructuring and post higher volume year on year. However, TDK anticipates that it will be difficult to completely offset the effects of price declines with the higher volume and is therefore forecasting a year-on-year drop in sales in this product sector.

Recording Media

Lower sales of audiotapes and videotapes due to falling demand, as well as sales declines in other products, are expected to result in lower sales year on year in this segment.

4. 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; procure main raw materials; increasingly stringent environmental regulations internationally; and natural disasters.

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.