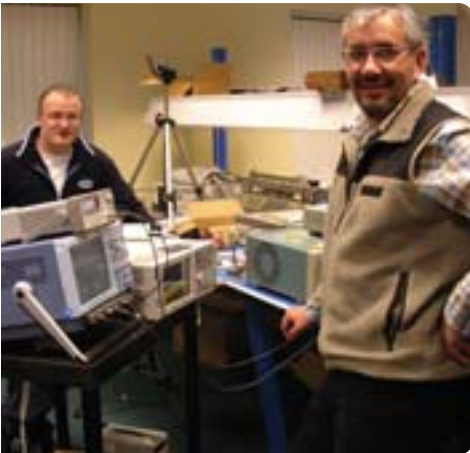


TDK Corporation
Annual Review **2007**
Year ended March 31, 2007



About TDK

TDK was established in 1935 as the world's first company to commercialize a magnetic material called ferrite. In the ensuing years, TDK has developed and commercialized electronic materials, electronic devices, recording devices and recording media, among other products. This drive has been based on the company's founding spirit: "Contribute to culture and industry through creativity."

To preserve its identity as a dynamic company, TDK believes that it must remain an organization that constantly delivers even higher corporate value for all stakeholders, including shareholders, customers, suppliers, employees and society, by drawing on innovative thinking and a willingness to tackle new challenges.

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CAUTIONARY STATEMENTS WITH RESPECT TO FORWARD-LOOKING STATEMENTS

This booklet 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 booklet 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.

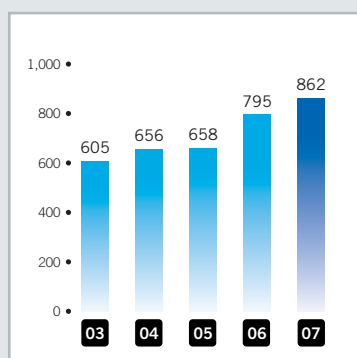
Financial Highlights

| Years ended March 31 or as of March 31 | Millions of yen (except per share amounts) | | Thousands of U.S. dollars (except per share amounts) | Change (%) |
|--|---|---------|---|------------|
| | 2007 | 2006 | 2007 | |
| OPERATING RESULTS | | | | |
| Net sales | ¥862,025 | 795,180 | \$7,305,297 | 8.4 |
| Electronic materials | 199,243 | 180,766 | 1,688,500 | 10.2 |
| Electronic devices | 198,199 | 154,680 | 1,679,653 | 28.1 |
| Recording devices | 304,822 | 315,928 | 2,583,237 | −3.5 |
| Other electronic components | 56,557 | 36,376 | 479,297 | 55.5 |
| Electronic materials and components | 758,821 | 687,750 | 6,430,687 | 10.3 |
| Recording media | 103,204 | 107,430 | 874,610 | −3.9 |
| (Overseas sales) | 690,673 | 621,522 | 5,853,161 | 11.1 |
| Net income | 70,125 | 44,101 | 594,280 | 59.0 |
| Net income per share: | | | | |
| (basic) | 529.88 | 333.50 | 4.49 | |
| (diluted) | 529.29 | 333.20 | 4.49 | |
| Cash dividends per share | 100.00 | 80.00 | 0.85 | |
| FINANCIAL POSITION | | | | |
| Total assets | ¥989,304 | 923,503 | \$8,383,932 | 7.1 |
| Stockholders' equity | 762,712 | 702,419 | 6,463,661 | 8.6 |
| Long-term debt, excluding current installments | 532 | 405 | 4,508 | 31.4 |
| PERFORMANCE INDICATORS | | | | |
| Overseas production/net sales | 62.2% | 61.7 | | |
| Gross profit margin percentage | 27.7 | 26.3 | | |
| Operating income ratio | 9.2 | 7.6 | | |
| Return on equity | 9.6 | 6.6 | | |
| Price-earnings ratio | 19.3 | 26.6 | | |

Note: Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of US\$1=¥118.

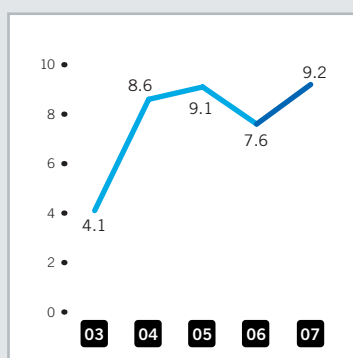
Net Sales

(Yen in billions)



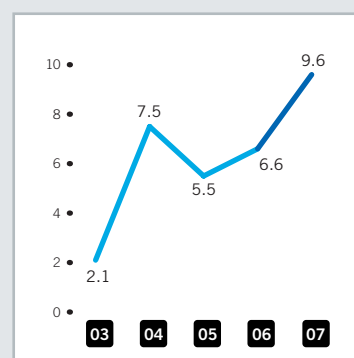
Operating Income Ratio

(%)



Return on Equity

(%)



To Our Stakeholders



H. Sawabe

Takehiro Kamigama

Hajime Sawabe
Chairman and CEO

Takehiro Kamigama
President and COO

Record-Breaking Performance at all Levels

On one hand, the past fiscal year presented the electronics market with a number of challenges. Chief among them were much higher prices for materials and falling sales prices amid stiffer competition. But the year was also notable for strong growth in demand for mobile phones, PCs and flat-screen TVs and the resulting demand for electronic components. The increasing sophistication and features of finished products were also a boon for electronic components; finished products are using more multilayer ceramic chip capacitors, inductors and other components per unit. Further good news came in the form of an increase in unit production of HDDs on growth in demand for use in PCs as well as expanding applications in other consumer electronics.

TDK took steps to capitalize on these favorable trends. To meet increasing component demand, we ramped up production capacity of multilayer ceramic chip capacitors and other products. In the same vein, we worked to strengthen R&D and production technologies with respect to HDD heads at our three bases in Japan, the U.S. and China. We made progress with restructuring recording media operations, too.

Our results were outstanding. Both our top and bottom lines were records for TDK. And sales and earnings increased for the fifth straight year. Indeed, consolidated net sales rose 8.4% to ¥862,025 million. In terms of earnings, operating income increased 31.5% to ¥79,590 million, income from continuing operations before income taxes leapt 34.1% to ¥88,665 million and net income soared 59.0% to ¥70,125 million. On the back of this record-setting performance, basic net income per share climbed to ¥529.88.

Working Together to Drive Growth and Reform Frontline Operations

Five years ago, in the March 2002 fiscal year, things were a lot different. TDK recorded its first ever loss since becoming a publicly owned company. But this loss only served to galvanize our resolve to achieve a major transformation in our earnings structure. Guided by two key themes—accelerate and specialize—our earnings structure has gradually improved. To provide further momentum behind this improvement, TDK embraced a teamwork-driven top-management structure in June 2006 under our dual leadership. Mr. Sawabe's role is to steer the company in the direction of further growth, drawing on his accumulated business acumen. Mr. Kamigama's role is to manage operations based on frontline conditions and a determination to pour all TDK's energies into bolstering manufacturing capabilities.

We believe that this dual leadership approach is extremely effective in accelerating operations and ensuring we give full

play to our expertise as a company. While respecting each other's roles and individuality, we are determined to continue working hand in hand to make TDK an even stronger company.

Growing Only as TDK Can, Anchored by a Founding Spirit

As the speed of change in the electronics industry accelerates in step with the advancement of digital technology, we believe that we must move quickly to expand our business in a way that constantly stays ahead of the curve. In an operating environment that is changing quickly, we must respond to that change by making swift and precise decisions on prioritizing businesses so as to constantly build and maintain an optimal business portfolio. Put another way, we must actively invest in businesses harboring growth opportunities in a timely manner. Conversely, we must also realign unprofitable businesses with no prospects for growth and that are no longer in touch with their markets. Naturally, lowering the break-even point and achieving continuous growth with fewer inventories will also remain important. From a financial standpoint, to raise the return on investment and assets, we will redouble efforts to strengthen our earnings structure by strictly applying various financial indicators.

A company must continue to grow. There are various ways to do this such as through new product development, M&As and business alliances. At TDK, our approach to growth is guided by our founding spirit—"Contribute to culture and industry through creativity." We are committed to driving growth by developing products that are beneficial to society through innovation. This means continuously providing leading products to customers and earning high marks from consumers of the finished products that incorporate our electronic components in order to grow with customers and contribute to culture and industry through innovation. Generally speaking, the electronics industry wants TDK to develop products that are smaller, lighter, more advanced, save energy, meet environmental standards and offer cost advantages. They also want these products quicker. TDK will continue to grow by strengthening the frontline capabilities that will answer these demands. A united effort by sales, development, manufacturing and corporate divisions will reduce the time to market and close the distance between TDK and market (customer) demands.

TDK is determined to serve society by continuing to bring products of value to markets and to also remain a company trusted by all stakeholders.

Society will continue to grow. Rest assured so will TDK in its own unique way. Expect to see more from us.

June 2007

Interview With the President

Since his appointment as president, Mr. Kamigama has stressed his belief that TDK's strength lies in its frontline capabilities. He believes that the combination of a strong frontline and corporate strategy led from the top will make TDK stronger. In this interview, Mr. Kamigama was asked about TDK's initiatives to build on and use its frontline strengths to achieve that goal.



We plan to make TDK stronger by channeling management resources into further improving our frontline capabilities.

Q1

What noteworthy initiatives did TDK take in fiscal 2007?

A1

Firstly, we responded to buoyant demand in the electronics industry, most notably for flat-screen TVs, mobile phones and PCs. This involved ramping up output of capacitors, inductive devices and other electronic components. These actions translated into higher sales. We also strengthened our power supplies business. One key move saw us form an equity-based business alliance in March 2007 with Tabuchi Electric Co., Ltd., a company that manufactures and sells power supply units, transformers, inverters and other products. You will remember that we also acquired the Densai-Lambda Group in 2005 to strengthen our hand in the power supplies business.

In HDD heads, we made steady progress gearing up for the mass production of products incorporating new technologies. As a result, new products like TMR (Tunneling GMR) and PMR (Perpendicular Magnetic Recording) heads now account for a higher share of our head shipments.

We also realigned the recording media segment in line with our decision in 2006 to withdraw from the manufacturing of recordable CDs and DVDs in the TDK Group. This action helped make the recording media segment profitable in the second half of fiscal 2007 and substantially reduced the loss for the full year on a year-on-year basis.

Q2

Capacitors are one of your core earnings drivers and they posted a strong performance in the past fiscal year. But it appears that your competitive advantages were not fully materialized in the performances compared to other main manufacturers.

A2

I can't deny that we were a little slow out of the blocks ramping up production capacity in terms of the timing of our capital expenditures and the scale of investment. But more growth in demand is expected for capacitors moving forward, so we aim to expand sales and increase profitability further. To achieve our goals, we will continue to invest in new production capacity and at the same time improve new product development and production technologies, leveraging our strengths in materials and process technologies.

Q3

In June 2006, TDK adopted a new management structure headed by Hajime Sawabe as chairman and you as president. What is your role under this dual-leadership structure?

A3

For the time being, Mr. Sawabe will have command of the bridge as it were, steering TDK in the direction of further growth based on his accumulated management expertise. As president, I will work to rebuild our businesses and inspire our employees based on what I see happening at the frontline of our various operations throughout the TDK Group. I worked at the frontline of our HDD head manufacturing operations in Hong Kong for 18 years.

Throughout that time I felt that one of TDK's greatest strengths was its ability to solve problems in frontline development and manufacturing while quickly responding to changing conditions. In other words, TDK is strong at the "coal face." One of my tasks will be to concentrate our resources on building on this strength to make TDK even stronger.

Q4

Since your appointment as president, you have made many trips to various TDK business sites. Could you give us some examples of where TDK is operationally strong in Japan?

A4

Our factories in Akita made the biggest impression on me during my travels over the past year. Many of TDK's electronic components are manufactured at these facilities and they also play the role of a "Mother Factory" within our worldwide network of electronic component production sites. It is here that we hone the skills and wisdom accumulated over the course of our history as a company. These sites are also home to many experienced employees who to this day remain passionate about *monozukuri*, a Japanese word that encapsulates the concept of manufacturing products with a high level of skill. At these sites, up-and-coming young engineers work side by side with these experienced workers with a focus on design and development and value-added manufacturing. The Akita sites are a model for the rest of our business sites. If the skills and wisdom of experienced employees can be passed on to the younger generation at more of our business sites, I feel that we can achieve many breakthroughs that we never believed possible before.

Q5

Do your overseas manufacturing sites have the same high level of operational ability? What improvements will you make?

A5

Our domestic sites and overseas sites are rather different in terms of their frontline capabilities. Our

production sites in China play an important role in mass producing a whole assortment of electronic components, each of which has performed well in Japan. This situation, however, has led to a diffusion of responsibility in terms of who is responsible for managing products and thus earnings. Having inspected overseas sites, I think each business unit could do a better job of taking responsibility for managing product lines rather than just entrusting their production to Chinese facilities, which would enable better management of earnings.

Q6

What about your HDD head operations?

A6

Our HDD head production sites are a little different to our electronic components factories in China. Because product lifecycles of HDD heads are extremely short, even when advancing into China, we gave priority to creating a production system that could operate flexibly by creating production lines that we could reconfigure easily. These efforts have created production sites that can anticipate and respond to the needs of finished product manufacturers, our customers. Another benefit is that we have strengthened relationships with customers.

In 2000, we acquired U.S.-based Headway Technologies, Inc. Our Chinese HDD head sites and Headway Technologies compete with one another in terms of approaches and methods. This has raised skill levels and made us operationally stronger. Indeed, the friendly rivalry among our tripolar manufacturing framework of bases in Japan, China and the U.S. is the reason behind the strength we see in our HDD head operations today. The creation of this sort of competitive environment within the TDK Group, given that the HDD head business operates in a market characterized by tumultuous change, has a profound meaning in terms of ensuring our competitiveness.



Our operational strength in HDD heads is the result of a spirit of friendly competition among our bases in the three regions of Japan, China and the U.S.



We stress TDK's social role as a corporate citizen and corporate governance in managing the company to earn the trust of all stakeholders.

Q7

How do you plan to leverage your frontline strengths in the context of your medium-term business strategies?

A7

We have already taken steps to instill in each and every one of our employees the importance of frontline operations. Our medium-term goals are to strengthen our manufacturing (*monozukuri*) capabilities and to grow together with customers. The following themes will guide our actions in achieving these goals.

Take up challenges without fear of failure

Actions have value even if they end in failure

Decide quickly and foster trust

Mistakes can be corrected and undone if you act quickly

Engage in candid debate that transcends role and organizational lines

Discuss how rather than whether to do something

These themes are displayed prominently on posters at factories and offices throughout TDK, so that all employees see them on a daily basis.

In a sense, each of these themes may seem obvious for a manufacturer. But by ensuring that we do the obvious well we will further hone our ability to pinpoint and then solve issues at the front line. I believe that this approach—which combines an emphasis on frontline actions with corporate strategy from the top—will make TDK stronger.

Q8

TDK has been using its substantial cash reserves to acquire businesses and form equity-based alliances. These actions have attracted considerable attention from the market. Could you tell us what your strategy is with regards to mergers and acquisitions?

A8

Following our 2005 acquisition of the Densai-Lambda Group to bolster our power supplies business, in March 2007 we started an equity-based alliance with Tabuchi Electric. Our

ultimate aim with these actions is to grow the power supplies business into a fourth pillar of the company, alongside the HDD heads, capacitor and inductor businesses. Moving forward, we will give priority to building up our internal reserves, but we will also examine and conduct M&As where we consider the timing and target to be right for TDK. We will target businesses that dovetail well with TDK and/or companies that have businesses that can make our existing businesses stronger. M&A targets must also have outstanding management teams and a motivated workforce.

Q9

Do you have a final message for stakeholders, including your approach to raising shareholder value?

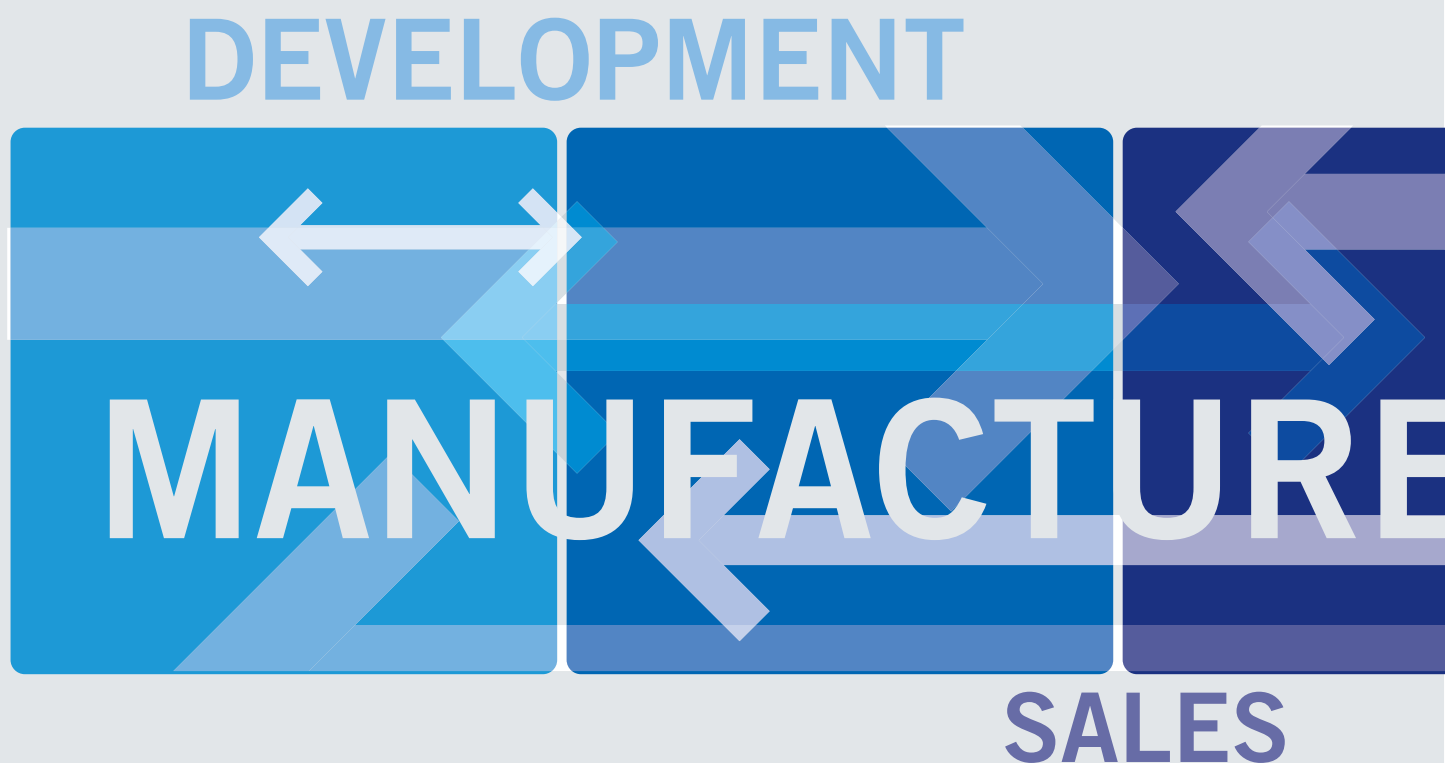
A9

I am committed to continuing to meet the expectations of our shareholders and other stakeholders. For this, one of our key priorities in management is increasing shareholder value by increasing our corporate value. TDK can continue to grow by investing in growth business and then reinvesting earnings. Raising shareholder value is inextricably linked with this process of raising corporate value by appropriately increasing earnings through sustained growth. While concentrating on reinvesting our business earnings for more growth, we will directly and indirectly return profits to shareholders as we work to garner even greater confidence from them.

We are aware that how a company conducts itself in society and governs its own activities are just as important as strengthening operations. That's why we will take further steps to enhance our compliance program to ensure that we continue to run our business in accordance with the laws and ordinances in the countries where we operate. Our aim is to manage TDK in a way that earns even greater trust from all stakeholders. Expect to see us continue to do that.

Driving Growth From the Front

Dynamic Worksites: The Secret to New TDK Products and Technologies

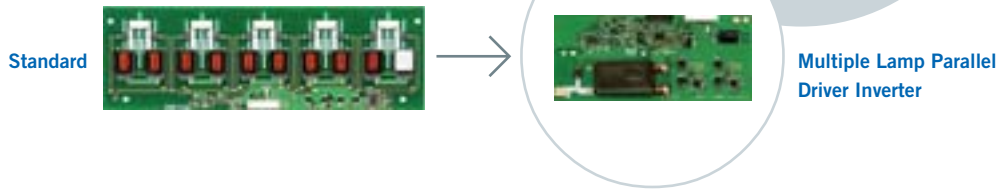


One of TDK's strengths is its worksites, including R&D and manufacturing sites. These sites possess the ability to find appropriate solutions to problems they encounter and to respond rapidly to changing conditions. We are committed to allocating management resources to improve worksites more to realize an even stronger TDK.

The following pages showcase three specific examples of the accomplishments of TDK's worksites.

Case

1



■ Dynamic Worksites: The Secret to New TDK Products and Technologies

Multiple Lamp Parallel Driver Inverters Built on TDK Core Technologies Dramatically Cutting Production Costs and Energy Consumption for Big Screen LCD TVs

■ Widespread Switch to Large Flat-screen TVs on the Horizon

Among digital consumer electronics, perhaps none have witnessed growth that compares to that of flat-screen TVs. Demand for flat-screen TVs has surged particularly since 2004, with more than 70 million units scheduled for production worldwide in 2007 alone. Yet despite this performance, flat-screen TVs still account for only about 40% of all televisions. For this reason, this immense market is said to be ripe for full-scale development in the coming years.

LCD TVs account for roughly 80% of all flat-screen TVs worldwide. These products are also laying claim to a growing share of the 40-inch and above big-screen TV market, a niche once dominated by plasma TVs.

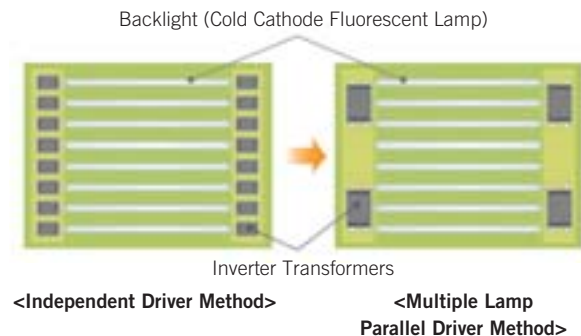
Taking its cue from these market trends, TDK has developed a multi-lamp parallel driver inverter as a device for use in 40-inch and above big-screen LCD TVs. This inverter not only drastically reduces the number of components used in LCD panels, but helps make panels more energy efficient, lightweight, and reliable. Already attracting interest in the industry, this product is one made uniquely possible by TDK, as a manufacturer of both ferrite and transformers.

■ Inverters as Critical Backlighting Devices for LCD TVs

In LCD TVs, inverters are used for backlighting, a process by which images are made visible by light emitted from cold cathode fluorescent lamps (or CCFLs). Consider for example a 40-inch LCD TV containing 20 CCFLs. An earlier backlighting method based on independent drivers requires 40 separate inverter transformers to properly emit light from each CCFL. But by adopting a method whereby one inverter transformer can be used to power multiple CCFLs, as is the case with a multi-lamp parallel driver method, both the number of circuits

and inverters required falls dramatically. TDK has developed inverters specifically for use with such methods. Of these, TDK has developed a capacitor distributor-type inverter that, while requiring highly sophisticated technology to create, offers substantial cost-reduction benefits.

LCD Panels and the Driver Method



■ Demands for Advanced Tuning Technology for Onboard LCD Panel Components

Building LCD panels is not simply a matter of assembling components to make products. Achieving stable and high picture quality also requires advanced tuning technology. Especially important is compatibility between the backlight inverters, circuits, transformers and panels. This is due to the fact that picture quality is affected not only by leakage flux from the inverters, but also by subtle changes in the flow of electrical current to the CCFLs. These changes can be due to parasitic inductance, parasitic capacitance and other causes. Moreover, product specifications can undergo a host of

DEVELOPMENT ↔ MANUFACTURE ↔ SALES

changes by the time that an LCD TV is actually produced. Given tight production schedules, this leaves little room for prototyping transformers when spec changes are made.

It was here that the Application Center's simulation technology displayed TDK's flexibility. Simulations enabled TDK to design optimal transformers, not only with respect to the properties of ferrite for transformer cores, but for coil structure, magnetic pathways, and other design elements as well. This technology was also pivotal in allowing TDK to simulate the fluctuations in current flow to CCFLs by modeling the CCFLs and LCD panels, transformers, and inverter circuits. Once complete, simulation results were then reflected in optimal inverter designs.

■ Faster Response to Spec Changes Thanks to Much Shorter Prototyping Times

Minimizing core loss is important when a flat profile and high power densities are in demand. For this reason, TDK chose ferrite for use in the transformer cores of its multiple lamp parallel driver inverters. Specifically, TDK adopted PC47, an ultra-low core loss ferrite material, as the material of choice for its transformer cores. Beyond the pursuit of greater efficiency

and compactness, TDK brought state-of-the-art technology to bear in the push to achieve a flatter core.

Ferrite is a ceramic material with magnetic properties produced from casting and sintering the material in its powdered form. If too thin, ferrite can bend and crack during the sintering process. Here, simulation technology plays a critical role, cutting prototyping times by roughly one-third by simulating in advance the optimal dimensions and shape for achieving the desired properties.

TDK's presence as a manufacturer of capacitors, ferrite and transformers counts as one of its unique strengths. Yet the ability to respond quickly to spec changes also resulted from the successful and cooperative interplay between the Application Center and the Ferrite Division.

As a company that takes great pride in its worksites, for TDK, the multiple lamp parallel driver inverter is a product that embodies its dedication to strengthening *monozukuri* capabilities and growing in step with its customers. Going forward, it is clear that TDK's core technologies—materials, process and evaluation & simulation technologies—will contribute much to the field of large flat-screen televisions.

Unique Materials Technology as TDK's Decisive Strength

Magnetics Business Group



Minoru Yamada
Senior Manager

For LCD TVs, the two highest priority technical issues right now are lower cost and greater power efficiency. Multiple lamp parallel driver inverters were developed with these needs in mind. Our constant focus is on thinking with customers about how we can offer them total solutions, not just supply them with components and devices. LCD TVs represent a growth field among digital home electronics. By taking full advantage of technology assets found only at TDK, we are tackling next-generation technology issues head-on, including the challenge of finding ways to integrate our technologies with power supply circuits.



Nobuo Kitajima
Senior Manager

LCD TV development is fast-paced and subject to frequent spec changes throughout. This puts pressure on component makers to respond quickly when changes happen. Worldwide, no more than a handful of such makers also manufacture capacitors, ferrite, and transformers like TDK does. Especially where ferrite, dielectric ceramic and other materials are concerned, the track record that TDK has built over the years in materials technology is perhaps its most decisive strength.

Case 2

AVR-M0603 Varistors



■ Dynamic Worksites: The Secret to New TDK Products and Technologies

AVR-M Series—Multilayer Chip Varistor Difficult Mass-production Technology Established Through Interplay Between Development and Production

■ Static Electricity Countermeasures Indispensable to Frequently Used Mobile Devices

Measures to counter static electricity are extremely important for mobile phones, digital cameras and other mobile devices operated mostly by touch. While electrostatic discharge happens in an instant, it causes an extremely high-voltage power surge in devices. For this reason, the discharge of static electric buildup from the body can trigger power surges that travel through earphones and microphones, or USB connections and other terminals, and cause circuit malfunction or damage. The role of varistors is to safeguard against this. Varistors protect circuits by rapidly dropping their resistance value whenever voltage exceeding the varistor voltage is applied to a device. This resistance change redirects the surge current to a safely grounded route. TDK chose to take on the challenge of establishing technology to make multilayer chip varistors smaller. These efforts eventually led to mass production of the 1005-type varistor (1.0 x 0.5 x 0.5mm in size), followed by the

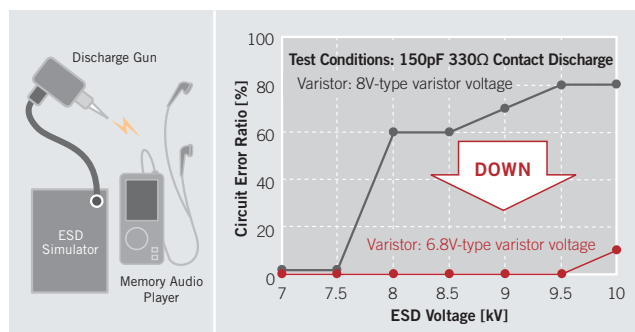
successful mass production of the 0603-type varistor (0.6 x 0.3 x 0.3mm), an even smaller multilayer chip varistor.

As a space-saving and high-performance component to counter static electricity, this new product is being equipped in a growing array of mobile devices, from digital cameras and mobile phones, to portable digital music players and notebook PCs.

■ TDK's Unrivaled Presence in Cutting-edge Technology Domains

TDK developed materials that allowed it to achieve industry-leading surge resistance. Moreover, TDK paved the way for the creation of smaller multilayer chip varistors by establishing technology for micron-level control of both the area of internal electrodes and the gap between electrodes. But solutions had to be found to a host of problems that emerged before the technology to mass produce these breakthroughs could be established. The fact that one such problem, the issue of solder wettability around terminal electrodes, took several years to solve is just one example of the kind of dilemmas that TDK faced.

Electrostatic Discharge Tests



This chart shows the relationship between static electricity levels and the frequency of system errors for two types of varistors after an electrostatic discharge is forcibly applied to a memory-based audio player. As the results show, 6.8V-type varistors were associated with far fewer errors than 8V-type varistors at identical static electricity levels.

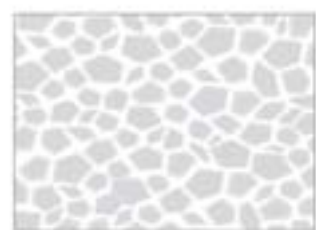
Improved Properties Through Finer and Uniformly Distributed Crystal Particles

Crystal Current Grain boundary



Crystal particles are large and unevenly distributed

Variations in how electrical resistance is distributed can arise when crystal particles are large and unevenly distributed, resulting in unstable current flow.



Crystal particles are smaller and uniformly distributed

Smaller and more uniformly distributed crystal particles result in more stable varistor properties.

■ Clues for Innovation From the Most Basic Production Processes

TDK was plagued by the problem of solder wettability around its terminal electrodes. The development team, convinced that the key to improvement lay at the heart of the problem itself, took steps to reassess every aspect of the production process. The team also completely reexamined the plating fluid used. The reformulation of this fluid would prove critical to achieving a breakthrough.

Another major factor behind eventual success was the well-integrated interplay that took place between development and production. Out of a batch of 10,000 units, teams relentlessly scrutinized any one unit that came out differently to identify the cause. If doubts of any kind arose, the teams would immediately meet to discuss them. With this type of persistence, repeated time and again, solutions were found to a wide range of problems. At TDK, giving up in the middle of a project, once it has been launched, is not an option. This widely recognized TDK trait, its tenacity, is what made the creation of the 0603-type compact multilayer chip varistor possible.

■ TDK Multilayer Chip Varistors Take the Top Share for Mobile Phones

Among designers at finished product manufacturers, multilayer chip varistors, as a more recent type of electronic com-

ponent, were not well known at the time these products were developed. In time, however, the incorporation of TDK's increasingly small multilayer chip varistors into mobile phones and other mobile devices would gradually lead to broad recognition of the amazingly powerful role of these products. Having since claimed a number of patents, TDK has now built an unassailable position for its multilayer chip varistor technology. This position, in fact, has enabled TDK to capture the top share for varistors used in mobile phones.

As electronic devices grow more compact and lightweight, their increased portability will only enhance the importance of measures to combat static electricity. This trend, by extension, will mean a wider range of potential applications for TDK's multilayer chip varistors.

The unrelenting trend towards smaller and lighter mobile devices with a growing array of functions is leading calls for even smaller multilayer chip varistors compatible with higher electrical cycles. TDK will continue to rise to the challenge, improving material properties, reviewing mass production processes, and taking other steps to develop products that anticipate and meet next-generation requirements.

The Unlimited Ambition of TDK Technology

Sensors & Actuators Business Group



Makoto Numata
Senior Manager

Improving quality takes a lot of hard work every day. Take the case of the 0603-type multilayer chip varistor. Achieving mass production, which many said was impossible from a technological standpoint, demanded painstaking and repeated reassessment of every minute detail of the materials and processes we used. What supported us through all of this was an unbreakable spirit of challenge from the development team, which never lost sight of its goal—impart a sense of ambition to future generations.



Kimio Suto
Manager

It took us nearly three years to get customers to recognize how powerful TDK's multilayer chip varistors really are. But after trying them, we now get comments from many customers thanking us and praising the unparalleled convenience of our products.



Yoh Saito
Manager

A seemingly endless string of problems stood between us and establishing a mass production process for TDK varistors. But it was the outstanding teamwork between development and production that has now given us a technology that no other company can match.



Dai Matsuoka
Chief Engineer

Multilayer chip varistors require highly advanced technology for manipulating crystal grains at the micron level. TDK's years of work in materials technology, along with a confident team united in the certainty that they could accomplish the task, is what made the 0603-type varistor possible.

Case 3

VLF3010 power inductor



■ Dynamic Worksites: The Secret to New TDK Products and Technologies

VLF3010—A Compact, Low-profile SMD Power Inductor, Born From a Groundbreaking Concept and the Challenge to Anticipate Future Needs

■ Power Inductor Supporting More Diverse and Sophisticated Mobile Phone Functions

Today, the long-awaited arrival of the ubiquitous network era is nearly here. Mobile phones in particular have spread at a relentless pace, with overall global demand expected to top 1 billion units in 2007 to 2008 alone. Able to function as cameras, digital audio players and even televisions, today's mobile phones are evolving into multimedia tools indispensable to modern life.

Here, TDK's VLF3010 power inductor (3.0 x 3.0 x 1.0mm in size) is fast becoming a key component for power supplies used in these mobile phones. Launched as an extraordinarily compact, low-profile product, this inductor has become the preferred choice of one mobile phone maker after another. The result has been that in just a few short years, TDK has captured a top market share in this field. And since ordinary and high-end mobile phone models typically have three and seven power inductors, respectively, the most conservative estimates place worldwide demand for these products at an astonishing 3 billion units. This is definitely a market that will enjoy further growth going forward.

■ Challenging the Technological Hurdles of the 3010-Type Inductor With an Eye to Future Needs

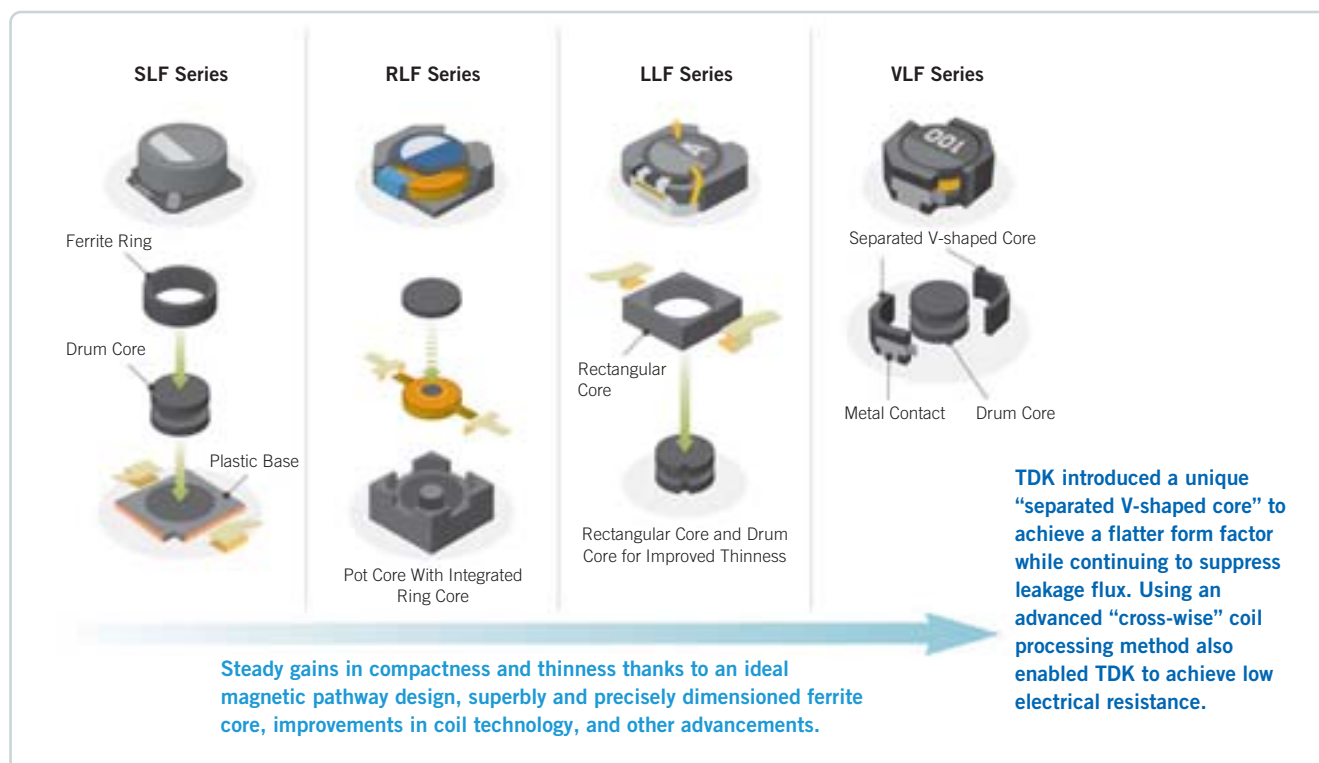
VLF3010 is a groundbreaking power inductor that shatters the conventional wisdom of these products by realizing both a compact size and low profile. Commercializing this product, however, required TDK to overcome a host of obstacles at its development and production sites. The development project was started in 2003. At the time, most mobile phone makers were beginning to demand 4012-type inductors (4.0 x 4.0 x 1.2mm) for use in DC-DC converters for mobile phones. In

2003, inductors of this type were the most advanced that could be manufactured by extending the limits of earlier technology. The general manager for TDK inductors, however, had a different idea. While acknowledging the importance of answering present needs, he was convinced that TDK should also look to the future to create what could potentially become the world's top-selling inductors three years later. With this decision, the project to develop the next-generation 3010-type inductor was launched.

■ Difficulties in Achieving Compatibility Between Compactness, Low Profile and Large Current

Due to the large electrical current involved, coil-type inductors are typically the choice for use as power inductors for the DC-DC converters found in mobile phones. In contrast to multilayer inductors, however, achieving compactness and low profile in coil-type inductors is difficult due to their very structure. Another problem is that power inductors must be capable of handling larger electrical currents. For power inductors, a lower DC resistance (or Rdc) is directly linked to improved performance with respect to large current. This characteristic, however, generally runs counter to compactness and lower profile. This knowledge forced TDK to eliminate any waste among structural components when it set out to realize smaller size and lower resistance within the 1mm height limit of its 3010-type inductor.

Structural Evolution of TDK's SMD Power Inductors



■ Unconventional Ideas From Young Engineers Critical to Achieving a Breakthrough

No sooner had development commenced, concerns were voiced that developing the 3010-type inductor based on earlier architecture was close to impossible. At issue was achieving a lower profile and thinner ferrite ring core. The concern was that even if the ring core could be cast, it would be susceptible to cracking during the sintering process. At that point, the project appeared all but doomed. It was then that a casual remark from one of the team members, who suggested that perhaps the best option would be to split the ring core itself, would eventually lead to a critical breakthrough.

At the time, the conventional wisdom was that the biggest drawback of a separated ring core was that it would lead to larger leakage flux around the gaps. So imagine the surprise when actual magnetic field analyses and other measurement tests revealed that not only were ring core characteristics unaffected by gaps up to a certain size, but that these gaps actually made it possible to handle larger current loads. What's more, separated ring cores make it easier to extend coils through the gaps to connect to external contacts, leading to fewer man-hours and thus lower costs.

■ Extensive Debate and Technical Collaborations Were Keys to Success

The innovative idea of a separated ring core had opened the door to achieving smaller size and a lower profile. Nevertheless, TDK would have to solve several lingering problems on the road to eventual commercialization. Coil-type inductor characteristics can change dramatically not only from structural alterations but from the quality of the materials used. Numerous debates emerged around the question of how best to create inductors that would jump ahead and stay ahead of rival products. Ultimately, a consensus was reached that ferrite should be the first material tried, since it was also deemed important to take full advantage of materials technology, one of TDK's core technologies.

For this task, TDK chose a new variety of ferrite optimally suited to functioning as a ring core material. This move was coupled with the unveiling of cutting-edge casting technology and expertise. It was these choices that would deliver improvements in ring core characteristics far beyond what anyone could have imagined. DC resistance fell by 20%, boosting electrical current capacity by 23%. Another key factor in the project's success was the close proximity of development

bases and the Chokai Plant, where ferrite cores are produced, and the Kisakata Plant, where inductors are produced. Attendees to collaboration meetings also took issues that emerged back to their respective worksites, where these problems were quickly analyzed and resolved. The technical exchanges that took place across business division lines have led to closer ties than ever before, and undoubtedly count as another successful outcome of this project.

■ Monthly Production Target of 10 Million Units in Shorter Timeframe by Reassessing Production Processes

From this development history, the VLF3010 has taken the industry by storm as an optimal power inductor for use in today's increasingly multifunctional and sophisticated mobile phones. Having launched the project just three years earlier, TDK soon boasted an industry-leading share of this market. Before long, however, production began to lag behind this sudden growth in demand, a situation that would require TDK to engineer a new mass production system.

The target was 10 million units per month, a goal as daunting as it was ambitious. Yet team members worked day and night to make the necessary improvements, convinced that upon closer examination, production processes would yield plenty of room to boost efficiency. It was here that the technical exchanges fostered during the VLF3010 development would play a major role. Analyses of working factors, worker movements and other data became a source of repeated discussion. By eliminating waste in stages, assuming first a

monthly production goal of 100 thousand units, then 1 million units, it was not long before TDK had actually met its target of 10 million units per month.

■ Leveraging Advanced Technology to Develop Production Methods for a New Type of Power Inductor

Today, the demand for power inductors used in mobile devices is growing rapidly, fueled by the popularity of portable digital music players and other hit products. Going forward, inductors are likely to see increased use in fields such as notebook PCs and videogame consoles, as well as car electronics. Moreover, as functions become more diverse and sophisticated, the number of switching frequencies for DC-DC converters will also rise higher each year. In response to these technology trends, TDK is applying cutting-edge thin-film process technology from its work in hard disk drive (HDD) heads and other fields to the development of power inductors. Meanwhile, in exploring applications for advanced plating technology, TDK is developing a new type of compact power inductor, this time through an approach completely different from its coil and multilayer production methods.

The notion of a separated ring core was an unconventional idea that made amazingly compact and lower profile coil-type power inductors possible. That idea has now become a powerful and unrivaled advantage for TDK. It also proves that no matter how far automation may advance, that the art of manufacturing remains a uniquely human endeavor. Perhaps there is no better example of this than the VLF3010.

Glimpsing the Future of Technology by Staying Ahead of the Pack

Magnetics Business Group



Tomoki Ikeda
Senior Manager

If you want to lead the market, then taking on the challenge of creating unrivaled technologies is your only option. Take the development of the VLF3010 power inductor. It was the development team's interplay, if you will, and thinking outside the box that made breakthroughs possible whenever technology issues that stood in the way of commercialization arose. If you share a passion for technology, and everyone is on the same page, then anything, no matter how seemingly impossible, is possible. And if you can remain ahead of the pack after reaching the top, then opportunities that were once hidden to you will start to come into view.

The Pride of TDK— Strong Frontline Operations

The three examples in this section are just a glimpse of TDK's operational capabilities. Common to all three examples are the overwhelming superiority of our core technologies, the passion of staff in operational areas, and the power of teamwork among our business sites.

TDK's core technologies—materials, process, and evaluation & simulation technologies—have been developed over more than 70 years. These outstanding technologies are used in a host of products. The passion of staff at our operating sites steels them with the tenacity to never give up even when faced with difficulties; this also contributes to the creation of a corporate culture in which everything is exhaustively discussed. Teamwork, meanwhile, begins with the exchange of technology across business units. More recently it has extended to active cooperation in various forms such as between development and manufacturing and manufacturing and sales units. This sort of teamwork is yielding unimagined strength within the company.

I am proud to manage a company like TDK, which boasts this sort of vitality at the frontline of its operations. It inspires me to create an even stronger TDK by harnessing this energy and ensuring it is used to good effect with strong strategic leadership from the top.



TDK at a Glance



Consolidated net sales in fiscal 2007 rose 8.4% from ¥795,180 million in the previous fiscal year to ¥862,025 million.

In the electronics market, which has a large bearing on the TDK Group's performance, fiscal 2007 was notable for buoyant demand for mobile phones, notebook PCs and

Electronic Materials and Components

Electronic Materials



Main Products

Multilayer ceramic chip capacitors, ferrite cores for coils and transformers, ferrite and rare-earth magnets

Fiscal 2007 Highlights

Sales rose 10.2%, with capacitor sales rising on strong sales for use in PCs and flat-screen TVs. Rare-earth magnet sales also rose due to growth in HDD applications.

Electronic Devices



Main Products

Coils (inductors), high-frequency components, EMC components, piezoelectric components, sensors, transformers, DC-DC converters, switching power supplies, DC-AC inverters

Fiscal 2007 Highlights

Sales climbed 28.1% on the back of higher sales of inductive devices, particularly for use in mobile phones and HDDs, and higher sales of power supplies.

Recording Devices



Main Products

Heads for hard disk drives, thermal printer heads, optical pickups

Fiscal 2007 Highlights

Sales declined 3.5% due to lower sales from HDD heads, where higher sales volume was outweighed by lower unit prices.

Other Electronic Components



Main Products

Organic EL displays, anechoic chambers, mechatronics

Fiscal 2007 Highlights

Sales jumped 55.5%, the result of higher sales of mechatronics and in new businesses.

Recording Media



Main Products

Audiotapes, videotapes, CD-Rs, MiniDiscs (MDs), DVDs, tape-based data storage media for computers

Fiscal 2007 Highlights

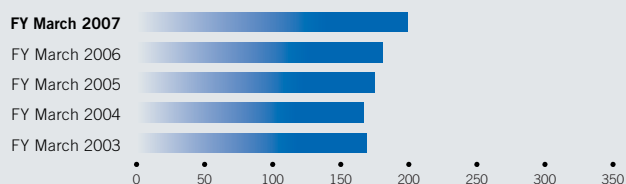
Sales decreased 3.9% due to lower sales of consumer audiotapes and videotapes resulting from falling demand. Sales of optical media and tape-based data storage media for computers, however, increased.

flat-screen TVs. This demand, together with an increase in the number of electronic components in finished products driven by their increasing sophistication and features, led to even higher demand for electronic components.

In this operating environment, TDK took steps in fiscal 2007 to respond to the increasing demand for its

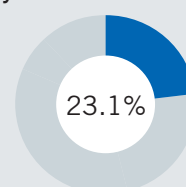
components. In addition to ramping up production capacity of multilayer ceramic chip capacitors and other components, TDK entered into an equity-based business alliance with Tabuchi Electric Co., Ltd. to strengthen the power supplies business.

Sales by Electronic Materials (Yen in billions)

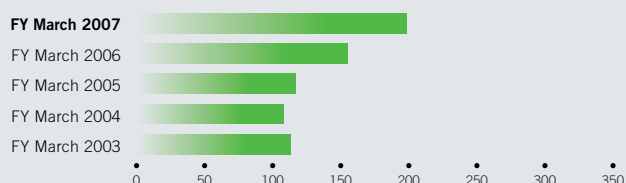


Share of Sales by Electronic Materials

FY March 2007

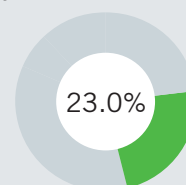


Sales by Electronic Devices (Yen in billions)

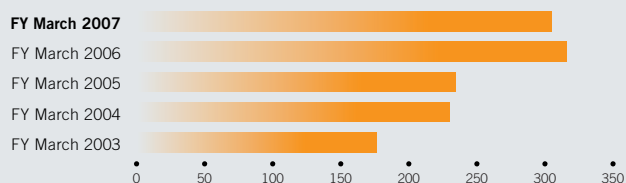


Share of Sales by Electronic Devices

FY March 2007

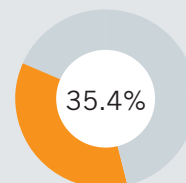


Sales by Recording Devices (Yen in billions)

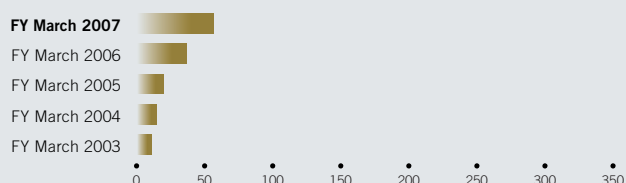


Share of Sales by Recording Devices

FY March 2007

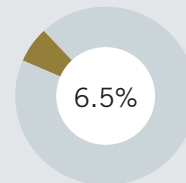


Sales by Other Electronic Components (Yen in billions)

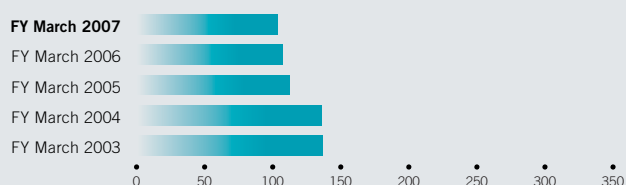


Share of Sales by Other Electronic Components

FY March 2007

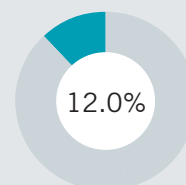


Sales by Recording Media (Yen in billions)



Share of Sales by Recording Media

FY March 2007

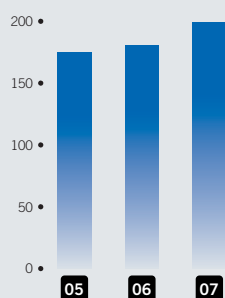


Review of Operations

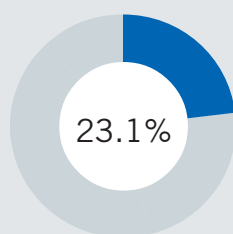
Electronic Materials and Components Segment

Electronic Materials

Sales
(Yen in billions)



Share of Sales
FY March 2007

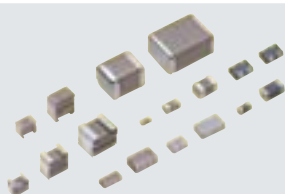


This sector is broken down into two product categories: capacitors and ferrite cores and magnets.

Sales in the electronic materials sector rose 10.2% from ¥180,766 million to ¥199,243 million (U.S.\$1,688,500 thousand).

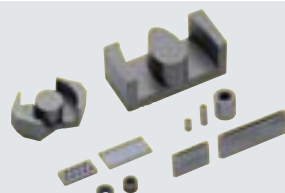
[Capacitors] Sales increased year on year, the result mainly of higher sales of multilayer ceramic chip capacitors, the main product in the capacitors category. Sales for use in PCs and flat-screen TVs were particularly strong.

[Ferrite cores and magnets] Sales of ferrite cores and magnets rose year on year. Sales of ferrite cores declined marginally as TDK terminated some products. On the other hand, sales of magnets rose. Ferrite magnet sales rose mainly on a weaker yen, while rare-earth magnets saw sales rise as production of HDDs increased.



Ceramic Capacitors

Circuit components designed to store electrical energy, ceramic capacitors are made by stacking alternate layers of dielectric material and electrodes, which are then sintered (fired) to form a solid block. Due to their compactness and excellent high-frequency characteristics, ceramic capacitors are used in large quantities in mobile phones, flat-screen TVs and many other products.



Ferrite Cores

Ferrite cores are widely used to make small cores in power supply transformers and in inductors. Ferrite is a magnetic material made by mixing ferric oxide with manganese, nickel, zinc or other metals. This versatile material is ideal for transformer and inductor cores because it has a minimal power loss even at high signal frequencies.



Magnets

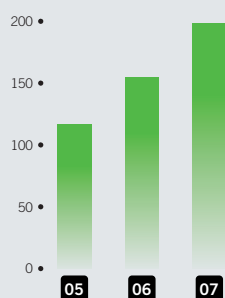
This category is broadly broken down into two products: ferrite magnets and rare-earth magnets. Ferrite magnets are made by forming and sintering a mixture consisting mainly of barium oxide and ferric oxide. Rare-earth magnets, which combine compact size with high magnetic energy, consist mainly of rare earth elements, such as samarium and neodymium, and iron.

Electronic Materials and Components Segment

Electronic Devices

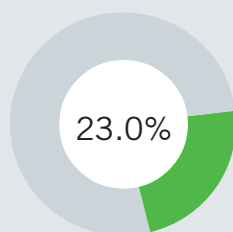
Sales

(Yen in billions)



Share of Sales

FY March 2007



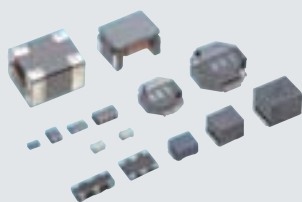
This sector has three product categories: inductive devices, high-frequency components and other products.

Sales in the electronic devices sector climbed 28.1% from ¥154,680 million to ¥198,199 million (U.S.\$1,679,653 thousand). This large year-on-year increase reflected the inclusion of the Densai-Lambda Group in this sector from the second half of the previous fiscal year. Even excluding these sales, existing businesses in the sector posted year-on-year sales growth.

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

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

[Other products] Sales of other products increased year on year mainly due to higher sales of power supplies, which offset a slight decline in sales of sensors and actuators as sales prices fell.



Inductive Devices

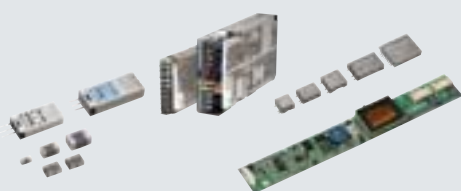
The main products in the inductive devices category are coils (inductors) and EMC components. TDK supplies coils (inductors) made by winding a wire around a ferrite core, multilayer coils (inductors) that are formed by a process similar to printing, and coils (inductors) that are made using thin-film technology.

EMC (Electromagnetic Compatibility) components are electronic components that solve the problem of electromagnetic noise given off by electronic devices.



High-frequency Components

These components are chiefly used in mobile phones and other devices that handle high-frequency signals. TDK boasts an extensive lineup, including isolators, VCOs (voltage-controlled oscillators) and diplexers.



Other Products

The main products in this category are power system products, and sensors and actuators. Power system products include switching power supplies that convert alternating current into direct current, DC-AC inverters that convert direct current into alternating current, DC-DC converters that alter DC voltages, and transformers that step up or down AC voltages.

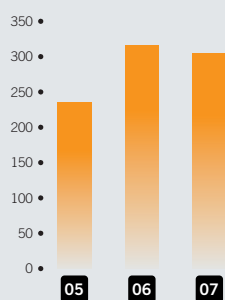
Sensors and actuators include varistors, which are effective at combating static electricity; sensors for measuring temperature, humidity, toner density and other items; and actuators such as piezoelectric buzzers.

Electronic Materials and Components Segment

Recording Devices

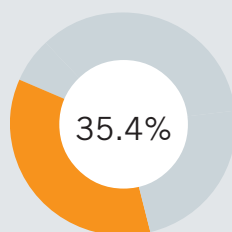
Sales

(Yen in billions)



Share of Sales

FY March 2007

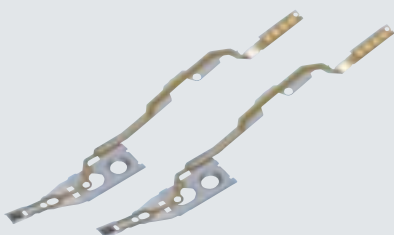


The sector has two product categories: HDD heads and other heads.

Sector sales declined 3.5% from ¥315,928 million to ¥304,822 million (U.S.\$2,583,237 thousand).

[HDD heads] Sales decreased year on year. TDK's HDD head sales volume increased on the back of higher unit production of HDDs, which was driven by growing demand for HDDs for use in PCs as well as expanding applications in other consumer electronics. However, discounting pressure on HDD heads stemming from competition for market share among HDD manufacturers hurt results, leading to the overall decrease in sales.

[Other heads] Sales of other heads declined year on year.



HDD Heads

HDD heads write and read signals on hard disks. GMR (Giant Magnetoresistive) heads for "reading" are gradually giving way to TMR (Tunneling GMR) heads with higher sensitivity as recording density increases. TDK has begun shipments of heads for "writing" that use PMR (Perpendicular Magnetic Recording) technology.

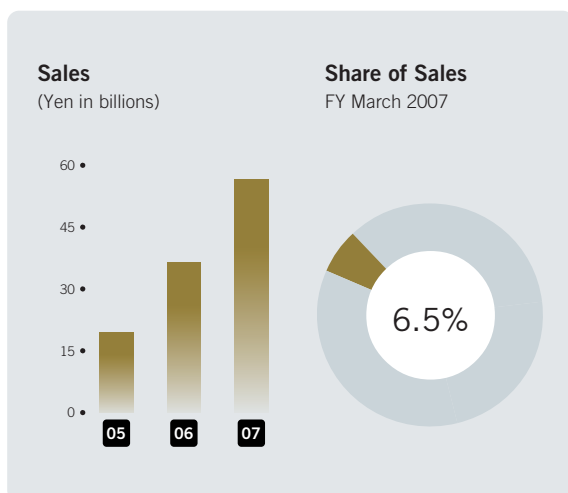


Other Heads

TDK also produces optical pickups for use with DVDs and CDs, thermal printer heads, and magnetic heads used in floppy disk drives (FDDs).

Electronic Materials and Components Segment

Other Electronic Components



This sector includes all other products of the electronic materials and components segment other than those in the aforementioned three sectors. These products include organic EL displays, anechoic chambers and mechatronics (production equipment).

Sector sales jumped 55.5% from ¥36,376 million to ¥56,557 million (U.S.\$479,297 thousand).

This was the result of higher sales of organic EL displays, mechatronics and other new products.

Organic EL Displays

These slender, high-resolution displays use an organic material that emits light when an electric current is applied.

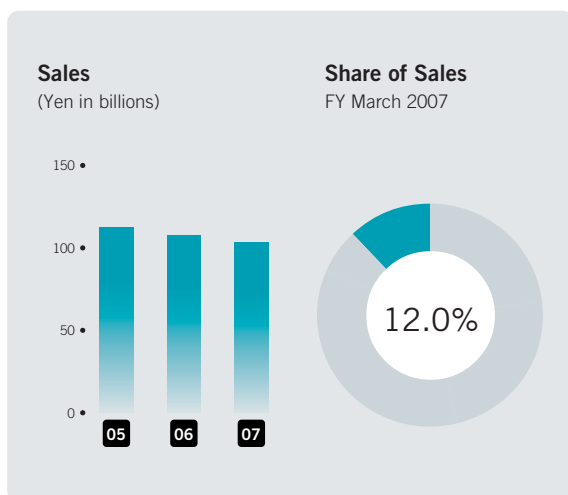
Anechoic Chambers

These chambers block external electromagnetic radiation to permit the precise measurement of electromagnetic noise.

Mechatronics

This category includes external sales of manufacturing equipment. Products include Load Port and Flip Chip Bonder, which are used in the semiconductor manufacturing process.

Recording Media Segment



Optical Media

TDK supplies several types of optical discs, including write-once CD-Rs and 4.7 gigabyte DVDs that can hold approximately 7 times more data than their CD counterparts, although having the same 12cm diameter. TDK has also commercialized a Blu-ray disc, one of the next generations of optical media.

Other

TDK has commercialized LTO (Linear Tape-Open) standard data storage tapes for computers in response to the rapid growth in electronic data storage needs.

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

Segment sales decreased 3.9% from ¥107,430 million to ¥103,204 million (U.S.\$874,610 thousand).

[Audiotapes and videotapes] Sales of audiotapes and videotapes declined year on year. The single largest 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 unit prices of CD-Rs and DVDs.

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

* Linear Tape-Open, LTO, LTO Logo, Ultrium and Ultrium Logo are trademarks of Hewlett-Packard Company, IBM Corporation and Quantum Corporation in the US, other countries or both.

R&D Activities



In its R&D activities, the TDK Group continues to work on strengthening and expanding development of new products that respond to diversification in the electronics market. In particular, the group is concentrating on next-generation recording-related products, micro electronics modules for mobile communications-related applications, and energy-efficient, environmentally friendly devices based on materials and design technologies. Furthermore, the group is using its reservoir of technologies to conduct efficient R&D activities concentrating on three strategic areas: IT home electronic appliances; high-speed and large-capacity networks and car electronics.

Development themes include ultra-compact components such as thin-film common-mode filters that leverage core technologies in the electronic materials and components field, and commercialization of 220Gbps PMR heads for HDDs used in mobile applications in the recording devices sector. In the recording media segment, TDK has made progress strengthening its lineup of next-generation DVD-related products, such as by commercializing a large-capacity, dual-layer 50GB rewritable Blu-ray Disc. Furthermore, TDK has commercialized EMC components such as multilayer chip varistors and chip EMI filter arrays.

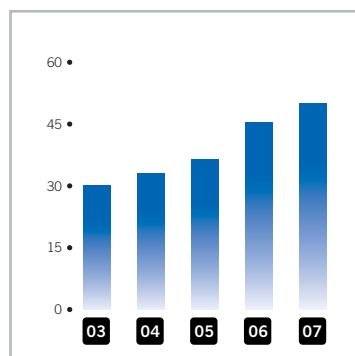
R&D at TDK is conducted by the Materials R&D Center, Advanced Process Technology Center, Devices Development

Center, Production Engineering Development Center, Materials Analysis Center, Application Center, SQ Research Center and the R&D functions of each operating group. Each facility is developing new products and technologies in its respective area of responsibility. The Application Center devises the necessary applied technologies with the aim of keeping TDK in step with market trends and customer needs. The Materials R&D Center is responsible for research in magnetic and dielectric materials that use powder metallurgy. The Advanced Process Technology Center facilitates the use of cutting-edge process technologies. The Devices Development Center conducts research in new devices.

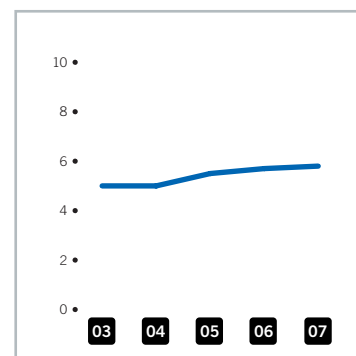
In terms of overseas R&D activities, TDK is conducting R&D in collaboration with leading universities in the U.S. and Europe, and overseas R&D subsidiaries are making use of local technological resources. In China, where TDK is aiming to establish and develop an operating base capable of supporting growth, R&D activities are being carried out in the area of electronic components and materials. In addition, consolidated subsidiary Headway Technologies, Inc. is developing next-generation HDD heads.

R&D expenditures in fiscal 2007 rose 9.9% year on year to ¥50,058 million, 5.8% of net sales.

R&D expenditures
(Yen in billions)



Ratio to net sales
(%)



Corporate Social Responsibility (CSR)

A company exists as a member of society that has relationships with all stakeholders—shareholders, customers, suppliers, employees and communities.

Based on our founding spirit—“Contribute to culture and industry through creativity”—we have been putting great emphasis on maintaining a harmonious and symbiotic relationship with society. In the electronics industry, we contribute to society by providing innovative new products exuding originality. And our corporate activities are based on the observance and enforcement of fair corporate ethics, which we recognize as a social responsibility.

Corporate Governance

The following is a summary of the resolutions regarding the system which ensures that the execution of duties by Directors complies with laws and ordinances and the Articles of Incorporation, and the system which ensures that the Company's business is duly executed:

1. The system which ensures that the execution of duties by Directors complies with laws and ordinances and the Articles of Incorporation:

TDK Corporation (“TDK”) has established the management system mentioned below to maintain compliance, transparency and soundness in conducting its business operations and to achieve its business objectives.

1) Adoption of the Corporate Auditor System and the Strengthening of Supervisory Function:

TDK has adopted the Corporate Auditor System pursuant to the Companies Act and has appointed three independent and disinterested outside Corporate Auditors to constitute a majority of the Corporate Auditors (out of five Corporate Auditors), in order to enhance the supervisory function of management.

2) Strengthening of Function of the Board of Directors and Strict Duties:

TDK has a small number of Directors (seven) to ensure quick management decision-making. At the same time, TDK has appointed one disinterested outside Director in order to enhance the supervisory function of management. In addition, the term of any Director is set at one year to give the shareholders an opportunity to cast votes of confidence regarding such Director's performance at every business year.

3) Adoption of Corporate Officer System for Quick Business Execution:

TDK has adopted a corporate officer system that separates the management decision-making and supervisory functions of the Board of Directors from the execution of business by the Directors. Corporate Officers are now in charge of business execution duties and of carrying out the matters resolved by the Board of Directors, thereby expediting business execution according to the decision of management.

4) Establishment of Advisory Bodies to the Board of Directors (Business Ethics & CSR Committee, Disclosure Advisory Committee, and Compensation Advisory Committee):

The aim of the Business Ethics & CSR Committee is to ensure compliance with corporate ethics and improved corporate social responsibility (CSR) awareness. To achieve this aim, the Directors, Corporate Auditors, Corporate Officers and all the members of the TDK Group companies are fully conversant with the TDK Corporate Motto and

Corporate Principle as TDK's management philosophy, and the Code of Ethics, which stipulates concrete standards and guidelines for compliance with all laws, regulations and social norms while strengthening corporate governance.

The Disclosure Advisory Committee reviews and examines important corporate information and disclosure materials required for investment decisions by shareholders and investors, to ensure that TDK can make comprehensive, appropriate, timely and impartial information disclosure in accordance with various laws and regulations regarding securities exchange and the rules and regulations of the stock exchanges where TDK's shares are listed.

The chairperson of the Compensation Advisory Committee is the outside Director of TDK. The committee examines the remuneration for Directors and Corporate Officers, as well as presidents and qualifying executives of TDK subsidiaries and determines whether such remuneration is reasonable in light of having a transparent remuneration decision-making process, corporate business results, individual performance, and the general standards of other companies.

Under the foregoing corporate systems, the Corporate Auditors with supervisory functions over management ensure compliance, transparency and soundness in TDK's conduct of its business operations by executing their duties pursuant to the Regulations of the Corporate Auditors' Business and the Regulations of the Board of Corporate Auditors, and by auditing whether the Directors' performance is in compliance with laws and regulations and the Articles of Incorporation.

Similarly, the Directors in charge of the management decision making and supervision of the business execution ensure compliance, transparency and soundness in TDK's conduct of its business operations by executing their duties pursuant to the Regulations of the Directors' Business and the Regulations of the Board of Directors established in accordance with laws and regulations and the Articles of Incorporation. The Corporate Officers who are in charge of the business execution ensure compliance, transparency and soundness in TDK's conduct of its business operations by executing their duties pursuant to the Regulations of the Corporate Officers' Business and the Executive Committee Regulations.

TDK has established the following system to ensure compliance with all applicable securities and exchange laws and other similar laws and regulations of any country, as well as the rules and regulations of each stock exchange where TDK's shares are listed (hereinafter collectively referred to as the “Securities Restrictions”), in particular, the Sarbanes-Oxley Act of the U.S.A. (“Sox Act”) and the rules of the New York Stock Exchange.

- i) TDK will collect, record, analyze, process, summarize and report all the information required to be disclosed under the Securities Restrictions and will establish an internal control system and other procedures to warrant timely information disclosures within the deadlines stipulated by the Securities Restrictions.
- ii) TDK has established a system to ensure that TDK has provided for procedures designed to acquire in a reasonable manner all information regarding jurisdictions where TDK is duly authorized to conduct trading, to ensure that its assets are protected from unauthorized or irrelevant use, and to ensure that all trading activities of TDK are appropriately recorded and reported for the purpose of enabling TDK to prepare the financial statements in accordance with applicable accounting standards.
- iii) TDK will ensure that the above-mentioned management system is in compliance with the requirements of the Securities Restrictions with respect to the corporate governance system.

2. System under which information regarding the execution of business by Directors shall be maintained and controlled:

The President who is responsible for the business execution of TDK has set up the Document Control Regulations applicable to the TDK Group that provide the basic rules for the preservation and control of information.

3. Regulations and other system for the risk management of loss:

With respect to overall risks facing the TDK Group, the main factors are specified, analyzed and evaluated under the supervision of the Corporate Officer(s) in charge of the administrative departments. For this purpose, TDK has established the Corporate Risk Countermeasure Promotion Office within the General Affairs Department.

Regulations, detailed provisions, terms as well as departmental terms established by each department provide for the operating rules for specific risks, including, among others, legal, financial, IT-related, disasters and environmental risks. While these risks are managed by managers in charge of particular areas of operation on a daily basis, risk prevention policies and risk countermeasures that would require group-wide efforts are principally controlled by the Crisis Management Office.

The Corporate Auditors and Management Review & Support Department, an internal audit organization, monitors the implementation of risk countermeasures and give advice and provide support to minimize risks. In addition, TDK receives advice from outside legal counsel from time to time regarding risks associated with its corporate activities.

TDK further strives to create total risk management in the TDK Group by establishing a Risk Management Committee and promoting effective measures to reduce significant risks that would hinder the achievement of its business objectives and business continuation.

4. System which ensures that Directors execute their duties efficiently:

TDK has a small number of Directors together with the adoption of a corporate officer system so as to achieve quick and efficient management decision-making.

At the same time, policies and measures with respect to business execution of development, manufacturing and financing of the TDK Group are deliberated at the Executive Committee which comprises Corporate Officers with an upper title of Senior Vice President and other Corporate Officers designated by the President. All Corporate Officers forthwith perform their duties pursuant to the items decided by the Executive Committee. With respect to the conditions of execution, the Company ensures the management is efficiently operated by proposing to the Board of Directors and reporting to the Executive Committee by Corporate Officers on a regular basis.

In addition, TDK establishes the mid-term management objectives shared by all members of the TDK Group and strives to make them fully understand these objectives as well as establishes the system that enables TDK to quickly process and understand the objectives of all divisions, implementation projects and progress by using IT technologies.

5. System which ensures that business execution by employees is in compliance with laws and regulations and the Articles of Incorporation:

TDK strives to ensure that all Directors, Corporate Auditors, Corporate Officers and employees in TDK Group are fully conversant with the Corporate Philosophy, TDK Code of Ethics and Corporate Standards of Business Conduct, in order to achieve improved compliance, transparency and soundness of management, and ensures the business execution of any TDK member is in compliance with laws and regulations, as well as TDK's Articles of Incorporation. Furthermore, TDK has established a corporate ethics management system under the Business Ethics & CSR Committee to regularly monitor and investigate the enforcement of and compliance with the Code of Ethics by the TDK Group worldwide. A consultation office (with help lines) was also created to enable the employees to directly report any information and opinion concerning compliance within the TDK Group.

6. System which ensures the optimum business execution by the corporate group consisting of the relevant group company, its parent company and subsidiaries:

Each Director, Corporate Officer and executive officer strives to ensure the optimum business operations by observing the TDK Code of Ethics and the corporate regulations and regulations to determine the duties for the entire TDK Group and making decisions, in order to maintain compliance, transparency and soundness in conducting business operations and to achieve the business objectives of TDK and the TDK Group.

The Corporate Auditors audit, on a regular basis, the conditions of business operations of each division of TDK and the TDK Group, through division audit, examining important documents and attending important meetings. In addition, the Management Review & Support Department audits and supports, on a regular basis, each division of TDK and the TDK Group in order to promote consistency of the business operations and management policies, and efficiency.

TDK and the TDK Group will ensure the optimum business operations under such system and appropriately respond to requirements

and requests from outside, such as may be required under the Sarbanes Oxley Act (the United States corporate renovation act) applicable to the companies listed on the exchanges in the United States.

7. Matter relating to employees when requested by the Corporate Auditors for support on a full time basis:

The Corporate Auditors Office consisting of employees on a full time basis, and not performing any business execution duties, shall assist the Corporate Auditors.

8. Matters regarding the independence of employees in the preceding item from Directors:

The Corporate Auditors shall directly evaluate the performance of the employees in the Corporate Auditors Office, and any transfer or official reprimand of these employees shall be determined pursuant to the operating rules of the Company subject to consent of the Corporate Auditors.

Any employee who has been instructed or ordered by a Corporate Auditor in connection with audit duties shall not be subject to any Director's instruction or order with respect to said Corporate Auditor's instruction or order.

9. System which ensures that Directors or employees report to the Corporate Auditors and delivery of other reports to the Corporate Auditors:

A copy of minutes of the meeting of the Management Committee shall immediately be delivered to the Corporate Auditors, in order to enable the Corporate Auditors to confirm the circumstances surrounding the deliberation of important matters relating to overall business execution policies and strategies, and furthermore, with respect to any especially

important matter, the Corporate Officer participating in the Management Committee will directly explain these matters to the Corporate Auditors, from time to time.

In addition, a system, in connection with the early implementation of any Company business plan, has been established in order to enable Corporate Auditors to give advice, and to obligate each business execution division to give a copy of the management report reporting on the development status of such plan to the Corporate Auditors, so that the Corporate Auditors may confirm the business execution activities in relation to such business plan.

In particular, the Corporate Officer participating in the Management Committee will directly explain the activities of the Business Ethics & CSR Committee to the Corporate Auditors from time to time.

10. In addition, a system which ensures that Corporate Auditors conduct audit effectively:

The Corporate Auditors and the Board of Corporate Auditors will have a meeting with the Representative Directors on a regular basis, to confirm the management policies, exchange opinions on issues to be resolved by the TDK Group, risks involved in the TDK Group and important matters on audit by Corporate Auditors, and deepen mutual acknowledgement with the Representative Directors.

Furthermore, the Corporate Auditors, Management Review & Support Department and Accounting Auditors engaging in accounting audit duties will have a meeting on a regular basis and share information relating to each audit and the result of the audit, so that TDK will ensure that any audit by the Corporate Auditors will be rendered efficiently.



The TDK Code of Ethics can be found on TDK's website at <http://www.tdk.co.jp/teaaa01/aaa06000.htm>.

The TDK Code of Ethics provides concrete standards and guidelines for compliance with all laws, regulations and social norms, to be followed by every director, corporate auditor, corporate officer and employee of TDK and its consolidated subsidiaries in conducting business.



The corporate governance rules of the New York Stock Exchange require that foreign private issuers disclose any significant ways in which their corporate governance practices differ from the NYSE domestic corporate governance standards (Section 303A. 11).

TDK complies with this requirement by providing statements in its Form 20-F electronically filed with the United States Securities and Exchange Commission under the heading "Significant differences in corporate governance practices between TDK and U.S. listed companies on the New York Stock Exchange." Copies of the Form 20-F are available at the following URL.

http://www.tdk.co.jp/ir_e/library/lib50000.htm

Social Contribution Activities

TDK has recognized again the importance of being a corporate citizen with a harmonious and symbiotic relationship with greater society. Considering what TDK as a company could do to benefit society, we have devised various social activities unique to TDK.

Philosophy Based on the corporate motto of “Contribute to culture and industry through creativity,” the TDK Group will help build a healthier, richer society by carrying out creative activities, with each and every employee maintaining a keen awareness of his or her role as a corporate citizen.

Policy TDK will channel its corporate citizenship into 4 spheres of activity: academic, research and education; sports, art and culture; environmental conservation; and social welfare and local community activities. Drawing on the various resources of the TDK Group (employees, products, capital, information, etc.), the company will conduct activities on a global scale. These activities will include cooperation with nonprofit organizations and nongovernment organizations.

■ Academic, Research and Education

TDK hopes to use its knowledge, experience and skills to give back to society by providing opportunities for young people to acquire various types of knowledge and skill and gain new experiences.



Let's try! (Electronics handicraft class)
(Kofu, Yamanashi Prefecture)

■ Sports, Art and Culture

TDK runs sports, arts and cultural programs that inspire and excite people and give back to society.



Triple jumper Christian Olsen provides technical coaching to some aspiring student athletes (Nagai Stadium, Osaka)

■ Environmental Conservation

TDK is engaged in various environmental protection activities with the aim of promoting co-existence with the global environment.



Yuri Beach Forest Regeneration Project tree-planting event
(Akita Prefecture)

■ Social Welfare and Local Community Activities

TDK draws on its resources to help address various kinds of issues in local communities as it works to help realize a better society.



Volunteers at a welfare facility (TDK FUJITSU Philippines Corporation)

Environmental Activities

TDK positions preservation of the environment as a top management priority. In line with this positioning, TDK has formulated an environmental plan based on a long-term perspective called “TDK Environmental Action 2015.” We are conducting various activities in accordance with this plan. One of the goals TDK has set is to achieve zero emissions. In fiscal 2004, all TDK facilities in Japan achieved this status, while all overseas sites had attained this level in fiscal 2007. Another company-wide policy from fiscal 2007 is to cut CO₂ emissions. We are working toward a target of cutting CO₂ emissions by at least 7% in Japan in fiscal 2011, compared with fiscal 1991.



Specific Measure to Reduce CO₂ Emissions

TDK is improving the efficiency of its manufacturing processes, installing energy-saving equipment and taking other concrete actions to reduce CO₂ emissions. It is also introducing renewable energy. In February 2006, we introduced a 300kW solar power generation system at the Kofu Plant in Japan. This system generates 345,000kWh of electric power per year and has cut* annual CO₂ emissions by 238 tons/year.

*Equivalent CO₂ emissions from thermal power generation



Directors, Corporate Auditors and Corporate Officers (As of June 28, 2007)

Directors (*Outside Director)



Minoru Takahashi
Director

Seiji Enami
Director

Jiro Iwasaki
Director

Hajime Sawabe
Chairman and CEO

Takehiro Kamigama
President and COO

Shinji Yoko
Director

Yasuhiro Hagihara*
Director

Corporate Officers



Hajime Sawabe
Chairman and CEO



Takehiro Kamigama
President and COO



Jiro Iwasaki
*Executive Vice President
Administration*



Shinji Yoko
*Senior Vice President
Electronic
Components Sales &
Marketing*



Takeshi Nomura
*Senior Vice President
Ferrite & Magnet
Products*



Takaya Ishigaki
*Senior Vice President
Capacitors*



Minoru Takahashi
*Senior Vice President
Technology*



Michinori Katayama
*Senior Vice President
Corporate
Communications*



Seiji Enami
*Senior Vice President
CFO*

Corporate Auditors (*Outside Corporate Auditor)



Ryoichi Ohno*
Corporate Auditor

Kaoru Matsumoto*
Corporate Auditor

Masaaki Miyoshi
Corporate Auditor

Noboru Hara
Corporate Auditor

Yukio Yanase*
Corporate Auditor



Raymond Leung
*Senior Vice President
China Operation*



Shiro Nomi
*Senior Vice President
Corporate Planning*



Shinichi Araya
*Senior Vice President
Magnetics*



Masatoshi Shikanai
*Corporate Officer
Management Review
& Support*



Shunji Itakura
*Corporate Officer
Display*



Kenichiro Fujihara
*Corporate Officer
Electronic
Components Sales &
Marketing*



Shinya Yoshihara
*Corporate Officer
Production Engineering
Development*

Financial Section

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Business Results

Analysis of Business Results

Consolidated results for fiscal 2007, ended March 31, 2007, were as follows.

Looking at economic conditions worldwide during the past fiscal year, the U.S. economy recorded healthy growth underpinned by consumer spending and capital expenditures, despite a drop-off in housing investment. Meanwhile, European economies grew on balanced domestic and external demand. In Asia, China maintained a high growth rate and the economies of India and South Korea experienced moderate growth. The Japanese economy also held to a moderate growth path, thanks mainly to capital expenditures fueled by strong corporate earnings.

In the electronics market, which has a large bearing on the TDK Group's performance, fiscal 2007 was notable for buoyant demand for mobile phones, notebook PCs and flat-screen TVs. This demand, together with an increase in the number of electronic components in finished products driven by their increasing sophistication and features, led to even higher demand for electronic components.

Amid this operating environment, TDK took steps in fiscal 2007 to respond to the increasing demand for its

components. In addition to ramping up production capacity of multilayer ceramic chip capacitors and other components, TDK entered into an equity-based business alliance with Tabuchi Electric Co., Ltd. to strengthen the power supplies business.

TDK posted consolidated net sales of ¥862,025 million (U.S.\$7,305,297 thousand), up 8.4% year on year from ¥795,180 million. Operating income rose 31.5% from ¥60,523 million to ¥79,590 million (U.S.\$674,492 thousand). Income from continuing operations before income taxes increased 34.1% from ¥66,103 million to ¥88,665 million (U.S.\$751,398 thousand). Net income climbed 59.0% from ¥44,101 million to ¥70,125 million (U.S.\$594,280 thousand). Basic net income per common share was ¥529.88 (U.S.\$4.49), up from ¥333.50.

During the year, the average yen exchange rate was ¥116.97 for the U.S. dollar and ¥150.02 for the euro, representing a 3.2% depreciation in the yen's value against the U.S. dollar and an 8.8% decline against the euro. Overall, exchange rate movements had the effect of increasing net sales by approximately ¥24.7 billion and operating income by approximately ¥6.1 billion.

| Years ended March 31 | FY2007 | | | FY2006 | | Change | |
|---|-------------------|--------------|-----------------------------|-------------------|-------|-------------------|------|
| | (Millions of yen) | (%) | (Thousands of U.S. dollars) | (Millions of yen) | (%) | (Millions of yen) | (%) |
| Net sales | ¥862,025 | 100.0 | \$7,305,297 | 795,180 | 100.0 | 66,845 | 8.4 |
| Operating income | 79,590 | 9.2 | 674,492 | 60,523 | 7.6 | 19,067 | 31.5 |
| Income from continuing operations before income taxes | 88,665 | 10.3 | 751,398 | 66,103 | 8.3 | 22,562 | 34.1 |
| Income from continuing operations | 70,125 | 8.1 | 594,280 | 44,411 | 5.6 | 25,714 | 57.9 |
| Net income | 70,125 | 8.1 | 594,280 | 44,101 | 5.5 | 26,024 | 59.0 |
| Per common share: | | | | | | | |
| Net income/Basic | Yen 529.88 | | U.S.\$4.49 | Yen 333.50 | | | |
| Net income/Diluted | Yen 529.29 | | U.S.\$4.49 | Yen 333.20 | | | |
| Average rate for the period | | | | | | | |
| US\$=Yen | Yen 116.97 | | | Yen 113.32 | | | |
| Euro=Yen | Yen 150.02 | | | Yen 137.83 | | | |

Note: Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of US\$1=¥118.

(Sales by Segment)

TDK's businesses are broadly classified into two business segments: the electronic materials and components segment and the recording media segment. The following is a summary of sales by segment.

| Years ended March 31 | FY2007 | | (Thousands of U.S. dollars) | FY2006 | | Change | |
|---|-------------------|--------------|-----------------------------|-------------------|-------|-------------------|------|
| | (Millions of yen) | (%) | | (Millions of yen) | (%) | (Millions of yen) | (%) |
| Electronic materials and components . . . | ¥758,821 | 88.0 | \$6,430,687 | 687,750 | 86.5 | 71,071 | 10.3 |
| Electronic materials | 199,243 | 23.1 | 1,688,500 | 180,766 | 22.7 | 18,477 | 10.2 |
| Electronic devices | 198,199 | 23.0 | 1,679,653 | 154,680 | 19.5 | 43,519 | 28.1 |
| Recording devices | 304,822 | 35.4 | 2,583,237 | 315,928 | 39.7 | (11,106) | -3.5 |
| Other electronic components | 56,557 | 6.5 | 479,297 | 36,376 | 4.6 | 20,181 | 55.5 |
| Recording media | 103,204 | 12.0 | 874,610 | 107,430 | 13.5 | (4,226) | -3.9 |
| Total sales | 862,025 | 100.0 | 7,305,297 | 795,180 | 100.0 | 66,845 | 8.4 |
| Overseas sales | 690,673 | 80.1 | 5,853,161 | 621,522 | 78.2 | 69,151 | 11.1 |

Note: Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of US\$1=¥118.

ELECTRONIC MATERIALS AND COMPONENTS SEGMENT

This segment is made up of four product sectors: electronic materials, electronic devices, recording devices, and other electronic components.

Segment net sales rose 10.3% from ¥687,750 million to ¥758,821 million (U.S.\$6,430,687 thousand), while segment operating income rose 10.0% to ¥81,775 million (U.S.\$693,009 thousand), from ¥74,333 million.

Sector sales of TDK's electronic materials and components were as follows.

ELECTRONIC MATERIALS

This sector is broken down into two product categories: capacitors and ferrite cores and magnets.

Sales in the electronic materials sector rose 10.2% from ¥180,766 million to ¥199,243 million (U.S.\$1,688,500 thousand).

[Capacitors]

Sales increased year on year, the result mainly of higher sales of multilayer ceramic chip capacitors, the main product in the capacitors category. Sales for use in PCs and flat-screen TVs were particularly strong.

[Ferrite cores and magnets]

Sales of ferrite cores and magnets rose year on year. Sales of ferrite cores declined marginally as TDK terminated some products. On the other hand, sales of magnets rose. Ferrite magnet sales rose mainly on a weaker yen, while rare-earth magnets saw sales rise as production of HDDs increased.

ELECTRONIC DEVICES

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

Sales in the electronic devices sector climbed 28.1% from ¥154,680 million to ¥198,199 million (U.S.\$1,679,653 thousand). This large year-on-year increase reflected the inclusion of the Densai-Lambda Group in this sector from the second half of the previous fiscal year. In other words, this was the first full year the Densai-Lambda Group results have been reflected in the sector's results, after only half a year's sales were booked in the previous fiscal year. Even excluding these sales, existing businesses in the sector posted year-on-year sales growth.

[Inductive devices]

Sales of inductive devices increased year on year, mainly as a result of higher sales of power line coils used in mobile phones and HDDs.

[High-frequency components]

Sales of high-frequency components declined year on year, the result mainly of lower sales volumes and falling sales prices.

[Other products]

Sales of other products increased year on year mainly due to higher sales of power supplies, which offset a slight decline in sales of sensors and actuators as sales prices fell.

RECORDING DEVICES

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

Sector sales declined 3.5% from ¥315,928 million to ¥304,822 million (U.S.\$2,583,237 thousand).

[HDD heads]

Sales decreased year on year. TDK's HDD head sales volume increased on the back of higher unit production of HDDs, which was driven by growing demand for HDDs for use in PCs as well as expanding applications in other consumer electronics. However, discounting pressure on HDD heads stemming from competition for market share among HDD manufacturers hurt results, leading to the overall decrease in sales.

[Other heads]

Sales of other heads declined year on year.

OTHER ELECTRONIC COMPONENTS

This sector includes all other products of the electronic materials and components segment other than those in the three sectors above. These products include organic EL displays, anechoic chambers and mechatronics (production equipment). Sector sales jumped 55.5% from ¥36,376 million to ¥56,557 million (U.S.\$479,297 thousand). This was the result of higher sales of organic EL displays, mechatronics and other new products.

RECORDING MEDIA SEGMENT

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

Segment sales decreased 3.9% from ¥107,430 million to ¥103,204 million (U.S.\$874,610 thousand). The segment recorded an operating loss of ¥2,185 million (U.S.\$18,517 thousand), ¥11,625 million better than the ¥13,810 million operating loss in fiscal 2006.

[Audiotapes and videotapes]

Sales of audiotapes and videotapes declined year on year. The single largest 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 unit prices of CD-Rs and DVDs.

[Other products]

Sales of other products increased year on year. Sales of LTO-standard* (Linear Tape-Open) tape-based data storage media for computers increased on the back of rising demand.

*Linear Tape-Open, LTO, LTO Logo, Ultrium and Ultrium Logo are trademarks of Hewlett-Packard Company, IBM Corporation and Quantum Corporation in the US, other countries or both.

(Sales by Region)

[Japan]

Sales decreased overall, with sales declining in the recording devices sector and recording media segment.

[Americas]

Sales rose overall, with all four sectors of the electronic materials and components segment recording increases.

[Europe]

Sales increased, mainly as a result of higher sales of electronic materials and electronic devices.

[Asia (excluding Japan) and other areas]

Sales rose overall, with all four sectors of the electronic materials and components segment recording increases.

The overall result was a 11.1% increase in overseas sales year on year from ¥621,522 million to ¥690,673 million (U.S.\$5,853,161 thousand). Overseas sales accounted for 80.1% of consolidated net sales, a 1.9 percentage point increase from 78.2% one year earlier.

| Years ended March 31 | FY2007 | | (Thousands of U.S. dollars) | FY2006 | | Change | |
|----------------------|-------------------|--------------|-----------------------------|-------------------|-------|-------------------|------|
| | (Millions of yen) | (%) | | (Millions of yen) | (%) | (Millions of yen) | (%) |
| Americas | ¥103,124 | 11.9 | \$ 873,932 | 90,192 | 11.4 | 12,932 | 14.3 |
| Europe | 83,545 | 9.7 | 708,009 | 75,895 | 9.5 | 7,650 | 10.1 |
| Asia and others | 504,004 | 58.5 | 4,271,220 | 455,435 | 57.3 | 48,569 | 10.7 |
| Overseas sales total | 690,673 | 80.1 | 5,853,161 | 621,522 | 78.2 | 69,151 | 11.1 |
| Japan | 171,352 | 19.9 | 1,452,136 | 173,658 | 21.8 | (2,306) | -1.3 |
| Net sales | ¥862,025 | 100.0 | \$7,305,297 | 795,180 | 100.0 | 66,845 | 8.4 |

Notes: 1. Overseas sales are based on the location of the customers.

2. Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of US\$1=¥118.

Financial Position

The following table summarizes TDK's consolidated balance sheet at March 31, 2007, compared with March 31, 2006.

| As of March 31 | FY2007 | | FY2006 | (Millions of yen) |
|----------------------------|-----------------|--|---------|-------------------------------|
| | | | | Change |
| Total assets | ¥989,304 | | 923,503 | 65,801 |
| Total stockholders' equity | 762,712 | | 702,419 | 60,293 |
| Stockholders' equity ratio | 77.1% | | 76.1 | 1.0 percentage point increase |

At the end of the fiscal year, cash and cash equivalents were ¥50,152 million higher than a year ago, while short-term investments rose ¥11,071 million, net property, plant and equipment increased ¥3,038 million and other assets increased ¥10,262 million.

On the other hand, net trade receivables decreased ¥10,745 million. As a result of these and other changes, total assets increased ¥65,801 million compared with March 31, 2006.

Total liabilities increased ¥5,279 million year on year, with trade payables and accrued expenses declining ¥2,918 million and ¥1,417 million, respectively.

Meanwhile, income taxes payables increased ¥4,090 million and retirement and severance benefits rose ¥5,500 million.

Total stockholders' equity rose ¥60,293 million due to a ¥53,091 million increase in retained earnings and a ¥4,100 million decrease in accumulated other comprehensive loss.

Cash Flows

| Year ended March 31 | FY2007 | FY2006 | (Millions of yen) Change |
|---|-----------------|-----------|-----------------------------|
| Net cash provided by operating activities | ¥145,483 | 89,118 | 56,365 |
| Net cash used in investing activities | (81,488) | (104,782) | 23,294 |
| Net cash used in financing activities | (15,862) | (7,125) | (8,737) |
| Net cash used in discontinued operations | — | (414) | 414 |
| Effect of exchange rate changes on cash and cash equivalents | 2,019 | 10,712 | (8,693) |
| Net increase (decrease) in cash and cash equivalents | 50,152 | (12,491) | 62,643 |
| Cash and cash equivalents at beginning of period | 239,017 | 251,508 | (12,491) |
| Cash and cash equivalents at end of period | ¥289,169 | 239,017 | 50,152 |

Operating activities provided net cash of ¥145,483 million (U.S.\$1,232,907 thousand), a year-on-year increase of ¥56,365 million. Income from continuing operations rose ¥25,714 million to ¥70,125 million (U.S.\$594,280 thousand) and depreciation and amortization increased ¥6,797 million to ¥65,337 million (U.S.\$553,703 thousand). In changes in assets and liabilities, trade receivables decreased ¥28,127 million, other current assets decreased ¥14,950 million, and income taxes payables, net increased ¥14,693 million. On the other hand, trade payables decreased ¥12,373 million and accrued expenses decreased ¥19,415 million.

Investing activities used net cash of ¥81,488 million (U.S.\$690,576 thousand), ¥23,294 million less than a year earlier. Capital expenditures decreased ¥3,471 million to ¥70,440 million (U.S.\$596,949 thousand). In addition, there was a decline of ¥32,868 million for acquisition of businesses, net of cash acquired, paid in the previous fiscal year and a cash inflow of ¥20,046 million from proceeds from the sale of short-term investments. On the other hand, there was an outflow of ¥31,089 million for payment for purchase of short-term investments.

Financing activities used net cash of ¥15,862 million (U.S.\$134,424 thousand), ¥8,737 million more than a year earlier. This mainly reflected a ¥1,925 million increase in repayment of long-term debt, a decrease in short-term debt, net of ¥5,144 million, and a ¥2,652 million increase in dividends paid due to a ¥20 increase in dividend per common share.

Fundamental Policy for Distribution of Earnings, and Dividends

Returning earnings to shareholders is one of TDK's highest management priorities.

Therefore, TDK's fundamental policy is to give consideration to a consistent increase in dividends based on factors such as the return on equity (ROE), dividends as a percentage of equity (DOE) and TDK's results of operations on a consolidated basis.

Retained earnings are used to make aggressive investments for growth, mainly in the development of new products and technologies in key fields so as to respond precisely to the rapid technological advances in the electronics industry.

| | FY2007 | (Yen) FY2006 |
|-----------------------------|----------------|-----------------|
| Interim dividend | ¥ 50.00 | 40.00 |
| Year-end dividend | 60.00 | 50.00 |
| Annual dividend | 110.00 | 90.00 |

Note: Above amounts are announced dividends per share.

Consolidated Statements of Income

For the years ended March 31, 2007 and 2006

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---------|------------------------------|
| | 2007 | 2006 | 2007 |
| Net sales | ¥862,025 | 795,180 | \$7,305,297 |
| Cost of sales | 622,819 | 585,780 | 5,278,127 |
| Gross profit | 239,206 | 209,400 | 2,027,170 |
| Selling, general and administrative expenses | 159,106 | 142,052 | 1,348,356 |
| Restructuring cost | 510 | 6,825 | 4,322 |
| Operating income | 79,590 | 60,523 | 674,492 |
| Other income (deductions): | | | |
| Interest and dividend income | 7,025 | 3,605 | 59,534 |
| Interest expense | (200) | (149) | (1,695) |
| Equity in earnings of affiliates | 1,489 | 1,368 | 12,619 |
| Gain (loss) on securities, net | (212) | (286) | (1,797) |
| Foreign exchange gain (loss) | 973 | 948 | 8,245 |
| Other-net | 0 | 94 | 0 |
| | 9,075 | 5,580 | 76,906 |
| Income from continuing operations before income taxes | 88,665 | 66,103 | 751,398 |
| Income taxes | 16,985 | 21,057 | 143,940 |
| Income from continuing operations before minority interests | 71,680 | 45,046 | 607,458 |
| Minority interests, net of tax | 1,555 | 635 | 13,178 |
| Income from continuing operations | 70,125 | 44,411 | 594,280 |
| Discontinued operations: | | | |
| Loss from operations of discontinued business (including loss on disposal of ¥224 million in 2006) | — | 310 | — |
| Income tax expense | — | — | — |
| Loss from discontinued operations | — | 310 | — |
| Net income | ¥ 70,125 | 44,101 | \$ 594,280 |
| | | | |
| | Yen (except number of common shares outstanding) | | U.S. dollars |
| Amounts per share: | | | |
| Income from continuing operations per share: | | | |
| Basic | ¥ 529.88 | 335.84 | \$4.49 |
| Diluted | 529.29 | 335.54 | 4.49 |
| Loss from discontinued operations per share: | | | |
| Basic | — | (2.34) | — |
| Diluted | — | (2.34) | — |
| Net income per share: | | | |
| Basic | ¥ 529.88 | 333.50 | \$4.49 |
| Diluted | 529.29 | 333.20 | 4.49 |
| Weighted average basic common shares outstanding (in thousands) | 132,342 | 132,239 | |
| Weighted average diluted common shares outstanding (in thousands) | 132,488 | 132,355 | |
| Cash dividends paid during the year | ¥ 100.00 | 80.00 | \$0.85 |

Note: Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of US\$1=¥118.

Consolidated Balance Sheets

As of March 31, 2007 and 2006

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|---------|------------------------------|
| | 2007 | 2006 | 2007 |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | ¥289,169 | 239,017 | \$2,450,585 |
| Short-term investments | 11,071 | — | 93,822 |
| Marketable securities | 1,063 | 56 | 9,008 |
| Net trade receivables | 178,314 | 189,059 | 1,511,136 |
| Inventories | 89,789 | 88,968 | 760,924 |
| Income tax receivables | 276 | 265 | 2,339 |
| Assets held for sale | 2,125 | 4,110 | 18,008 |
| Prepaid expenses and other current assets | 43,563 | 45,278 | 369,178 |
| Total current assets | 615,370 | 566,753 | 5,215,000 |
| Investments in securities | 32,641 | 28,757 | 276,619 |
| Net property, plant and equipment | 246,703 | 243,665 | 2,090,703 |
| Goodwill | 17,539 | 19,453 | 148,636 |
| Intangible assets | 31,005 | 29,478 | 262,754 |
| Deferred income taxes | 9,666 | 7,287 | 81,915 |
| Other assets | 36,380 | 28,110 | 308,305 |
| Total assets | ¥989,304 | 923,503 | \$8,383,932 |

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|----------|------------------------------|
| | 2007 | 2006 | 2007 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Short-term debt | ¥ 3,013 | 4,469 | \$ 25,534 |
| Current installments of long-term debt | 514 | 1,958 | 4,356 |
| Trade payables | 81,771 | 84,689 | 692,975 |
| Accrued expenses | 61,117 | 62,534 | 517,941 |
| Income taxes payables | 13,245 | 9,155 | 112,246 |
| Other current liabilities | 5,880 | 6,817 | 49,830 |
| Total current liabilities | 165,540 | 169,622 | 1,402,882 |
| Long-term debt, excluding current installments | 532 | 405 | 4,508 |
| Retirement and severance benefits | 32,290 | 26,790 | 273,644 |
| Deferred income taxes | 7,526 | 5,314 | 63,780 |
| Other noncurrent liabilities | 6,501 | 4,979 | 55,093 |
| Total liabilities | 212,389 | 207,110 | 1,799,907 |
| Minority interests | 14,203 | 13,974 | 120,364 |
| Stockholders' equity: | | | |
| Common stock | | | |
| Authorized 480,000,000 shares; issued 133,189,659 shares in 2007 and 2006; outstanding 132,434,205 shares in 2007 and 132,266,828 shares in 2006 | 32,641 | 32,641 | 276,619 |
| Additional paid-in capital | 63,695 | 63,237 | 539,788 |
| Legal reserve | 18,844 | 17,517 | 159,695 |
| Retained earnings | 671,350 | 618,259 | 5,689,406 |
| Accumulated other comprehensive income (loss) | (17,846) | (21,946) | (151,237) |
| Treasury stock at cost; 755,454 shares in 2007 and 922,831 shares in 2006 | (5,972) | (7,289) | (50,610) |
| Total stockholders' equity | 762,712 | 702,419 | 6,463,661 |
| Total liabilities and stockholders' equity | ¥989,304 | 923,503 | \$8,383,932 |

Note: Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of US\$1=¥118.

Consolidated Statements of Stockholders' Equity

For the years ended March 31, 2007 and 2006

| | Millions of yen | | | | | | |
|--|---------------------------|----------------------------|---------------|-------------------|---|----------------|----------------------------|
| | Common stock | Additional paid-in capital | Legal reserve | Retained earnings | Accumulated other comprehensive income (loss) | Treasury stock | Total stockholders' equity |
| 2006 | | | | | | | |
| Balance at March 31, 2005 | ¥32,641 | ¥63,051 | ¥16,918 | ¥585,557 | ¥(51,657) | ¥(7,443) | ¥639,067 |
| Non-cash compensation charges under stock option plans | | 186 | | | | | 186 |
| Cash dividends | | | | (10,578) | | | (10,578) |
| Transferred to legal reserve | | | 599 | (599) | | | — |
| Comprehensive income: | | | | | | | |
| Net income | | | | 44,101 | | | 44,101 |
| Foreign currency translation adjustments | | | | | 26,100 | | 26,100 |
| Minimum pension liability adjustments | | | | | 2,719 | | 2,719 |
| Net unrealized gains (losses) on securities | | | | | 892 | | 892 |
| Total comprehensive income | | | | | | | 73,812 |
| Acquisition of treasury stock | | | | | | (955) | (955) |
| Exercise of stock option | | | | (222) | | 1,109 | 887 |
| Balance at March 31, 2006 | ¥32,641 | ¥63,237 | ¥17,517 | ¥618,259 | ¥(21,946) | ¥(7,289) | ¥702,419 |
| | | | | | | | |
| | Millions of yen | | | | | | |
| | Common stock | Additional paid-in capital | Legal reserve | Retained earnings | Accumulated other comprehensive income (loss) | Treasury stock | Total stockholders' equity |
| 2007 | | | | | | | |
| Balance at March 31, 2006 (as previously reported) | ¥32,641 | ¥63,237 | ¥17,517 | ¥618,259 | ¥(21,946) | ¥(7,289) | ¥702,419 |
| Adjustment for the cumulative effect on prior years of the adoption of SAB No. 108 | — | — | — | (2,287) | — | — | (2,287) |
| Balance at March 31, 2006 (after adjustment) | 32,641 | 63,237 | 17,517 | 615,972 | (21,946) | (7,289) | 700,132 |
| Non-cash compensation charges under stock option plans | | 458 | | | | | 458 |
| Cash dividends | | | | (13,230) | | | (13,230) |
| Transferred to legal reserve | | | 1,327 | (1,327) | | | — |
| Comprehensive income: | | | | | | | |
| Net income | | | | 70,125 | | | 70,125 |
| Foreign currency translation adjustments | | | | | 4,383 | | 4,383 |
| Minimum pension liability adjustments | | | | | 2,290 | | 2,290 |
| Net unrealized gains (losses) on securities | | | | | 76 | | 76 |
| Total comprehensive income | | | | | | | 76,874 |
| Adjustment to initially apply SFAS 158, net of tax | | | | | (2,649) | | (2,649) |
| Acquisition of treasury stock | | | | | | (32) | (32) |
| Exercise of stock option | | | | (190) | | 1,349 | 1,159 |
| Balance at March 31, 2007 | ¥32,641 | ¥63,695 | ¥18,844 | ¥671,350 | ¥(17,846) | ¥(5,972) | ¥762,712 |
| | | | | | | | |
| | Thousands of U.S. dollars | | | | | | |
| | Common stock | Additional paid-in capital | Legal reserve | Retained earnings | Accumulated other comprehensive income (loss) | Treasury stock | Total stockholders' equity |
| 2007 | | | | | | | |
| Balance at March 31, 2006 (as previously reported) | \$276,619 | \$535,907 | \$148,449 | \$5,239,483 | \$(185,983) | \$(61,771) | \$5,952,704 |
| Adjustment for the cumulative effect on prior years of the adoption of SAB No. 108 | — | — | — | (19,382) | — | — | (19,382) |
| Balance at March 31, 2006 (after adjustment) | 276,619 | 535,907 | 148,449 | 5,220,101 | (185,983) | (61,771) | 5,933,322 |
| Non-cash compensation charges under stock option plans | | 3,881 | | | | | 3,881 |
| Cash dividends | | | | (112,119) | | | (112,119) |
| Transferred to legal reserve | | | 11,246 | (11,246) | | | — |
| Comprehensive income: | | | | | | | |
| Net income | | | | 594,280 | | | 594,280 |
| Foreign currency translation adjustments | | | | | 37,144 | | 37,144 |
| Minimum pension liability adjustments | | | | | 19,407 | | 19,407 |
| Net unrealized gains (losses) on securities | | | | | 644 | | 644 |
| Total comprehensive income | | | | | | | 651,475 |
| Adjustment to initially apply SFAS 158, net of tax | | | | | (22,449) | | (22,449) |
| Acquisition of treasury stock | | | | | | (271) | (271) |
| Exercise of stock option | | | | (1,610) | | 11,432 | 9,822 |
| Balance at March 31, 2007 | \$276,619 | \$539,788 | \$159,695 | \$5,689,406 | \$(151,237) | \$(50,610) | \$6,463,661 |

Note: Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of US\$1=¥118.

Consolidated Statements of Cash Flows

For the years ended March 31, 2007 and 2006

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|-----------|------------------------------|
| | 2007 | 2006 | 2007 |
| Cash flows from operating activities: | | | |
| Net income | ¥ 70,125 | 44,101 | \$ 594,280 |
| Loss from discontinued operations, net of tax | — | 310 | — |
| Income from continuing operations | 70,125 | 44,411 | 594,280 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 65,337 | 58,540 | 553,703 |
| Loss on disposal of property and equipment | 2,649 | 3,220 | 22,449 |
| Deferred income taxes | (1,878) | (696) | (15,915) |
| Loss (gain) on securities, net | 212 | 286 | 1,797 |
| Changes in assets and liabilities, net of effects of acquisition of businesses: | | | |
| Decrease (increase) in trade receivables | 11,241 | (16,886) | 95,263 |
| Decrease (increase) in inventories | 892 | (287) | 7,559 |
| Decrease (increase) in other current assets | 6,202 | (8,748) | 52,559 |
| Increase (decrease) in trade payables | (5,272) | 7,101 | (44,678) |
| Increase (decrease) in accrued expenses | (7,068) | 12,347 | (59,898) |
| Increase (decrease) in income taxes payables, net | 4,004 | (10,689) | 33,932 |
| Increase (decrease) in retirement and severance benefits, net | (74) | 981 | (627) |
| Other—net | (887) | (462) | (7,517) |
| Net cash provided by operating activities | 145,483 | 89,118 | 1,232,907 |
| Cash flows from investing activities: | | | |
| Capital expenditures | (70,440) | (73,911) | (596,949) |
| Proceeds from sale of short-term investments | 20,046 | — | 169,881 |
| Payment for purchase of short-term investments | (31,089) | — | (263,466) |
| Proceeds from sale and maturity of investments in securities | 23 | 4,263 | 195 |
| Payment for purchase of investments in securities | (3,638) | (4,227) | (30,831) |
| Acquisition of businesses, net of cash acquired | — | (32,868) | — |
| Proceeds from sales of property, plant and equipment | 3,678 | 3,373 | 31,170 |
| Acquisition of minority interests | (6) | (2,587) | (51) |
| Proceeds from sales of discontinued operations | — | 1,538 | — |
| Other—net | (62) | (363) | (525) |
| Net cash used in investing activities | (81,488) | (104,782) | (690,576) |
| Cash flows from financing activities: | | | |
| Proceeds from long-term debt | — | 269 | — |
| Repayment of long-term debt | (2,143) | (218) | (18,161) |
| Increase (decrease) in short-term debt, net | (1,456) | 3,688 | (12,339) |
| Proceeds from exercise of stock options | 1,159 | 887 | 9,822 |
| Cash paid to acquire treasury stock | (32) | (955) | (271) |
| Dividends paid | (13,230) | (10,578) | (112,119) |
| Other—net | (160) | (218) | (1,356) |
| Net cash used in financing activities | (15,862) | (7,125) | (134,424) |
| Cash flows of discontinued operations | | | |
| Operating cash flows: | — | (407) | — |
| Investing cash flows: | — | (4) | — |
| Financing cash flows: | — | — | — |
| Effect of exchange rate changes on cash and cash equivalents from discontinued operations | — | (3) | — |
| Net cash used in discontinued operations | — | (414) | — |
| Effect of exchange rate changes on cash and cash equivalents | 2,019 | 10,712 | 17,110 |
| Net increase (decrease) in cash and cash equivalents | 50,152 | (12,491) | 425,017 |
| Cash and cash equivalents at beginning of period | 239,017 | 251,508 | 2,025,568 |
| Cash and cash equivalents at end of period | ¥289,169 | 239,017 | \$2,450,585 |

Note: Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of US\$1=¥118.

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” and SFAS No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans” are adopted.

2. As of March 31, 2007, TDK had 88 subsidiaries (19 in Japan and 69 overseas). TDK also had 6 affiliates (4 in Japan and 2 overseas) whose financial statements are accounted for by the equity method.

The following industry and geographic segment information are required by the Japanese Securities Exchange Law.

Industry segment information

| Years ended March 31 | Millions of yen | | | | Thousands of U.S. dollars | Change (%) |
|--|-----------------|----------|----------|----------|------------------------------|------------|
| | 2007 | | 2006 | | 2007 | |
| ELECTRONIC MATERIALS AND COMPONENTS | | | | | | |
| Net sales | | | | | | |
| External sales | ¥758,821 | | 687,750 | | \$6,430,687 | 10.3 |
| Intersegment | — | | — | | — | — |
| Total revenue | 758,821 | (100.0%) | 687,750 | (100.0%) | 6,430,687 | 10.3 |
| Operating expenses | 677,046 | (89.2%) | 613,417 | (89.2%) | 5,737,678 | 10.4 |
| Operating income | ¥ 81,775 | (10.8%) | 74,333 | (10.8%) | \$ 693,009 | 10.0 |
| RECORDING MEDIA | | | | | | |
| Net sales | | | | | | |
| External sales | ¥103,204 | | 107,430 | | \$ 874,610 | −3.9 |
| Intersegment | — | | — | | — | — |
| Total revenue | 103,204 | (100.0%) | 107,430 | (100.0%) | 874,610 | −3.9 |
| Operating expenses | 105,389 | (102.1%) | 121,240 | (112.9%) | 893,127 | −13.1 |
| Operating income (loss) | ¥ (2,185) | (−2.1%) | (13,810) | (−12.9%) | \$ (18,517) | 84.2 |
| TOTAL | | | | | | |
| Net sales | | | | | | |
| External sales | ¥862,025 | | 795,180 | | \$7,305,297 | 8.4 |
| Intersegment | — | | — | | — | — |
| Total revenue | 862,025 | (100.0%) | 795,180 | (100.0%) | 7,305,297 | 8.4 |
| Operating expenses | 782,435 | (90.8%) | 734,657 | (92.4%) | 6,630,805 | 6.5 |
| Operating income | ¥ 79,590 | (9.2%) | 60,523 | (7.6%) | \$ 674,492 | 31.5 |

Note: Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of US\$1=¥118.

Geographic segment information

| | Millions of yen | | Thousands of U.S. dollars | |
|---------------------------|------------------|-----------------|------------------------------|------------|
| Years ended March 31 | 2007 | 2006 | 2007 | Change (%) |
| JAPAN | | | | |
| Net sales | ¥397,147 | 360,210 | \$3,365,653 | 10.3 |
| Operating income | 31,277 | 49,437 | 265,059 | −36.7 |
| AMERICAS | | | | |
| Net sales | 111,689 | 105,979 | 946,517 | 5.4 |
| Operating income | 7,869 | 9,995 | 66,687 | −21.3 |
| EUROPE | | | | |
| Net sales | 84,329 | 76,240 | 714,653 | 10.6 |
| Operating income (loss) | (3) | (9,996) | (25) | 100.0 |
| ASIA AND OTHERS | | | | |
| Net sales | 572,979 | 531,824 | 4,855,754 | 7.7 |
| Operating income | 41,515 | 12,607 | 351,822 | 229.3 |
| INTERSEGMENT ELIMINATIONS | | | | |
| Net sales | 304,119 | 279,073 | 2,577,280 | |
| Operating income | 1,068 | 1,520 | 9,051 | |
| TOTAL | | | | |
| Net sales | ¥862,025 | 795,180 | \$7,305,297 | 8.4 |
| Operating income | 79,590 | 60,523 | 674,492 | 31.5 |
| OVERSEAS SALES | | | | |
| Americas | ¥103,124 (11.9%) | 90,192 (11.4%) | \$ 873,932 | 14.3 |
| Europe | 83,545 (9.7%) | 75,895 (9.5%) | 708,009 | 10.1 |
| Asia and others | 504,004 (58.5%) | 455,435 (57.3%) | 4,271,220 | 10.7 |
| Overseas sales total | ¥690,673 (80.1%) | 621,522 (78.2%) | \$5,853,161 | 11.1 |

Note: Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of US\$1=¥118.

Fair Value of Securities

As of March 31, 2007 and 2006

| | 2007 | | | | 2006 | | | |
|---------------------------|------------------|--------------------------------|---------------------------------|----------------|--------|--------------------------------|---------------------------------|------------|
| | Cost | Gross Unrealized Holding Gains | Gross Unrealized Holding Losses | Fair Value | Cost | Gross Unrealized Holding Gains | Gross Unrealized Holding Losses | Fair Value |
| Millions of yen | | | | | | | | |
| Equity securities . . | ¥11,919 | 3,566 | 488 | 14,997 | 9,246 | 2,859 | 2 | 12,103 |
| Debt securities . . . | 1,983 | – | 5 | 1,978 | 1,002 | – | 7 | 995 |
| | ¥13,902 | 3,566 | 493 | 16,975 | 10,248 | 2,859 | 9 | 13,098 |
| Thousands of U.S. dollars | | | | | | | | |
| Equity securities . . | \$101,008 | 30,220 | 4,136 | 127,092 | | | | |
| Debt securities . . . | 16,805 | – | 42 | 16,763 | | | | |
| | \$117,813 | 30,220 | 4,178 | 143,855 | | | | |

Note: Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of US\$1=¥118.

Fair Value of Derivatives

As of March 31, 2007 and 2006

| | 2007 | | | 2006 | | |
|--|-----------------|-----------------|----------------------|-----------------|-----------------|----------------------|
| | Contract Amount | Carrying Amount | Estimated Fair Value | Contract Amount | Carrying Amount | Estimated Fair Value |
| Millions of yen | | | | | | |
| Forward foreign exchange contracts | ¥8,434 | 72 | 72 | 6,852 | 8 | 8 |
| Currency option contracts | 5,400 | 82 | 82 | 10,874 | (8) | (8) |
| Thousands of U.S. dollars | | | | | | |
| Forward foreign exchange contracts | \$71,475 | 610 | 610 | | | |
| Currency option contracts | 45,763 | 695 | 695 | | | |

Note: Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of US\$1=¥118.

Cautionary Statement to Financial Section

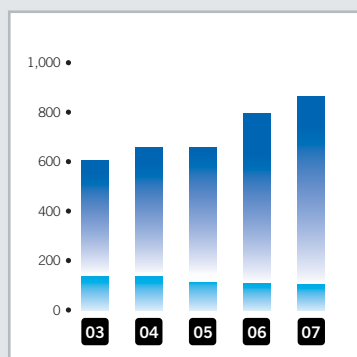
The financial section of this annual review was prepared in its entirety based on financial data announced on May 15, 2007 and is provided for the convenience of investors.

Regarding its Form 20-F annual report to the United States Securities and Exchange Commission (SEC), TDK plans to make this report available on its website at (http://www.tdk.co.jp/ir_e/library/lib50000.htm) as soon as it is electronically filed.

Financial Data

Net sales

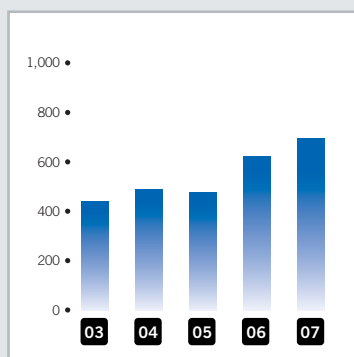
(Yen in billions)



■ Electronic materials and components
■ Recording media

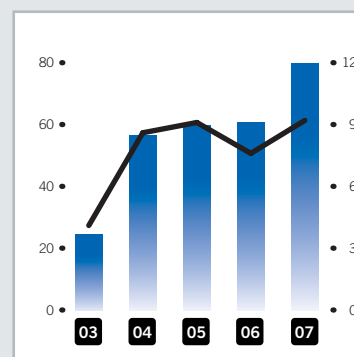
Overseas sales

(Yen in billions)



Operating income and ratio to net sales

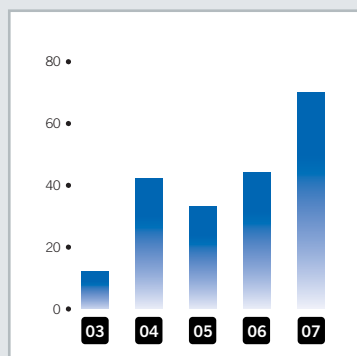
(Yen in billions, %)



■ Operating income
— Ratio to net sales

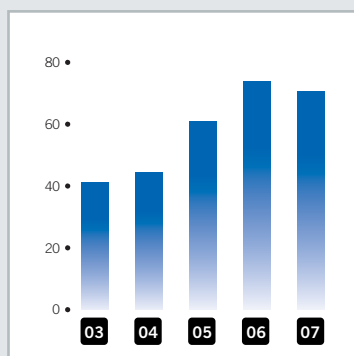
Net income

(Yen in billions)



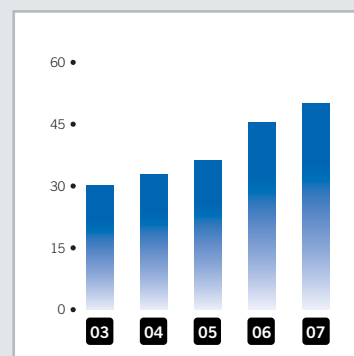
Capital expenditures

(Yen in billions)



Research and development

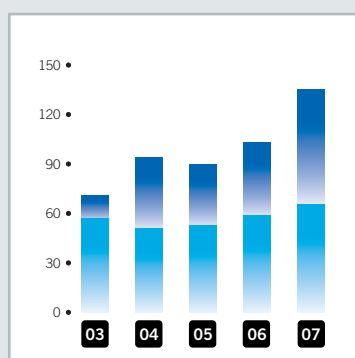
(Yen in billions)



| Years ended March 31 or as of March 31 | Millions of yen | | | | |
|---|-----------------|---------|---------|---------|---------|
| | 2007 | 2006 | 2005 | 2004 | 2003 |
| Net sales | ¥862,025 | 795,180 | 657,853 | 655,792 | 604,865 |
| Electronic materials and components | ¥758,821 | 687,750 | 545,214 | 519,792 | 468,514 |
| Recording media | ¥103,204 | 107,430 | 112,639 | 136,000 | 136,351 |
| Overseas sales | ¥690,673 | 621,522 | 473,828 | 487,169 | 439,381 |
| Operating income and ratio to net sales | | | | | |
| Operating income | ¥ 79,590 | 60,523 | 59,830 | 56,510 | 24,547 |
| Ratio to net sales (%) | 9.2% | 7.6 | 9.1 | 8.6 | 4.1 |
| Net income | ¥ 70,125 | 44,101 | 33,300 | 42,101 | 12,019 |
| Capital expenditures | ¥ 70,440 | 73,911 | 61,005 | 44,471 | 41,026 |
| Research and development | ¥ 50,058 | 45,528 | 36,348 | 32,948 | 30,099 |

Net cash flows

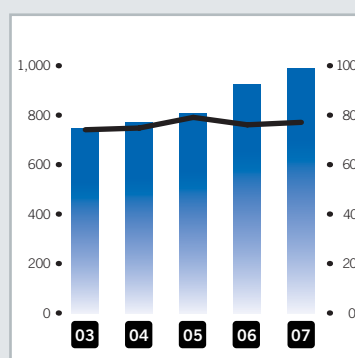
(Yen in billions)



■ Net income
■ Depreciation and amortization

Total assets and stockholders' equity ratio

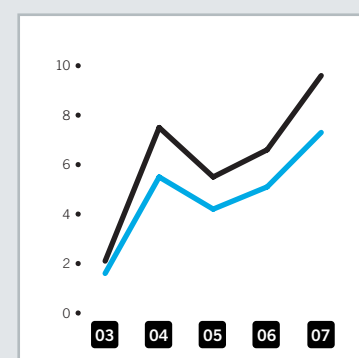
(Yen in billions, %)



■ Total assets
— Stockholders' equity ratio

Return on total assets and return on equity

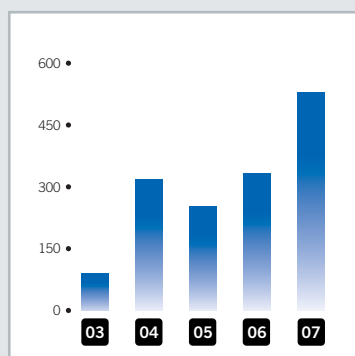
(%)



— Return on total assets
— Return on equity

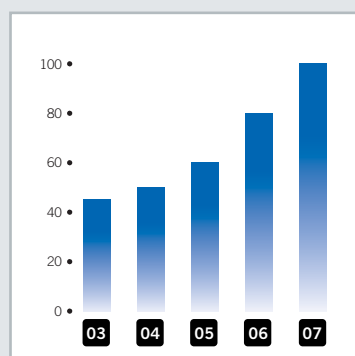
Basic net income per share

(Yen)

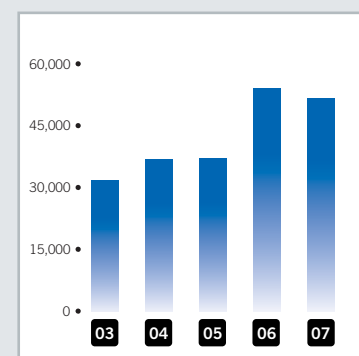


Dividend per share

(Yen)



Number of employees



| | Millions of yen | | | | |
|---|-----------------|---------|---------|---------|---------|
| | 2007 | 2006 | 2005 | 2004 | 2003 |
| Net cash flows | | | | | |
| Net income | ¥ 70,125 | 44,101 | 33,300 | 42,101 | 12,019 |
| Depreciation and amortization | 65,337 | 58,540 | 52,806 | 50,726 | 57,132 |
| Total assets and stockholders' equity ratio | | | | | |
| Total assets | ¥989,304 | 923,503 | 808,001 | 770,319 | 747,337 |
| Stockholders' equity ratio (%) | 77.1% | 76.1 | 79.1 | 74.8 | 74.1 |
| Return on total assets and return on equity | | | | | |
| Return on total assets (%) | 7.3% | 5.1 | 4.2 | 5.5 | 1.6 |
| Return on equity (%) | 9.6% | 6.6 | 5.5 | 7.5 | 2.1 |
| Net income per share | | | | | |
| Basic (Yen) | ¥ 529.88 | 333.50 | 251.71 | 317.80 | 90.56 |
| Diluted (Yen) | 529.29 | 333.20 | 251.56 | 317.69 | 90.56 |
| Dividend per share (Yen) | ¥ 100.00 | 80.00 | 60.00 | 50.00 | 45.00 |
| Number of employees | 51,614 | 53,923 | 37,115 | 36,804 | 31,705 |

Investor Information (As of March 31, 2007)



CORPORATE HEADQUARTERS

TDK CORPORATION

1-13-1, Nihonbashi, Chuo-ku,
Tokyo 103-8272 Japan

DATE OF ESTABLISHMENT

December 7, 1935

PAID-IN CAPITAL

¥32,641,976,312

AUTHORIZED NUMBER OF SHARES

480,000,000 shares

ISSUED NUMBER OF SHARES

133,189,659 shares

NUMBER OF SHAREHOLDERS

18,145

SECURITIES TRADED

Japan: Tokyo
Overseas: New York, London

ADMINISTRATOR OF SHAREHOLDER'S REGISTER

The Chuo Mitsui Trust & Banking Co., Ltd.
3-33-1, Shiba, Minato-ku, Tokyo 105-8574 Japan

DEPOSITARY FOR AMERICAN DEPOSITARY RECEIPTS (ADRs)

Citibank, N.A.
111 Wall Street, 20th Floor, Zone 7
New York, NY 10005 U.S.A.

INDEPENDENT AUDITORS

KPMG AZSA & Co.

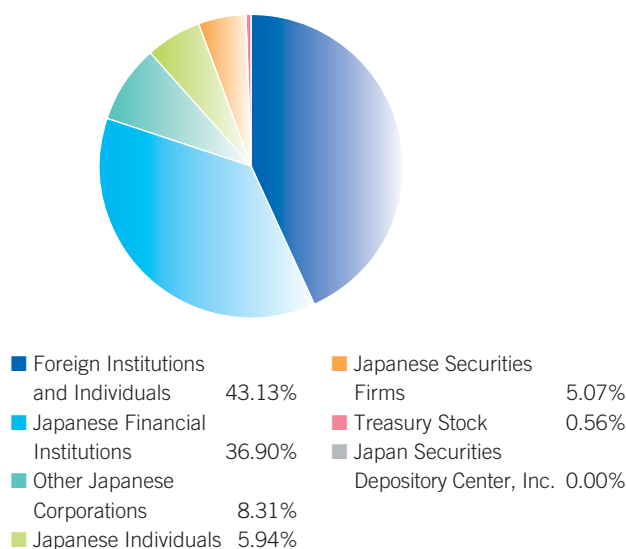
PRINCIPAL SHAREHOLDERS (TEN LARGEST SHAREHOLDERS)

| Name of shareholder | Investment in the Company | |
|--|--|-------------------------------|
| | Number of shares held (thousands of shares) | Percentage of shares held (%) |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 14,313 | 10.80 |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 11,459 | 8.65 |
| Matsushita Electric Industrial Co., Ltd. | 6,249 | 4.71 |
| The Chase Manhattan Bank, NA London | 4,497 | 3.39 |
| Calyon DMA OTC | 2,589 | 1.95 |
| The Sansiao Trading Company, Ltd. | 2,587 | 1.95 |
| Japan Trustee Services Bank, Ltd. (Trust Account 4) | 2,570 | 1.94 |
| Deutsche Securities Inc. | 2,393 | 1.80 |
| BNP Paribas Securities (Japan) Ltd. | 2,377 | 1.79 |
| Nippon Life Insurance Company | 2,139 | 1.61 |
| Total | 51,177 | 38.64 |

(Notes) 1. The percentage of shares held is calculated deducting 755,454 shares of treasury stock.

2. The number of shares held and percentage of shares held stated above, any number of shares less than the stated unit has been disregarded.

STATUS BY OWNERSHIP



FURTHER INFORMATION

For further information and additional copies of this booklet and other publications, please contact:

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■ TDK U.S.A. Corporation

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Tel: +1 (516) 535-2600

■ TDK Electronics Europe GmbH

Wanheimer Strasse 57, D-40472 Duesseldorf, Germany
Tel: +49(211)90770

■ E-mail

tdkhqir@mb1.tdk.co.jp

INTERNET ADDRESS

http://www.tdk.co.jp/ir_e/

TDK provides various investor information, including its latest earnings results, in the IR Information section of its website.

For inquiries concerning ADRs, please contact:

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Tel: 1-816-843-4281 (out of U.S.)
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Internet: www.citigroup.com/adr
E-mail: citibank@shareholders-online.com



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