

I-1) Business Results

(1) 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.

(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.

(1) Electronic materials and components segment

This segment is made up of four product sectors: (1-1) electronic materials, (1-2) electronic devices, (1-3) recording devices, and (1-4) other electronic components.

Segment net sales rose 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.

(1-1) Electronic materials

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

Sales in the electronic materials sector rose 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.

(1-2) 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 Lambda Power Division in this sector from the second half of the previous fiscal year. In other words, this was the first full year the Lambda Power Division's 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.

(1-3) 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.

(1-4) 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.

(2) 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, the LTO Logo, Ultrium and the Ultrium Logo are trademarks of HP, IBM and Quantum in the US and other countries.

(Sales by Region)

Detailed geographic segment information can be found in the segment information on page 18 of the consolidated results.

[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.

On a parent-company basis, net sales increased 3.7% from ¥334,817 million to ¥347,280 million (U.S.\$2,943,050 thousand). Operating income climbed 39.7% from ¥12,635 million to ¥17,647 million (U.S.\$149,550 thousand). Current income decreased 1.8% from ¥32,350 million to ¥31,774 million (U.S.\$269,271 thousand). Net income decreased 39.3% from ¥30,825 million to ¥18,719 million (U.S.\$158,635 thousand). Basic net income per common share was ¥141.45 (U.S.\$1.20), compared with ¥232.30 a year earlier.

TDK plans to pay a year-end dividend of ¥60 per common share. Combined with the interim dividend of ¥50 per common share paid in December 2006, the planned dividend per common share applicable to the year will be ¥110.

Fiscal 2008 Consolidated Projections

TDK's projections for consolidated operating results, capital expenditures, depreciation and amortization, and research and development expenses for fiscal 2008, the year ending March 31, 2008, are as follows:

[Consolidated Projections for Fiscal 2008]

Term Item	FY2008 (Forecasts) (¥ millions)	FY2007 (Actual) (¥ millions)	Change from FY2007 (¥ millions)	% change from FY2007
Net sales	865,000	862,025	2,975	0.3%
Operating income	90,000	79,590	10,410	13.1%
Income before income taxes	96,000	88,665	7,335	8.3%
Net income	72,000	70,125	1,875	2.7%

[Projections for Capital Expenditures, Depreciation and Amortization, and Research and Development Expenses]

Term Item	FY2008 (Forecasts)		FY2007 (Actual)	
	Amount	% of sales	Amount	% of sales
Capital expenditures	75,000	-	70,440	-
Depreciation and amortization	70,000	8.1	65,337	7.6
Research and development expenses	53,000	6.1	50,058	5.8

(Notes)

(Projections for main products are as follows:)

Electronic Materials and Electronic Devices

Sales are expected to rise year on year, supported by higher demand for main digital home appliances, which create demand for these products. In particular, TDK anticipates rising demand for flat-screen TVs, mobile phones, digital cameras and PCs to stimulate demand for these materials and devices.

Recording Devices

HDD heads, the major product in the recording devices sector, are forecast to see continued growth in overall demand (volume). However, there is also expected to be increased pricing pressure on HDD heads due to intense price-based competition in the HDD sector.

Recording Media

Demand for existing analog audiotapes and videotapes is expected to continue falling, while demand for optical discs and LTO-standard tape-based data storage media is projected to increase. Furthermore, TDK's projections are premised on the transfer of the recording media sales business for TDK brand products to U.S. company Imation Corporation, as announced on April 19 this year, taking place in the second half of the second quarter of fiscal 2008.

(Exchange Rate Forecast)

An average yen-U.S. dollar exchange rate of ¥110 is assumed for the full year.

Cautionary Statements with Respect to Forward-Looking Statements

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

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

(2) Financial Position

(2-1) The following table summarizes TDK's consolidated balance sheet at March 31, 2007, compared with March 31, 2006.

Total assets	¥ 989,304 million	(7.1% increase)
Total stockholders' equity	¥ 762,712 million	(8.6% increase)
Stockholders' equity ratio	77.1%	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 decreased ¥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.

(2-2) Cash Flows

	(¥ millions)		
	Fiscal 2006	Fiscal 2007	Change
Net cash provided by operating activities	89,118	145,483	56,365
Net cash used in investing activities	(104,782)	(81,488)	23,294
Net cash used in financing activities	(7,125)	(15,862)	(8,737)
Net cash used in discontinued operations	(414)	-	414
Effect of exchange rate changes on cash and cash equivalents	10,712	2,019	(8,693)
Net increase (decrease) in cash and cash equivalents	(12,491)	50,152	62,643
Cash and cash equivalents at beginning of period	251,508	239,017	(12,491)
Cash and cash equivalents at end of period	239,017	289,169	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.

(2-3) Trends in Cash Flow Indicators

	FY2003	FY2004	FY2005	FY2006	FY2007
1) Stockholders' equity ratio (%)	74.1	74.8	79.1	76.1	77.1
2) Capital adequacy ratio on a market value basis	80.4	136.7	120.1	127.0	136.8
3) No. of years to redeem debt	0.02	0.00	0.00	0.08	0.03
4) Interest coverage ratio (times)	180.9	352.4	97.0	598.1	727.4

[Notes]

- 1) Stockholders' equity ratio = Total stockholders' equity/Total assets
- 2) Capital adequacy ratio on a market value basis = Market capitalization (*1)/Total assets
(*1) Market capitalization = Closing price of TDK's common shares on the Tokyo Stock Exchange at fiscal year-end x Shares issued and outstanding at fiscal year-end after deducting treasury stock
- 3) No. of years to redeem debt = Interest-bearing liabilities (*2)/Cash flows from operating activities (*3)
(*2) Interest-bearing liabilities: The balance of "short-term debt" and "long-term debt" included in "long-term debt, excluding current installments" on the consolidated balance sheets.
(*3) Cash flows from operating activities: "Net cash provided by operating activities" on the consolidated statements of cash flows.
- 4) Interest coverage ratio = Cash flows from operating activities/Interest payments (*4)
(*4) Interest payments: "Interest expense" on the consolidated statements of income

(3) Fundamental Policy for Distribution of Earnings, and Fiscal 2007 and Fiscal 2008 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.

(Yen)	FY2008 Forecast	FY2007 Actual
Interim dividend	60.00	50.00
Year-end dividend	60.00	60.00
Annual dividend	120.00	110.00