

## I-3) Business Results and Financial Position

### 1. Summary

Consolidated results for the first half of fiscal 2007, the six-month period from April 1, 2006 through September 30, 2006, are as follows:

TDK posted net sales of ¥424,838 million (U.S.\$3,600,322 thousand), a rise of 21.2% over the ¥350,387 million recorded in the first half of the previous fiscal year. Operating income was ¥38,264 million (U.S.\$324,271 thousand), up 36.4% from ¥28,050 million. Income from continuing operations before income taxes was ¥41,329 million (U.S.\$350,246 thousand), up 30.8% from ¥31,598 million. Net income was ¥29,622 million (U.S.\$251,034 thousand), up 36.7% from ¥21,666 million, meaning basic net income per common share was ¥223.89 (U.S.\$1.90), compared with ¥163.84 in the first half of the previous fiscal year.

Average first-half yen exchange rates for the U.S. dollar and euro were ¥115.38 and ¥146.01, respectively, as the yen depreciated 5.4% versus the U.S. dollar and 7.7% against the euro. This had the effect of increasing net sales by approximately ¥17.7 billion and increasing operating income by approximately ¥4.1 billion.

### (Sales by Segment)

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

#### (1)Electronic materials and components segment

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

Segment net sales climbed 25.3% to ¥376,707 million (U.S.\$3,192,432 thousand), from ¥300,720 million, while segment operating income rose 25.7% to ¥40,567 million (U.S.\$343,788 thousand), from ¥32,269 million. In the electronics market in the first half of fiscal 2007, there was strong production of plasma and LCD flat-screen TVs, notebook PCs and mobile phones and steadily increasing use of electronics in automobiles. These trends fueled strong demand for electronic components used in these applications. Sector sales of TDK's electronic materials and components framed against this market backdrop were as follows.

#### (1-1)Electronic materials

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

Sales in the electronic materials sector rose 14.7% from ¥86,089 million to ¥98,713 million (U.S.\$836,551 thousand).

**[Capacitors]** Sales increased year on year. Sales of multilayer ceramic chip capacitors, the main product in the capacitors category, were strong for use in PCs and mobile phones. A weaker yen also supported sales.

**[Ferrite cores and magnets]** Sales of ferrite cores and magnets rose year on year. Sales of ferrite cores climbed along with rising sales of power supply cores used in flat-screen TVs and PCs. Magnet sales also rose, boosted by higher sales of rare-earth magnets as HDD production increased; however, there was only a slight increase in ferrite magnet sales.

### **(1-2) Electronic devices**

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

Sales in the electronic devices sector leapt 58.5% from ¥60,952 million to ¥96,582 million (U.S.\$818,491 thousand).

**[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. Continued declines in sales prices negated higher sales of wireless LAN components and components for third-generation mobile phones.

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

### **(1-3) Recording devices**

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

Sector sales rose 9.8% from ¥140,288 million to ¥154,055 million (U.S.\$1,305,551 thousand).

**[HDD heads]** Sales increased year on year as HDD head shipments rose amid growing demand not only for HDDs used in PCs but also for non-PC applications such as consumer electronics. This higher volume outweighed a drop in sales prices, resulting in an increase in overall sales.

**[Other heads]** Sales of other heads declined.

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

Sector sales surged 104.3% from ¥13,391 million to ¥27,357 million (U.S.\$231,839 thousand), reflecting higher sales of new products such as semiconductor production equipment and displays.

### **(2)Recording media segment**

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

Segment sales declined 3.1% from ¥49,667 million to ¥48,131 million (U.S.\$407,890 thousand). The segment recorded an operating loss of ¥2,303 million (U.S.\$19,517 thousand), a 45.4% improvement on the operating loss of ¥4,219 million recorded in the first six months of fiscal 2006.

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

**[Optical media]** Sales of optical media edged down year on year. Lower sales of CD-Rs were largely offset by higher sales of DVDs driven by continued rising demand.

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

\*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 were down, due to lower sales in the recording devices sector and recording media segment.

**[Americas]** Sales increased overall. Sales rose, except in the recording media segment.

**[Europe]** Sales increased overall. Sales rose, except in the recording devices sector.

**[Asia (excluding Japan) and other areas]** Sales increased overall. Sales rose, except in the recording media segment.

The overall result was a 29.4% increase in overseas sales year on year from ¥264,305 million to ¥341,901 million (U.S.\$2,897,466 thousand). Overseas sales accounted for 80.5% of consolidated net sales, a 5.1 percentage point increase from 75.4% one year earlier.

On a parent-company basis, net sales increased 5.1% to ¥171,459 million (U.S.\$1,453,042 thousand), from ¥163,096 million. Operating income was ¥8,226 million (U.S.\$69,711 thousand), up 40.5% from ¥5,854 million. Current income was ¥16,611 million (U.S.\$140,771 thousand), up 1.5% from ¥16,364 million. The parent company recorded net income of ¥10,513 million (U.S.\$89,093 thousand), compared with a net loss of ¥1,303 million in the first six months of the previous fiscal year. As a result, basic net income per common share was ¥79.46 (U.S.\$0.67), compared with basic net loss per common share of ¥9.86 in the first half of the previous fiscal year.

At the meeting of TDK's Board of Directors on October 30, an interim dividend of ¥50 per share of common stock was approved.

## **2. Financial Position**

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

|                            |                   |                               |
|----------------------------|-------------------|-------------------------------|
| Total assets               | ¥ 959,412 million | (3.9% increase)               |
| Total stockholders' equity | ¥ 725,157 million | (3.2% increase)               |
| Equity ratio               | 75.6%             | 0.5 percentage point decrease |

At September 30, 2006, cash and cash equivalents were ¥25,816 million higher than at March 31, 2006, short-term investments were ¥10,016 million higher, inventories were ¥3,271 million higher, and net property, plant and equipment was ¥4,395 million higher. On the other hand, net trade receivables were ¥6,989 million lower. As a result of these and other changes, total assets increased ¥35,909 million from March 31, 2006.

Total liabilities increased ¥14,240 million. While short-term debt decreased ¥2,771 million, trade payables increased ¥9,583 million, accrued expenses increased ¥2,585 million and income taxes payables increased ¥2,689 million.

Total stockholders' equity increased ¥22,738 million, reflecting a ¥19,874 million increase in retained earnings and other factors.

## (2-2) Cash Flows

|  | (¥ millions)           |                        |          |
|--|------------------------|------------------------|----------|
|  | Fiscal 2007<br>Interim | Fiscal 2006<br>Interim | Change   |
| Net cash provided by operating activities                    | 78,718                 | 18,700                 | 60,018   |
| Net cash used in investing activities                        | (45,285)               | (45,069)               | (216)    |
| Net cash used in financing activities                        | (9,021)                | (5,936)                | (3,085)  |
| Net cash used in discontinued operations                     | -                      | (88)                   | 88       |
| Effect of exchange rate changes on cash and cash equivalents | 1,404                  | 5,530                  | (4,126)  |
| Net increase (decrease) in cash and cash equivalents         | 25,816                 | (26,863)               | 52,679   |
| Cash and cash equivalents at beginning of period             | 239,017                | 251,508                | (12,491) |
| Cash and cash equivalents at end of period                   | 264,833                | 224,645                | 40,188   |

Operating activities provided net cash of ¥78,718 million (U.S.\$667,102 thousand), a year-on-year increase of ¥60,018 million. Income from continuing operations increased ¥7,972 million to ¥29,622 million (U.S.\$251,034 thousand) and depreciation and amortization rose ¥4,347 million to ¥30,884 million (U.S.\$261,729 thousand). In changes in assets and liabilities, trade receivables declined ¥14,961 million, the increase in inventories was ¥6,670 million less than a year earlier and other current assets declined ¥11,148 million, while income taxes payables, net increased ¥17,485 million.

Investing activities used net cash of ¥45,285 million (U.S.\$383,772 thousand), ¥216 million more than a year earlier. Capital expenditures increased ¥1,692 million to ¥35,980 million (U.S.\$304,915 thousand) and there was a cash outflow of ¥15,028 million (U.S.\$127,356 thousand). However, there was also a decline of ¥8,666 million in payment for acquisition of businesses, net of cash acquired, and a decline of ¥2,517 million in payment for the acquisition of minority interests. Furthermore, proceeds from the sale of short-term investments contributed ¥5,016 million (U.S.\$42,508 thousand).

Financing activities used net cash of ¥9,021 million (U.S.\$76,449 thousand), ¥3,085 million more than in fiscal 2006's interim period. Although there was a ¥924 million decrease in cash paid to acquire treasury stock, there was a ¥2,771 million increase (decrease) in short-term debt, net and a ¥1,323 million increase in dividends paid due to a ¥10 increase in dividend per common share.

### 3. Fiscal 2007 Projections

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

#### [Consolidated Projections for Fiscal 2007]

| (¥ millions, %)               | Announced<br>October 2006<br>FY2007<br>(Forecasts) | FY2006<br>(Actual) | Change from FY2006 |      | Announced<br>July 2006<br>FY2007<br>(Forecasts) |
|-------------------------------|--|--------------------|--------------------|------|---|
|                               |  |                    | Amount             | %    |   |
| Net sales                     | 820,000  | 795,180            | 24,820             | 3.1  | 820,000   |
| Operating income              | 82,000   | 60,523             | 21,477             | 35.5 | 82,000  |
| Income before<br>income taxes | 88,000   | 66,103             | 21,897             | 33.1 | 88,000  |
| Net income                    | 61,000   | 44,101             | 16,899             | 38.3 | 61,000  |

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

#### Business Environment

Looking collectively at information currently available, demand for passive components (electronic materials and electronic devices) continues to grow robustly at present. However, the forecast for electronic component demand in the fourth quarter is still shrouded with uncertainty. At this point, there are therefore no new reasons or factors to warrant revising TDK's projections.

#### Exchange Rate Forecast

An average exchange rate of ¥110=U.S.\$1 is assumed as previously for the second half of fiscal 2007.

#### Projections for main products are as follows:

##### Electronic Materials and Electronic Devices

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

##### Recording Devices

Regarding HDD heads, the major product in the recording devices sector, in the second half of fiscal 2007, typically a period of strong demand, TDK's sales plans incorporate projected growth in demand for HDD heads driven by the increasing use of HDDs in consumer electronics and expanding demand for compact HDDs. At the same time, however, TDK is forecasting a drop in overall sales year on year due to expectations that prices of HDD heads will continue to decline throughout the second half of fiscal 2007.

##### Recording Media

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

### [Non-Consolidated Projections for Fiscal 2007]

| (¥ millions, %)  | Announced<br>October 2006 | FY2006<br>(Actual) | Change from FY2006 |       | Announced<br>July 2006 |
|------------------|---------------------------|--------------------|--------------------|-------|------------------------|
|                  | FY2007<br>(Forecasts)     |                    | Amount             | %     | FY2007<br>(Forecasts)  |
| Net sales        | 341,600                   | 334,817            | 6,783              | 2.0   | 341,600                |
| Operating income | 23,400                    | 12,635             | 10,765             | 85.2  | 23,400                 |
| Current income   | 36,700                    | 32,350             | 4,350              | 13.4  | 36,700                 |
| Net income       | 23,100                    | 30,825             | (7,725)            | -25.1 | 23,100                 |

### 3. Business Risks

With development, production and sales bases in countries around the world, the TDK Group is engaged in global business activities. Furthermore, the electronics industry, the main field of operations of the TDK Group, is seeing dramatic technological innovation and changes in market prices, resulting in intense competition in product development and efforts to win customers.

Because of these and other factors, the TDK Group is subject to various business risks that include, but are not limited to, changes in demand and foreign exchange rates caused by world economic trends; unpredictable events in conducting business overseas; more intense competition in the development of new products in line with rapid technological innovation; intense price competition and diversifying demands from customers; product quality issues; competition to secure human resources; government regulation; the infringement of intellectual property rights; the inability to procure important raw materials; increasingly stringent environmental regulations internationally; and unavoidable natural disasters.

### 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.