



President's Interview

Bringing Together the Power of Our Entire Group and Pursuing Further Growth with the Aim of Achieving Full-Scale Growth in Our Business Results

Takehiro Kamigama
President & CEO

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Q1. How were business results during the fiscal year under review?

The effects of structural reforms and the effects of the depreciated yen led to a significantly higher increase in revenue and income than our forecasts at the beginning of the fiscal year.

TDK's business results in the fiscal year ended March 2014 significantly exceeded our forecasts at the beginning of the term. This is due to various factors, including economic growth both domestically and overseas, a recovery in the electronics market, and the effects of structural reforms that we have been pursuing these past few years. We posted consolidated net sales of ¥984.5 billion, an increase of 16.9% year on year. Operating income also grew by 66.0% to ¥36.6 billion.



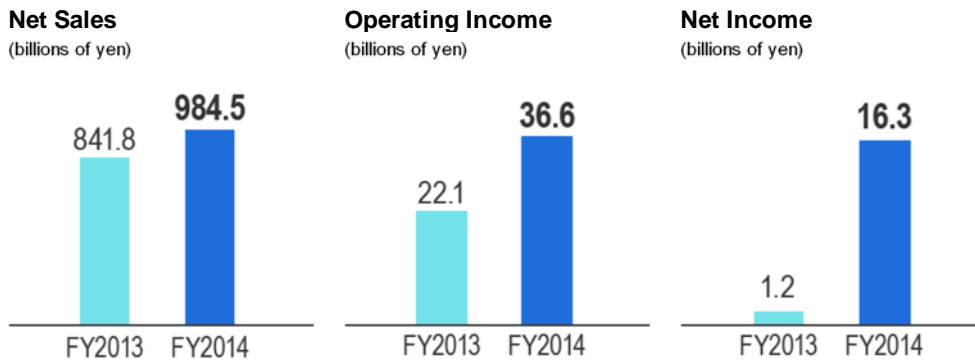
When viewed by segment, our passive components segment, which still was in the red during the last term, has now returned to profitability and contributed significantly to our improved business results. In addition to an improved business constitution brought about by structural reforms, sales in the automotive and the industrial equipment markets, as well as sales in the markets for home information appliances and for communications equipment that includes smartphones and tablets, showed a positive trend. These developments resulted in net sales of passive components of ¥471.7 billion, a year-on-year increase of 24.3%. Operating income under this segment entered the black for the first time in three terms as well, having improved considerably from negative ¥11.1 billion to ¥15.4 billion yen.

On the other hand, although net sales in our magnetic application products segment grew by 7.8% year on year to ¥364.3 billion, operating income fell by 24.3% to ¥28.1 billion. Various factors are behind this development. The recording devices business, which experienced special demand during the previous term due to the floods in Thailand, saw a drastic drop this year, particularly in terms of quantities sold. Circumstances this fiscal year also differed in that under the magnet business and recording device business (specifically, the HDD suspension business), insurance income following the floods in Thailand in the amount of ¥5.8 billion was posted during the previous fiscal year.

Under the film application products segment, sales of energy devices (rechargeable batteries) for home information appliances and communications equipment consisting mostly of smartphones and tablets progressed favorably, and new customers were also acquired. These and other factors resulted in net sales increasing by 25.7% year on year to reach ¥129.3 billion. Operating income under this segment also grew by 4.7% to ¥13.4

billion.

The average exchange rate for the U.S. dollar during the fiscal year was ¥100.26, representing a depreciation in the yen by 20.8% over budgeted figures at the beginning of the year. Similarly, the euro was ¥134.42, which represents a 25.6%-lower yen. For a globally-structured organization such as the TDK Group, where more than 90% of net sales are derived from overseas, this exchange rate fluctuation is highly significant, and led to an increase in both revenue and income with net sales reaching ¥147.5 billion and operating income reaching ¥24.3 billion.



*FY2013: Fiscal year ended March 2013



Q2. Please tell us about TDK's growth strategy for the future.

Having completed the reform of our business structure involving major investments, we will now promote portfolio management to achieve well balanced growth of the various segments.

While pursuing a structural reform in our passive components business centered on capacitors over the past two years, we have also pursued an expansion of the film application products segment. As a result, passive components returned to profitability in FY March 2014, and film application products also are steadily generating more sales and income. Furthermore, we completed our withdrawal from the data tape and Blu-ray businesses. Along with a number of other changes, the end of FY March 2014 therefore marks the completion of the reform of our business structure involving major investments.



As a result, the scenario for a well-balanced business portfolio of three segments is in place, giving due consideration to profitability. In addition to the magnetic application products business centered on magnetic heads for HDDs, which is a stable business with high profit margins, we have the passive components business and the film application products business. Starting from the next fiscal year, we will be pursuing further growth in these segments, each of which represents a forte of TDK. Maintaining proper balance among the three segments will be crucial in these efforts.

As one of the measures towards this aim, we have reorganized our marketing framework from April 2014, creating three separate branches for the priority markets of "Automotive", "ICT (Information and Communication Technology)," and "Industrial Equipment / Energy." Within each market, the following five priority businesses will be targeted through a concentration of management resources: inductive devices, RF components, piezoelectric material components, HDD magnetic heads, and rechargeable batteries.

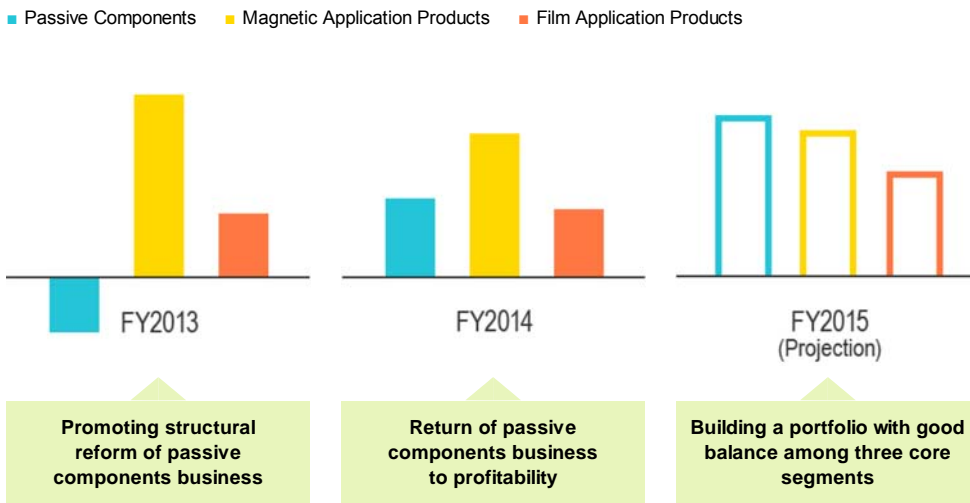
As for market-specific strategies, in the automotive market, we already have a high market share in capacitors, inductive devices and other electronic components for power train applications, but we will also make efforts to further expand sales of products utilizing new materials such as high-efficiency power supplies, DC-DC converters, and battery chargers. The target is an increase in total sales market share from the 17% figure of FY March 2014 to 20% at an early point beyond FY March 2015. In the medium to long term, we are aiming to expand sales of products based on applied technology. For example, TMR sensors developed through the application of magnetic head technology can be used as angle sensors and for various other applications in cars. We also intend to boost sales of batteries for electric vehicles, and have already partially started mass production in this area which is likely to see further growth. In the magnet business, the development of new materials and new processes should provide the momentum for a renewed strengthening of our position. Demand for electronic components in the automotive market will no doubt further rise, driven by the trend towards increased reliance on electrical equipment and a more widespread adoption of environment friendly cars such as hybrid electric and electric vehicles. The TDK Group will no doubt realize solid growth in this market.

In the ICT market, we will continue to focus on high-growth markets such as smartphones and tablets. In particular, we will promote expanded sales of products with high added value, including voice coil motors (VCM) for high-speed autofocus in camera modules, actuators for optical image stabilizers (OIS), and lithium polymer batteries.

Regarding SAW (Surface Acoustic Wave) filters and other RF components, we are applying the IC collaboration strategy of working together with semiconductor manufacturers, using it as a basis for having reference designs accepted by major end product manufacturers. In China, where the spread of 4G services based on TD-LTE technology is progressing, as well as in other key markets such as the U.S. and South Korea, we are strongly promoting products such as diversity modules, TC-SAW (Temperature Compensated SAW) filters, and BAW (Bulk Acoustic Wave) filters. While on one hand working hard to secure orders, we are also forging ahead with solutions for enhancing our productivity and profitability, such as moving towards larger wafer sizes and introducing further miniaturized package products, to strengthen our competitiveness in the market place.

In the industrial equipment / energy market, we will be promoting increased sales of inverter components, DC-DC converters, stationary rechargeable battery; energy storage systems (ESS), capacitors, line noise filters, reactors, power sensors, and other power devices for energy infrastructure applications such as power generation facilities using renewable energy sources.

Operating income by segment



*FY2013: Fiscal year ended March 2013



Q3. Where are TDK's biggest strengths with regard to business?

Our core competence is materials technology in magnetics and related fields, along with advanced manufacturing capabilities featuring nano-level precision. These enable us to offer next-generation added-value products.

The greatest strength of TDK is the power to innovate—harnessing original developments and technology to create products that are beyond the reach of other manufacturers. We will continue to rely on our core competence, which is materials technology in magnetics and related fields, along with high-precision machining technology featuring nano-level precision to bring new products with true value to the market.



In particular, we are on track to achieving another breakthrough by applying thin film process technology developed in the magnetic heads field to the manufacture of other electronic components. In the RF components field for example, the demand for even more compact and low-profile products is bound to increase, as wearable devices in the form of wristwatches or glasses become more widespread. Here, TDK will apply its thin film process technology from the magnet heads field to develop the next generation of low-profile SAW filters, BAW filters, and other components. Engineers from EPCOS in Germany are already working with TDK engineers specializing in magnetic heads to improve manufacturing processes of high-frequency components, and the project is beginning to show results. Manufacturing facilities for magnetic heads have a short amortization period, and diverting amortized facilities to production sites of RF components can bring significant advantages both in terms of quality and cost.

Advantages can also be expected in the healthcare field, for example, with regard to wearable terminals that contribute to health management by monitoring blood pressure, body temperature and other vital parameters. The various sensors and power management components used in such healthcare devices need to be extremely thin and compact, and we are planning to develop added-value products in this field, in collaboration with semiconductor manufacturers and other parties.



Q4. What is TDK's stance and philosophy regarding CSR?

Being a business trusted by all of its stakeholders, and contributing to society through business activities such as providing products and technologies that help to save energy.

The fundamental stance that informs all CSR activities of the TDK Group is expressed by our corporate motto "Contribute to culture and industry through creativity." When each and every member of our organization endeavors to implement this motto in their daily work, TDK as a company becomes an entity that is trusted by its stakeholders.

Through its business activities, TDK can contribute to society in many different ways, but a major aspect where we can make a difference is creating products that help to realize significant energy savings. Our wide range of power supply related products is being utilized not only in everyday consumer products such as smartphones and computers but also in in-vehicle equipment and in energy infrastructure facilities such as wind power and solar power generation systems. However, the energy efficiency of current power supplies still is around 90% at most, which means that some 10% of energy is lost in the conversion process. If efficiency can be improved even by a seemingly small value such as 1%, the energy savings that can be achieved for society at large are considerable. I believe that there still is room for innovation and improvement with regard to power supply efficiency. Besides obvious measures such as improved design and manufacturing processes, we must also take a fresh look at materials, and this is where TDK's extensive technological expertise comes in, for example in process technology such as thin film layering and winding techniques, and in materials technology including magnetic materials and dielectrics. By making use of these strengths, we will continue to develop new materials and innovate production technology with the aim of achieving higher efficiency in power supplies.

In Japan, the need to save energy has become even more pressing in the aftermath of the Great East Japan Earthquake. Contributing to power savings through higher efficiency power supplies is of course an important aspect, but TDK is also engaged in renewable energy related projects such as offshore wind farms. By developing various products including magnets for use in wind power generators, as well as energy storage products, we are helping to build a new energy infrastructure aimed at the realization of a sustainable society.

Also, automobiles including hybrid electric vehicles (HEV) and electric vehicles (EV) are relying more and more on electronics and informatization, and here TDK is providing high-efficiency power supply systems, various types of sensors etc. that help to make cars safer and more environment friendly.

Furthermore, going beyond the energy savings aspect, by offering our sensors and electronic components also for use in applications such as diagnosis equipment in health care and nursing care, as well as for wearable devices, we aim to help improve the quality of life.

It goes without saying that the trust of stakeholders can only be gained by management practices that give due consideration to the global environment and to human rights. In 2011, TDK became the first company in the electronics industry of Japan to declare carbon neutrality as an official goal, demonstrating our serious dedication to environmentally



sound management. As a global organization with more than 90% of its net sales being derived from overseas, we are firmly committed to respecting diversity and to employment and training policies that transcend national borders and are independent of nationality or gender.



Q5. What is the TDK Group's outlook for FY March 2015?

We expect net sales of ¥1.05 trillion based on factors such as increased sales of RF components in the ICT sector and the growth of the lithium polymer battery market.

For FY March 2015 estimates, we used an exchange rate of ¥100 to the U.S. dollar and ¥135 to the euro.

In our passive components segment, we expect continued growth in sales of automotive components as well as an expansion in sales of products for the ICT sector, particularly RF components. Compared to the current term, we anticipate growth of about 10% to 15%, with significantly improved income as well. With regards to our magnetic application segment, capital investment in the industrial equipment sector has recovered, pointing towards an upswing in our power supply business. However, our HDD head business, which accounts for a large proportion of sales in this segment, continues to be affected by falling demand for HDDs for computers. Given this situation, the market for high-end products used in data centers cannot be expected to grow rapidly. Therefore, we expect growth in this segment as a whole to remain flat at about -5% to 0%. However, on the income side, we believe that we will be able to secure operating income on par with that of the previous fiscal year driven mainly by improved earnings in our magnet business and power supply business, which suffered difficulties during the previous fiscal year. In our film application products segment, thinner and higher-capacity lithium polymer batteries, among other contributors, are expected to boost demand for components. We therefore expect this segment to grow year on year by 20% to 25%, accompanied by an increase in income.

Taking the above into consideration, our estimated consolidated business results for the year ending March 2015 are ¥1.05 trillion in sales, representing a year-on-year increase of 6.7%, and ¥57.0 billion in operating income, representing a year-on-year increase of 55.7%. Our expected operating income margin is 5.4%. Dividends are expected to be ¥40 per share for both the first and second half of the term, which is ¥80 a year. Net sales exceeding ¥1 trillion will be a first since TDK was founded.

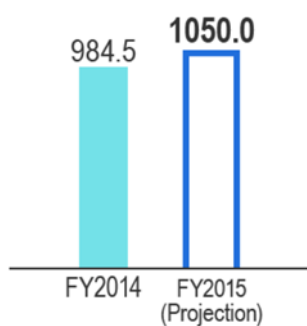
However, these business results projections, in particular the operating income ratio of 5.4%, still fall short of desirable levels. We will therefore continue to review the earnings structure in each business segment, and implement thorough reforms in whatever businesses have room for improvement. Furthermore, while aiming for a solid expansion in our sales in growth markets, we will apply our new sales framework realigned according to priority strategic markets towards offering wide-ranging solutions to customers.



TDK has positioned FY March 2015 as the final run-up period to full-scale growth in our business results from the next term onwards. We will continue to bring together the power of our entire group as we pursue further growth.

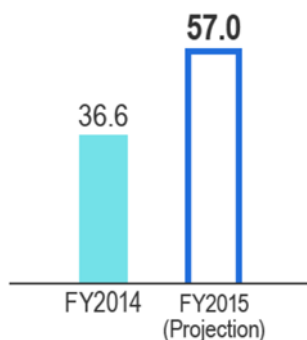
Net Sales

(billions of yen)



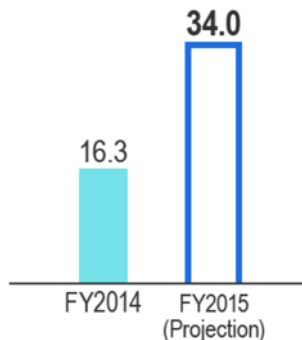
Operating Income

(billions of yen)



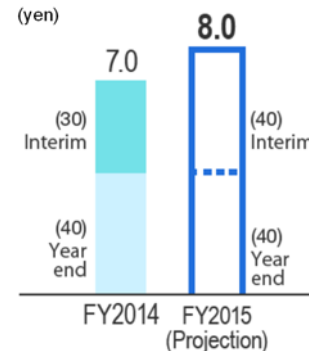
Net Income

(billions of yen)



Dividends per Common Share

(yen)



FY2014: Fiscal year ended March 2014