



Reflections on the past 10 years, and my gratitude to our stakeholders

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Chairman

Returning to the essentials of *Monozukuri*

Over the past 10 years, TDK has encountered many difficulties. During the global economic crisis triggered by the Lehman Brothers collapse in September 2008, a swift decline in demand led to the bitter decision for large-scale downsizing. In 2011, our business infrastructure suffered severe damage from the Great East Japan Earthquake and the flooding in Thailand. The yen exchange rate's climb to as high as ¥75 to the U.S. dollar also had a grave impact on revenue. In 2013, a fire accident caused by a TDK humidifier resulted in the loss of precious human life. That prompted intense consideration of our heavy responsibilities as pertains to quality. These shifts in the business environment underscored the weakened state of our *Monozukuri* strength. One major reason for that was the diminished strength of our traditional *Monozukuri* of "integrated production."

In my view, TDK has forged *Monozukuri* through integrated production since its beginnings. We have succeeded in evolving our products by refining materials from the atomic level, effectively preventing their easy duplication. Quality assurance must be implemented from the downstream stage, with the move to integrated production essential in paving the way for

rationalization of the manufacturing process. However, with the application of our conventional success model of the horizontal labor division production system for magnetic tapes to electronic components, we lost sight of the optimal production scheme for those components. From the fiscal year ended March 2013, TDK embarked on sweeping structural reform. The focus of the plan was on returning to integrated production. Besides consolidation of domestic manufacturing bases, including the transfer of certain outsourced production back to in-house operations, another phase of the effort was improvements in our global R&D structure with four key bases. This emerged from the thinking that the genuine key to fully realizing integrated production is striving through joint development with our customers to instill thorough knowledge of applications.

After 10 years, we have at last managed to regain the proper stance for integrated production. Today, we are moving toward a higher dimension of *Monozukuri* based on integrated production. This refers to "TDK Industry 4.5," a major reform seeking distinctive "location free" and "zero defect" *Monozukuri*, all part of the mission to lead the world in same quality.

The right road to the 100th anniversary

There are times when our electronic components business earns praise for its high international competitiveness. However, if we insist on becoming a "comprehensive" components manufacturer and decentralize our management resources, there are no guarantees that the competitiveness can be maintained. With 20 years left to our 100th anniversary, I recognized the need to clearly discern the technology needed to retain our competitive edge, and utilize that know-how as the focus for guiding the company's management. I am talking about "magnetics technology." TDK was established in 1935 to commercialize the magnetic material of "ferrite." Ever since, the company's history has been a saga keenly tied to "magnetism." The road ahead must take us on the further quest for magnetic technology, the true DNA of TDK, to shine in business domains mobilizing magnetic technology. Our dream is to establish a position in which the TDK name is synonymous with magnetism. This is something we must go all out to achieve.

Moving forward with magnetism at the core, TDK must zero in on highly advanced growth fields for use in customization and modularization to raise high entry hurdles for our competitors, and establish dominating positions in those markets. Indeed, we are already witnessing new progress in sensors and actuators, energy units, next-generation electronic components and other new businesses that will support TDK in the future. The market environment for HDD magnetic heads, the engine of our revenue growth to date, has become severe. Nevertheless, we must continue to fulfill our responsibilities as the leading independent company in the industry. I am

confident that if we move forward from a renewed perspective, with a commanding view of the entire supply chain, we can generate solid profit as a marketplace survivor. On the other hand, in product areas where commodification is rapidly advancing, we must revitalize our approaches. For fields in which TDK is weak or where major investment is required, we must aggressively study the feasibility of collaboration with other companies. Such strategic directions form the thinking behind the corporate acquisitions and mergers carried out from 2015 through 2016.

The "spirit of originality" included in our corporate motto of "Contribute to culture and industry through creativity" is also a quality to regain in moving toward the 100th anniversary of our founding. In 2015, as we celebrated our 80th anniversary, I channeled these sentiments into our new "Corporate Vision" and "TDK Value." Determined to set a positive example, I have personally labored to earn acceptance for these principles throughout the TDK Group.

I felt confident in my definition of the road to be traveled toward our 100th anniversary. Therefore, following discussions this year at the Nomination Advisory Committee, I made the decision to pass the baton of leadership to our new President—Mr. Shigenao Ishiguro. Besides entering my milestone 10th year as President, I also feared that remaining on the job too long would create a climate difficult for those around me to speak their minds. Above all else, however, my conviction that incoming President Ishiguro is a man to whom we can consign the management of TDK with full peace of mind fueled my support of that decision.

Realizing the reputation of "Magnetism = TDK"

Seven years ago, I joined President Ishiguro to inspect a closed factory of magnetic tapes. I remember scolding him at that time: "With your background in magnetic tapes, you are also responsible for the closure of this facility. Now, while our HDD magnetic heads business is still in good shape, you need to consider what comes next." It was from that time that Mr. Ishiguro embarked on the development of magnetic sensors—products in which he truly believed. That wisdom is alive and well today. Based on his strong insights about the next pillars of growth, I am sure that he will pilot TDK ahead with great strength. Therefore, we also decided to appoint President Ishiguro as CEO from the start, empowering him to fully manifest his

distinctive speed, energy, and global perspective. I will serve exclusively in a supporting capacity. As chairman of our Board of Directors, I will also exercise governance to keep TDK on the proper path from here on as well.

In closing, I wish to take this occasion to profoundly thank our shareholders, and all our other valuable stakeholders, for your prized patronage over the past 10 years, which included some very difficult times as well. I look forward to your heightened understanding and support for President Ishiguro, as we carry on the quest to truly make the TDK name synonymous with magnetism.