Invention of “Ferrite”

The electronic material “ferrite” is a unique Japanese invention, born out of research done in 1930 by Dr. Yogoro Kato and Dr. Takeshi Takei of the Tokyo Institute of Technology. Seventy-nine years later, in 2009 the discovery and application of ferrite was designated as an IEEE Milestone, an award that recognizes key historical achievements in electrical and electronic engineering, which have had a sustaining and significant impact on the industry and on society.

Spirit of Originality

“Genuine industries are original industries”; this pronouncement by Dr. Kato inspired Kenzo Saito to found TDK (originally known as Tokyo Denki Kagaku Kogyo K.K.) with the purpose of turning ferrite into a commercial product. At the time, ferrite was still an unknown quantity, and its first application was a so-called “ferrite core.” In 1937, before coming into use in other countries, ferrite cores became part of wireless transmitters and radios in Japan. The spirit of “creating value that does not yet exist in the world on a material level” has characterized TDK from the beginning, and it still defines the DNA of the company today.

Magnetics Technology

Ferrite—An original Japanese magnetic material, while pursuing and expanding the possibilities of ferrite, TDK’s own scope of activities grew ever more varied, advancing with ferrite into various sectors of the industry. Magnetic tape technology that dramatically altered the patterns of musical enjoyment, fine multilayering technology that resulted in much smaller and lighter electronic devices, HDD magnetic head technology that produced astoundingly high data recording densities—these are some of the TDK innovations that have had a lasting worldwide impact. The history of TDK is closely interwoven with magnetics technology. By continuously improving, perfecting, and innovating in this field, TDK continues to bring forth extraordinary and unique products.

High permeability IFL16 noise suppression sheet

This magnetic shielding material used in electronic components in smartphones and similar devices is made of a magnetic material combined with resin. A magnetic sheet capable of absorbing the noise of a wide frequency range and turning it into thermal energy is highly useful, both for preventing internally produced noise from being reflected and affecting other components inside a device and from leaking outside the device and affecting other devices.
STRENGTH
The driving factor behind TDK’s product power is superior materials technology. Shaping the characteristics of the materials at the atomic level makes it possible to achieve exactly the targeted properties for a given product. This approach requires mastery of complex composition processes and control of additives which cannot be easily copied by competitors. By keeping intellectual property and know-how in-house, we are establishing a competitive advantage.

STRENGTH
TDK’s famous process technology can be defined as the art of realizing products that maximize the characteristics of the raw materials used in them. Operating on the nanometer level, the technology has enabled breakthrough developments such as chip capacitors and chip inductors with amazingly small dimensions and low profiles. TDK process technology is a versatile key competence that meets a multitude of advanced needs.

STRENGTH
TDK handles the Monozukuri process of manufacturing in a unified in-house framework, ranging from materials to the final product. One of the reasons why TDK’s spirit of craftsmanship oriented manufacturing, i.e., Monozukuri, works so well is the fact that we develop our own methods and then build the equipment to implement them. In order to create products that truly meet the demands and expectations of customers, we have established optimized processes for materials composition and we develop and design products based on thorough materials analysis, as well as simulation analysis of such aspects as structure, heat, electromagnetic fields, among others. At the same time, we also establish an optimized framework for mass production.

STRENGTH
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STRENGTH
TDK has absorbed and integrated various technologies and value on a global scale. We consider acquired companies as valuable partners to whom we actively give the leading initiative for technology development in their areas of expertise. This complements our own resources and expertise, opening up new avenues of sustained growth and strengthening both sides through the power of synergy. That is the rationale behind our M&As and technology alliances on a global level.

Representative Acquisitions and Strengthened Business Fields
- 1986 SAE Magnetics (Hong Kong)
- 2000 Headway Technologies (USA)
- 2003 Innovetek Technologies (USA)
- 2005 Ampex Technology (Hong Kong)
- 2005 Lambda Power Group (United Kingdom)
- 2007 Magnecomp Precision Technology (Thailand)
- 2008 EPOS (Germany)
- 2016 Micronas Semiconductor (Switzerland)
- 2016 Hutchinson Technology (USA)

Amazing HDD magnetic head technology
Air pressure created by the disk rotation causes the magnetic head to “fly” at a very close distance over the platter surface.

Magnetic heads
Magnetic disk
In order to read and write the information in a very small area of the disk, the head must approach the surface at an extremely close limit but without making contact. The clearance between the head and the disk is less than 10 nanometers, which could be compared to a large passenger jet flying at only 0.56 millimeters above the ground.
INNOVATION

Using its core competence in magnetics technology as an axis, TDK has been harnessing materials technology for shaping the characteristics of a material already at the atomic level, in conjunction with process technology that maximizes its potential. This has enabled us to consistently deliver products at the leading edge of technology. Taking aboard ideas under the “Industry 4.0” concept and combining them with our zero defect quality approach that uses upstream management to eliminate quality variations, we are further strengthening our Monozukuri power.

The pace of change in the electronic components industry is very rapid. To remain competitive in this field, a company needs to continuously evolve and innovate. Looking toward the future, TDK will leverage its core competence in magnetics for the development of next-generation technology, and we will further elevate the sophistication level of our integrated production to ensure utmost reliability. In this way, we will continue to deliver products that contribute to the evolution of society.
Our Past Nonlinear Progress

In the rapidly evolving world of electronic components, simply doing "business as usual" is out of the question. Aiming to contribute to society and create true value, TDK has devised various strategies and tackled a number of difficult challenges so far. Guided by a long-term and environment-oriented perspective, we have continued to vary our business portfolio to meet the needs of the times. Accordingly, our key products also underwent significant changes along the way.

High Level of Globalization

<table>
<thead>
<tr>
<th>Overseas Sales Ratio</th>
<th>1995</th>
<th>57%</th>
<th>2016</th>
<th>92%</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Overseas Production Ratio</th>
<th>1995</th>
<th>42%</th>
<th>2016</th>
<th>86%</th>
</tr>
</thead>
</table>

Ongoing Governance Reform

<table>
<thead>
<tr>
<th>Number of Foreign Corporate Officers</th>
<th>2004</th>
<th>1 person</th>
<th>2016</th>
<th>7 people</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Outside Officers</td>
<td>2002</td>
<td>1 person</td>
<td>2016</td>
<td>6 people</td>
</tr>
</tbody>
</table>

Nonlinear Progress to Come

In anticipation of the coming IoT society, we are building a strategic portfolio centered around the development of "sensors and actuators," "energy units," and "next-generation electronic components."

Demand for HDD magnetic heads, which used to be a driver for TDK’s growth, is currently stagnating and the smartphone market has also matured. The creation of new areas of business therefore is paramount. We will be aggressively expanding our activities in the automotive and industrial equipment and energy markets. We intend to reach or surpass the goals set for the fiscal year ending March 2018, boosting both the operating income ratio and ROE by at least 10% each, as we advance toward the 100th anniversary of the company in 2035.
Management Philosophy

**CORPORATE MOTTO**

Contribute to culture and industry through creativity

**CORPORATE PRINCIPLES**

“**Vision**”
Always take a new step forward with a vision in mind. Creation and construction are not born without vision.

“**Courage**”
Always perform with courage. Performing power is born by confronting contradiction and overcoming it.

“**Trust**”
Always try to build trust. Trust is born from a spirit of honesty and service.

Continuities with Respect to Forward-Looking Statements:

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

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TDK’s DNA / TDK’s Strengths / Business Model / Nonlinear Progress

Understand How Management Thinks

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Medium-Term Plan

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Special Feature 2 Next-Generation Monozukuri

Special Feature 3 Boosting Earning Power Through Speed

TDK’s Finance and Capital Strategies

Find Out Information on Results and Business Strategy

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Segments at a Glance

Business Segment Strategies

Explore TDK’s Management Resources

Intellectual Capital

Human Capital

Social and Relationship Capital

Natural Capital

Check Out TDK’s Corporate Governance

Corporate Governance

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—TDK’s Governance Viewed by an Outside Director

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Overview of TDK

Corporate Information
To Our Stakeholders

TDK’s future: Not simply an extension of the past but creating a new TDK by unleashing the unlimited potential of magnetism

Greetings. I am Shigenao Ishiguro, the appointed president of TDK by approval of the shareholders at the Ordinary General Meeting of Shareholders on June 29, 2016. I intend to work hard and devote all of my abilities toward further development of the company’s business, to reward the trust placed in me by the shareholders and all other stakeholders. In this endeavor, I ask for your continued guidance and support.

After joining TDK in 1982, I spent 22 years in the magnetic tapes business, followed by 12 years engaged in the HDD magnetic heads business, so I have always been involved in the field of magnetics. For 17 years, about half of my time with TDK, I worked on overseas assignments. At plants both in Japan and abroad, I was able to gain experience in the areas of production management and corporate planning. While taking the helm of a number of projects including starting new production bases, I learned how important it is to create a tangible framework that motivates staff to work toward the realization of a concept. This is something that I have dedicated myself to ever since. With this in mind, I told all employees that they are the key players in my speech just after taking office as president.

As TDK steadily moves toward becoming a “centenarian company,” I will focus the energy of the Group’s approximately 100,000 personnel to achieve further strategic growth firmly rooted in magnetics technology.

MAGNETICS TECHNOLOGIES

Shigenao Ishiguro
President & Chief Executive Officer

The concept that I now intend to solidify is the TDK growth strategy built around our core competence in magnetics technology. This strategy was put in place by my predecessor, now-Chairman Kamigama, when he threw the TDK rudder around and changed course from a more strengthening of our existing capabilities to an aggressive policy. I will inherit his dynamic management approach and continue in the offensive. If we define this as a “dynamic” attack strategy, there is also a “static” attack strategy to which I will give weight as well. During the time when TDK created the golden age of the cassette tape, high profits were our hallmark. In the current day, however, our profitability unfortunately is at a lower level than that of competitors in the electronic components sector. I see it as my mission to engage with this fact and to raise the baseline of our profit capability. By harnessing both the “dynamic” and the “static” attack concepts, I intend to create a framework that is easy to grasp and that will strongly motivate all members of our organization as we go about the task of turning strategy into reality.

Harnessing both “dynamic” and “static” attack strategies

“Dynamic” approach

Creating TDK’s future through nonlinear advancement

Shigenao Ishiguro
President & Chief Executive Officer

TDK Corporation

Until about the end of the 1980s, TDK was known as the magnetic tapes company. After the start of the new millennium, we led the world in HDD magnetic heads, and in recent years, we have expanded into high-frequency components and rechargeable batteries. Remaining alert to the demands of society and the evolution of technology, TDK has demonstrated the capability to boldly switch to new strategic products before existing ones enter their declining phase.

Ever since TDK was founded in 1935 with the aim of pioneering the industrial application of a new magnetic material called “ferrite,” the DNA of the company has been magnetics technology. While becoming ever more proficient in this field, we have achieved a long series of innovative breakthroughs for 80 years. Magnetics technology doubtlessly is a major underpinning of our competitive advantage. But we have other strengths as well, such as “forming technology” for working materials into complex shapes and “sintering technology” for creating highly precise microstructures. These are just two examples of the sophisticated “process technology” that TDK has perfected over the years. While having magnetics technology as its core competence, TDK was able to develop many innovative products through repeated applications of process technology. For example, core technology of magnetic tapes has enabled us to create film application products such as rechargeable batteries with superior performance. Thin-film process technology applied to HDD magnetic heads has contributed to an amazing jump in recording density and will also be instrumental in the next-generation of thin-film electronic components. This kind of framework has resulted in what could be termed the non-sequential advancement of TDK, which in turn has supported the company’s sustainable development.

TDK has been promoting globalization since the 1950s and has fostered a corporate culture that naturally accepts a wide range of values. This not only means TDK respects the philosophy of acquired

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companies, it has also inspired us to give such companies the leading initiative in areas where they have technological resources that are lacking in TDK. By partnering with companies and people from other nationalities and backgrounds to pursue the realization of shared visions, the strength of diversity has become one of TDK’s hallmarks that also acts as a driver of change. For example, around 2009 when I was overseeing the domestic operations for HDD magnetic heads, I went together with then-President Kamigama to visit a closed-down cassette tape factory. As we overlooked the manufacturing base of lithium polymer batteries (rechargeable batteries). And in 2008, the acquisition of the major electronic components manufacturer EPCOS Group of Germany had many beneficial effects. Our group gained a leading position as a supplier of high-frequency components for smart devices. Our business portfolio and customer base for aluminum capacitors, film capacitors, piezoelectric materials, and other products for the automotive and industrial equipment sectors expanded significantly. Synergy was also created in packaging technology and other technical areas. High-frequency components in particular have become a strong driver of profit growth in recent years. Products in our industry do have a “use by” date. Both HDDs and smartphones have reached a phase of maturity and are bound to eventually go on a decline. But technologies such as magnetics technology and process technology will endure indefinitely. And the strength of diversity that comes from a combination of cultures and different backgrounds also has unlimited potential. By harnessing these strengths, TDK will shape its future course and move toward new frontiers in what I consider to be the dynamic attack strategy. The next big technology wave that we will be riding is the IoT (Internet of Things). Sensors, actuators, and communication modules are to be incorporated in all manner of things around us, and mutual interaction will enable data to be created, analyzed, and used for real-world feedback in ways that so far were hardly believed possible. This development has already begun on a society-wide level. A myriad of electronic components will be required, which brings enormous possibilities and expansion opportunities to manufacturers in this field. Within this scenario, TDK has defined magnetics technology and process technology as the cross-points in our mantle of growth areas. We intend to deliver products with high added value that are not within reach of competitors and can only come from TDK. Electronic components are subject to ever more stringent demands with regard to extreme miniaturization, higher integration, higher functionality, and module integration support. In the age of IoT, these technological demands will certainly become even more severe, and meeting these demands will be a key factor in increasing the power of applications. When TDK recognizes the need for resources reinforcement in order to respond to changes at these cross-points, rather than trying to reinforce our own resources through external investments, we put the focus on collaboration with suitable external partners. We have already carried out some initiatives in this area in 2015 and 2016, and the new partnerships are expected to create huge synergy effects. In May 2015, we established a joint venture company with Taiwan’s Advanced Semiconductor Engineering Inc. (ASE) for the fabrication of semiconductor embedded substrate products. TDK’s semiconductor embedded substrate (SEUSUB) technology was developed by the application of micromachining techniques and materials technology gained while manufacturing inductive devices and HDD magnetic heads. ASE brings sophisticated IC packaging technology and test solution technology to the table. The fusion of these mutual capabilities will enable smaller, thinner, and lighter smart devices and will also result in increased production capacity. At another cross-point, namely automotive applications and magnetic sensors, an initiative that drastically raises added value, is our acquisition of Micronas Semiconductor Holding AG (Micronas) as a subsidiary. Bringing a leading company in the field of Hall sensors for detecting and measuring position, and information into the TDK fold sets the stage for developing multifaceted synergy. Micronas has accumulated 30 years of experience and know-how in the magnetic sensor market which will be highly instrumental in expanding the scope of product applications. The company also boasts outstanding circuit design technology which in combination with TMR elements from TDK will make it possible to further raise the accuracy of digital output signals of sensors to an extremely high level. Creating hybrid-type products with greater added value is of special strategic importance, as I will explain in more detail below. Having Micronas as a partner drastically increases the degree of freedom we have in coming up with creative ideas that meet the needs and demands of customers. And we will of course follow Micronas’ lead in areas where the company has extensive market experience. TDK has concluded an agreement with Qualcomm Incorporated (Qualcomm), to set up the joint venture RF360 Holdings Singapore PTE. Ltd. for supplying high-frequency components. This joint venture will become a powerful player in the high-frequency solutions market by utilizing the high-frequency component-related technology accumulated by TDK together with advanced wireless technology developed by the Qualcomm subsidiary Qualcomm Technologies, Inc. (QTI). It was also agreed that TDK, Qualcomm, and QTI will deepen their technological cooperation in various fields, including passive components, batteries, wireless power transfer, sensors, and MEMS for next-generation mobile devices, the IoT, and automotive products. In the world of IoT, sensors to collect data, CPUs for analyzing them, communication chipsets to provide feedback to the real world, as well as actuators, batteries, and power management technology for driving various devices, will be in high demand. Modularization technology for ultracompact devices will also be needed. Qualcomm is a global leader in manufactur- ing the chipsets that serve as the brain for controlling the communication modules, while actuators and interfaces for the real world are also TDK’s strengths. The collaboration between these companies creates an ideal complementary relationship that can satisfy many pressing technology requirements. Our aim is to create synergy effects that will grow and spread beyond a single cross-point to multiple intersecting areas.

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**Growth strategy for the age of IoT**

**Creating high added value through synergy with partners**

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**MAGNETICS TECHNOLOGIES**

**Magnetic sensors: a pillar of change**

Believing in the vast potential of TMR elements

Around 2009 when I was overseeing the domestic operations of HDD magnetic heads, I went together with then-President Kamigama to visit a closed-down site that had previously been a manufacturing base of cassette tapes. As we overlooked the area, Mr. Kamigama sternly said to me, “Have a good look at this desolate place now overgrown with weeds. This is a part of your responsibility! Were you able to take cassette tape technology and make something else of it?” These severe words still remain with me today because they became the basis for my resolve. He continued: “Don’t let the same thing happen to HDD magnetic heads. As we overlooked the area, Mr. Kamigama

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To Our Stakeholders


**Monozukuri in the age of IoT**

**“TDK Industry 4.5” — Zero defect quality sets us apart**

TDK Corporation is exploring the possibilities of the impending IoT age also with regard to our Monozukuri approach to making things. “Industry 4.0” is an IoT-oriented concept currently being promoted by the German government in cooperation with industry and academia, aimed at achieving autonomous production lines and drastically increasing manufacturing efficiency. TDK is adding quality to the equation with the “TDK Industry 4.5” concept that takes things even further. New production lines that were completed in October 2016 at the Hino Factory and the Inakura Factory in Aita Prefecture in Japan will use a monitoring network comprising cameras and sensors to enable the line to autonomously detect any process problems in real time. Big data analysis is then applied to provide feedback and implement upstream control. While being aimed at zero defect quality, this innovative approach also facilitates inventory control and helps to increase energy efficiency. Using the sites in Japan as pilot plants, the approach will eventually be expanded to other plants and bases around the world, with the aim to realize “location free” operation whereby the same quality can be achieved regardless of the actual production location. In this way, we are taking our quality-oriented Monozukuri to a whole new level.

**Profit growth scenario**

**Toward resuming profit growth from fiscal 2018**

TDK holds an option to sell 49% of the joint venture shares held after 30 months from the contract date to Qualcomm. If this option is exercised, the transfer price is expected to be about US$3 billion. We are defining our Medium-Term Plan until the fiscal year ending March 2018 on the assumption that the option shall be exercised. The key aspect of this plan is the placement of “sensors and actuators,” “energy units,” and “next-generation electronic components” as strategic growth products, aiming for expansion at the cross-points of these product categories. We are actively pursuing strategic investments with the aim of increasing sales of strategic growth products by ¥100 billion by fiscal 2018. When releasing our financial results for fiscal 2016, we also announced an increase in capital expenditure from the originally budgeted ¥350–¥400 billion to ¥430–¥480 billion, demonstrating the intent to accelerate our strategy.

In fiscal 2016, the first year of the plan, the drop in demand for personal computers and the shift from HDDs to solid state drives (SSDs) proceeded more quickly than anticipated, causing shipments of HDD magnetic heads to fall below our initially planned numbers. However, the slack was taken up by passive components and film application products, resulting in record net sales and a year-on-year increase in operating income of 29%. As for the future, due to our policy of focusing on growth investments for the business structure conversion until fiscal 2017, and also taking into account the influence of a stronger yen as compared to the previous fiscal year, we expect sales and net income to decline in the current fiscal year. From fiscal 2018 onwards, investments in strategic growth products are expected to produce results and lead to profit growth, and for fiscal 2019 we are anticipating a scenario of further expansion in strategic growth products. (For details, please see the section on the Medium-Term Plan on page 20.)

HDD magnetic heads, which so far have been a pillar of our revenue, will continue to face a difficult situation. Along with efforts to improve the company’s profitability by right-sizing and consolidating our own production base, we will also be aiming to transcend conventional frameworks and contribute to the right-sizing of the industry at large. Product services powered by advanced technical capabilities as well as controlled investments are further means by which we intend to ensure profits as a remaining player in the industry.

**Expansion plan for strategic growth products**

**The “four-stage rocket” for sensors and actuators**

Among the strategic growth products, our policy for sensors and actuators targets non-optical sensors in general, with magnetic sensors at the center, for which we have drawn a growth scenario that can be likened to the launch of a four-stage rocket.

In the first stage is angle sensors, pressure sensors, and humidity sensors for automotive applications. In keeping with the trend towards the increasing electrification of automobile, we will be working towards an expansion of applications as well as the customer base.

The second stage relates to expected consumer product demand. Using advantages such as high accuracy and low power consumption as sales points, we will develop applications for TMR sensors also in the huge B2B2C market. Because sensors in this area will be about 10 times smaller than automotive-use sensors, more sensors can be produced per wafer, which should lead to increased business efficiency.

After pursuing expansion in the first and second stages, the third stage will consist in maximizing the synergy effect with Micronas, as mentioned previously. For automotive sensors, redundancy is normally required, because they may be involved in life-threatening situations. Even if two identical sensors are used, there is still a possibility that both may fail at the same time. This risk can be further minimized by combining a TMR sensor and a Hall sensor in a hybrid configuration. By harnessing ASIC and packaging technology from Micronas as well, we intend to significantly enhance the added value of sensor products. Finally, the fourth stage consists of modular sensor systems. By offering systems that incorporate multiple parts including the sensor and processor, organized modules, transmitter, etc., we will be able to provide customers with even more useful solutions.

In the field of actuators, we are providing optical image stabilizers (OIS) for prevention of camera shake and voice coil motors (VCM) for auto-focusing in camera modules of smartphones. Along with strengthening our sensor offerings, we will harness proprietary and new technologies to develop products with even higher accuracy and lower power consumption. As the term “energy unit” implies, our policy will be to shift the focus from selling single devices such as lithium polymer batteries (rechargeable batteries) to units that combine hardware and software, offering high added value. By packaging functions such as wireless power transfer, power conversion, energy storage, and energy control together with various sensors, we will aim for expanding the application scope in the area of industrial equipment and automobiles.

Synergy with Qualcomm will be a major driver for growth in next-generation electronic components. Starting with utilizing, IC-embedding technology, thin-film technology, and materials technology will be joining forces to enable a broad portfolio of next-generation electronic components and modules that offer exceptional value. In November 2015, we agreed on the acquisition of the Tsuruoka Factory of Renesas Semiconductor Manufacturing featuring sophisticated clean room facilities to strengthen our production capacity. We intend to position it to play a central role for thin-film products, a product category where demand is expected to grow further.
Accelerating the cycle of overall corporate activities

In the past, I undertook a project at a factory manufacturing HDD magnetic heads to cut the lead time in half. Thanks to the entire staff of the factory—some 600 people—working together, the goal was achieved in about a year, but there was even an unexpected by-product, in so far as the overall business cycle was improved as well. This had wide-ranging effects. First of all, inventory stocking requirements were reduced and production efficiency significantly increased. Samples of new products could also be delivered much quicker. This in turn enabled us to receive customer feedback and requests regarding the sample at an earlier point, so that the development and manufacture of new products overall could move in a faster cycle. By getting cutting-edge products to customers faster, added value was created which eventually resulted in a lower cost rate. This experience is at the root of my current ideas for improving our earnings structure. The “static” attack concept aimed at improving profitability also involves drastic measures for improving efficiency on the cost side, but only a review of the cost structure will eventually hit a limit, and the organization may become fossilized. On the management level, simply looking at management indices and waving the flag will not result in thorough structure reform. As I mentioned, my own stance is to involve all production sites and work tenaciously, with both feet on the ground, toward drastic change of the overall earnings structure of TDK. With this in mind, we need a structure and KPIs that make each and every employee realize that putting things into practice is what enables profitability improvement. Taking the different characteristics of functions such as development, manufacture, marketing, and administration, as well as differences in each business division into consideration, I intend to put in place easy-to-understand and practice-oriented KPIs, for example, for production, design, prototyping, assessment lead time, etc. If every member of our organization fulfills their roles on their own volition, the speed of TDK’s various business activities as well as cash and information flow will increase naturally, which in turn makes it possible to raise the marginal income ratio. This approach to gradually but fundamentally effect change is somewhat similar to Chinese herbal medicine. It will not bring results overnight but strong and determined efforts change things in a positive direction. Current management targets call for an increase in the operating income ratio and ROE by at least 10% each. Through an improvement in earnings structure and expansion of strategic growth products, I intend to bring about a realization of these targets. But with regard to both, 10% of course is not necessarily enough, and I intend to aim toward higher figures.

TDK’s corporate motto, “Contribute to culture and industry through creativity,” is an expression that fully reflects the strong and determined spirit of Kenzo Sato, the company’s founder. At the time of the company’s founding, the special material ferrite that had been invented in Japan was still a totally unknown quantity, so the decision to try and explore its possibilities for industrial use was by no means an easy one. Mr. Saito was motivated by the spirit of originality, aiming to create something of value that had not existed before, and to do so by starting at the fundamental level of the material. He also had the implications for society in mind, and was confident that “where there’s a will, there’s a way.” I strongly believe that we need to follow these trends today and in the future as well, as we move towards the 100th anniversary of the company. In 2015, TDK newly formulated its Corporate Vision and TDK Value in order to properly interpret what our corporate motto means in the current age. I feel it is part of my mission to make sure that the message gets across. We always need to deepen our curiosity and creativity, so that we continue to be a company that contributes through technology to solve the challenges that society is facing. The social aspect is also very important in terms of Monozukuri. As an enterprise with 90 percent of net sales derived overseas and bases in some 30 countries around the world, we are conducting business in close contact with many different local communities, both in Japan and abroad. Without proper consideration for these communities, the continuity of our business would not be assured. Furthermore, in manufacturing products we use many natural resources. To ensure a stable supply, it is absolutely essential that we are committed to proper use of things, i.e., our Monozukuri culture, is fully oriented toward protection of the environment. For a business to be truly sustainable, it must respect the interests of all its stakeholders.

The most important issue to be addressed by our company in anticipation of the 100th anniversary in 2035 is the recruitment and training of human resources, i.e., the people to put our strategy and plans into action. As the age of IoT arrives, opening up vast new opportunities for us to shine, finding and nurturing a greater variety of human resources is essential. Gender, nationality, or creed are irrelevant when looking for talented staff. What we need are people who have potential and who will take up a challenge. In order to bring out the best in them, I also intend to revitalize our human resource management and compensation schemes.

As an early adopter and proponent of globalization, TDK is also actively engaged in strengthening its governance structure. Since 2002, we have brought in outside directors. The chairman of the Board of Directors as well as the chairs of the Compensation Advisory Committee and the Nomination Advisory Committee are outside directors. We actively recruit foreign corporate officers. Since 2015, we have had an evaluation of the Board of Directors performed by a third party. And this was not simply a pro-forma exercise. We thoroughly discussed all issues that had been identified and applied the results toward strengthening our governance. Following a recommendation made in the third party assessment, a new finance and accounting officer was appointed to the Board of Directors, commencing duties from fiscal 2017.

In order to continue sustainable development, we are implementing corporate governance code principles to build an effective, practice-oriented governance structure.

Firmly adhering to the company’s founding spirit, I intend to continue the challenge to unleash the unlimited potential of TDK in the realm of electronics and magnetism. The continued trust and support of all our stakeholders will enable us to march strongly onwards to become a centennial company.

October 2016

Shigenao Ishiguro
President & Chief Executive Officer

Toward creating a “centennial company”
Continuing the challenge in the spirit of the company’s founder

TDK Corporation

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

Takehiro Kamigama
Chairman

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, resulting in the company’s business from the downstream stage, with the move to make the telling for integrated production. TDK was founded on the thinking that the genuine key to Monozukuri, all part of the mission to lead the world in same quality. Monozukuri, all part of the mission to lead the world in same quality.

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 balance 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.

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 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 company’s 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 those 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 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.
Medium-Term Plan

Starting from fiscal 2016, TDK has enacted the Medium-Term Plan that covers the three-year period to fiscal 2018, and actively targets further enhanced corporate value through sustainable growth. In accordance with its basic policy of fostering collaboration within the group to realize further growth, the TDK Group is pursuing “zero defect quality” based on superior technological competence, and promoting true globalization through swift and efficient management.

POINT 1
Focusing on Five Priority Businesses and New Businesses

The Medium-Term Plan defines a growth strategy for five priority businesses in the three priority markets “Automotive,” “ICT,” and “Industrial Equipment and Energy,” and also shines a spotlight on new businesses.

Increasing automotive sales to 30% of total net sales

As automobiles rely more and more on electrical and electronic equipment, demand will rise not only for conventional parts such as capacitors and inductors, but also for customized products including magnetic sensors and automotive chargers. The markets for wireless power transfer systems are also on the horizon, which will further stimulate demand. We aim to raise the share of the automotive sector in our total net sales to 30% by fiscal 2018.

Fiscal 2015 17%
Fiscal 2018 Automotive market 30%

POINT 2
New Businesses in Growth Fields

On the strength of our strategic global R&D framework, we are making full use of the rich and varied technological resources that the TDK Group has built up over time. In particular, advanced thin-film technology gained from the development of HDD magnetic heads is being adapted to thin-film components, magnetic sensors, SESUB technology, and other products. The target figures for these new businesses by fiscal 2018 are sales in excess of ¥100 billion and a sales ratio of 8% of our total net sales.

Sales Ratio Target of New Businesses

Fiscal 2015 1%
Fiscal 2018 8%

Thin-Film Components
Fusion of thin-film technology and materials technology derived from the passive components field enables expanded marketing of new products.

Wearable and Health Care Devices
Expand the sales of power management units containing semiconductor embedded substrate (SESUB) technology and mature module technology.

Sensors for Automobiles and Industrial Equipment
Expand the sales of TEM/GARM sensors and pressure sensors utilizing sophisticated sensing technologies.

Energy Units for Automobiles and Industrial Equipment
Expand the sales of high-efficiency bidirectional DC-DC converters for renewable energy and wireless power transfer systems for industrial equipment.

New Businesses

POINT 3
Monozukuri Innovation — Zero defect quality based on high technology —

TDK is pursuing a “zero defect quality” policy, based on the “Industry 4.0” concept. This is a collective term for an approach currently being promoted by the German government, aimed at revolutionizing the way things are made, by greatly raising the levels of digitization, automation, and virtualization. At TDK, we are incorporating “Industry 4.0” concepts such as sensor based monitoring and real-time control of manufacturing processes, and we are combining these with upstream management, narrowed tolerances, and other aspects of our quest for zero defects, leading to TDK’s unique Monozukuri revolution.

In 2016, we plan to implement these at new factories in Akita Prefecture. Subsequently, the approach will be expanded to other plants and bases around the world, with the aim to achieve “location free,” whereby the same quality can be achieved regardless of the actual production location.

POINT 4
Growth Investment and Achieving Management Target in Medium Term

We are actively pursuing facilities investments focused on strategic growth products and existing key products, and we have increased the budget announced in April 2015 by ¥80 billion, to ¥430–¥480 billion. We also have budgeted R&D expenditures at ¥250 billion, an increase of ¥20 billion. These increases both on the investment and the development side will boost our pioneering initiatives in building up various business opportunities. Returns to shareholders are pursued through the growth of EPS (earnings per share) to achieve a stable increase in dividends. The target for the dividend payout ratio has been set at 30%. We are conducting business with a target of exceeding an operating income ratio of 10% and ROE of 10% by fiscal 2018.

*Location Free* at New Factories in Akita Prefecture

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### Growth Investment

- **New factories in Akita Prefecture**: Operating Income Ratio 8.1% Over 10%
- **New businesses around the world**: Return to Shareholders RHE 9.2% Over 10%
Opening Up the Future with TDK Technology

A Radical Transformation with an Eye to the IoT Market

The Internet of Things (IoT) is a structure that offers mutual control through the exchange of information via not only communication equipment, but also automobiles, infrastructure, industrial equipment, and all “things” connected to the Internet. Development of sensor technology designed to accumulate information, such as angles and humidity, on “things,” as well as information and communication technology designed to exchange information through the Internet, is picking up steam in the hope that it may be applied to such technology as self-driving cars.

At TDK, we are striving to gain business opportunities in the IoT market by focusing on three priority sectors: “Automotive,” “ICT,” and “Industrial Equipment and Energy.” Technology such as sensors, actuators, and thin-film components are products that exercise the strengths of TDK and will help to usher in future growth. In addition, we are proceeding with development of energy units that combine such features as batteries, power sources, and wireless power transfer systems.

In the approaching age of IoT, TDK aspires to be the company that is society’s top choice and is thus pushing forward with bold reforms.
Three Strategic Product Categories to Support Sustained Growth

1. Sensors and Actuators

The magnetic sensors that TDK is focusing on at the moment benefit greatly from thin-film process technology and know-how gained in the HDD magnetic heads sector. The sensors offer high accuracy and dramatically reduced errors, for example, in detecting the steering wheel angle in automobiles, thereby contributing to better fuel economy and lower power requirements. They truly represent the best of magnetics technology perfected over a period of many years.

Starting with automotive applications, we will aim to expand both the scope and our customer base in the magnetic sensor business. Relying on advantages such as high accuracy and low power draw, we plan to explore and develop demand for consumer applications. Integrating TMR elements from TDK and Hall elements from Micronas, we will combine the strengths of both to create sensors with even higher performance. Eventually, these will be offered as modular and system solutions that cover a range of customer needs.

In the field of actuators as well, we will be creating new business opportunities by harnessing proprietary and new technologies to bring products with high accuracy and low power consumption to this market. Optical image stabilizers (OIS) are a strategic growth product category for consumer electronics. In the automotive market, vehicles adopting wireless power transfer systems are expected to become practical in the near future, and the number of automated guided vehicles (AGVs) is also expected to grow. In these new areas, we will be offering energy units with sophisticated software technology, destined to become a major pillar of earnings in the future.

2. Energy Units

An energy unit is defined as a unit that comprises a combination of hardware and software for conversion, storage, and control of electrical energy. TDK plans to combine and link elements that so far have been developed separately; such as DC-DC converters with power conversion functionality, wireless power transfer systems, different types of lithium-ion batteries for storage, and various sensors for energy control applications. With the addition of dedicated software, these will become sophisticated energy units that operate as a system. This is expected to bring a number of advantages, including improved energy efficiency and safety, higher integration, and also lower cost. With regard to automotive inverters, an agreement has been reached with Toshiba Corporation to establish a joint venture.

Energy units will be particularly attractive for the automotive sector and for industrial equipment and energy applications. In the automotive market, vehicles adopting wireless power transfer systems are expected to become practical in the near future, and the number of automated guided vehicles (AGVs) is also expected to grow. In these new areas, we will be offering energy units with sophisticated software technology, destined to become a major pillar of earnings in the future.

3. Next-Generation Electronic Components

TDK plans to introduce next-generation electronic components and modules through a fusion of SESUB technology, thin-film technology, and materials technology. Moving toward this aim, we have implemented a number of initiatives in fiscal 2016. First, we are taking over the Tsunokura Factory of Renesas Semiconductor Manufacturing Co., Ltd., a company with extensive experience in automotive products and semiconductor manufacturing processes. The facility will be used as a manufacturing base for thin-film passive components, contributing to expanded production capacity and also providing a technology boost. We also established a joint venture with Taiwan’s ASE for the fabrication of semiconductor embedded substrate products utilizing SESUB technology. The target here is expanded orders in the wearable and health care devices sector.
TDK’s Technology Strategy Explained by the CTO (chief technology officer)

We also have gained mastery of the art of imparting additives to materials to achieve a targeted functionality, and we possess process technology that enables complete control over thickness or size, again as measured in nanometers. Our arsenal of many different but complementary technologies makes it possible to create just what the customer is seeking. Furthermore, we also develop production equipment in-house to realize mass production of designed products with high quality. This kind of technical resourcefulness is something that competitors from emerging countries or other competitors cannot simply copy. We often get requests from customers for next-generation products and are always involved in various research projects aimed at a range of different characteristics.

We therefore believe that by increasing the speed of the cycle from idea to production, we can maximize the value that we provide to customers. To achieve this aim and reduce the distance between the customer and the development base, we are going to establish four new R&D centers around the globe, focused on different product aspects and operating in close proximity to their respective markets.

The founder’s spirit inspires engineers to create new things of value

Big strides are currently being made in areas such as sensor technology for obtaining sophisticated information about the state of objects, communication technology for sharing such information, and energy technology for powering them. Other exciting developments as a result of these technologies are automobiles that can drive themselves and wearable devices for health monitoring and management.

TDK is harnessing magnetics technology gained while developing high-precision HDD magnetic heads, along with thin-film technology, sensing technology utilizing fine processing technology, and other advanced methods to create sensors with various characteristics for automotive use, and also for medical and industrial equipment applications. The resulting highly compact and highly capable sensors cannot easily be realized by competitors using any standard materials. Within TDK, the building blocks for bringing high added value to the IoT market are in place. Extending to sensors and beyond, we will be creating original high-value-added products for this market.

The pursuit of originality with a strong technological foundation is at the root of all our R&D activities. TDK’s founder who formed the company in 1935 to produce ferrite cores believed in creating new products of value with a hands-on approach, and this spirit is still alive in the engineers working here today. I am convinced that this will remain so in the company’s future as well.

Next-Generation Monozukuri

Building State-of-the-Art Manufacturing Sites to Drive Growth Strategies

In October 2016, TDK completed a building on the site of its Honjo Factory in Akita Prefecture as a new production site for electronic components and a new building at the site of its Inakura Factory in Nikaho City, Akita Prefecture. Previously, TDK reinforced its business sites in the Akita region as electronic component production sites for global markets, but going forward, we will establish new strategic production sites in Akita to conduct more intensive and efficient production of electronic components as a part of our growth strategy for achieving success in the highly competitive global market. These production sites will encourage the sharing of core technologies, such as magnetic materials technologies, which are part of TDK’s DNA, as well as improvements in processes so that we can increase the speed of customer response even further and quickly launch new businesses and new products in the future.

The new plants are also production sites that achieve “TDK Industry 4.5.” “Industry 4.0” is a movement promoted through collaboration among German industry, government, and academia with the aim of minimizing costs by greatly raising the levels of digitization, automatization, and virtualization of production processes much higher than those of today.

TDK added “0.5” to this concept to represent the pursuit of zero defect quality based on advanced technological capabilities to create “TDK Industry 4.5,” an original TDK initiative. In addition, the two new factories in Akita will support the realization of “location-free” production, which will enable TDK to achieve uniform quality on a global level.
Features of the New Akita Factories

1 Deploying New Technologies from “Industry 4.0”

Monitoring system networks made up of cameras and sensors in the factories autonomously detect process problems on the manufacturing line in real time and, if a problem occurs, stop the line to prevent products from being released. The system allows for automatic normalization using feedback from analysis conducted through cloud computing. Innovations are also being implemented in inventory management and energy efficiency.

2 Achieving Zero Defect Quality through Monozukuri Innovation

The key to achieving zero defect quality is establishing upstream control. The aim is to attain zero defect in all areas, including design, materials, processes, and management. To do this, robots and sensors are used, and feedback derived from data is comprehensively applied. Information collected by sensors is utilized as Big data. The information is extensively analyzed and used for temperature, air pressure, and humidity control to link everything for integrated operation. The use of robots is also important for conducting manufacturing with minimal operations by personnel. This will make it possible to achieve location-free production that can maintain uniform quality regardless of the production site. TDK is not simply pursuing full automation or unmanned production but is building ideal lines in all areas, including lead times, production, and logistics, through the optimal placement of people and robots.

3 Designs for Raising Energy Efficiency

The new buildings were designed to raise energy efficiency through such innovations as storing accumulated snow that falls in the winter to support cold recovery. Solar panels installed on the roof of the Honjo Factory East Site can generate up to 70% of the electric power used for lighting the entire site. In addition, the two buildings were designed with an awareness of creating an employee-friendly environment, such as snow-melting equipment in parking areas and on-site arcades, and the buildings are also expected to play a role as next-generation model environment-adapted factories.

Next-Generation Monozukuri for a New Age

Giving shape to the “TDK Industry 4.5” concept to realize zero defect quality

The essential ideas behind the “Industry 4.0” concept promoted by the German government in cooperation with industry and academia are the reduction of personnel requirements and lower costs. Making efforts to keep investments of people and capital as low as possible while increasing production efficiency is an approach that does not differ significantly from the direction in which we are headed. But our new plants are adding “0.5” to the equation by aiming to ensure that no defective product is shipped to the customer, thereby providing added value and resulting in “TDK Industry 4.5.”

The keywords for creating a framework that does not produce defective goods are “Materials” × “Processes” × “Optimization.” In concrete terms, this means that the design already reflects the way the customer’s end product will be used, and the material is developed to elevate the quality of the finished product to the ultimate level. Within each process, the conditions for creating a conforming product are clarified and thorough process step design reflecting the methods and intended outcome is harmonized for strengthened quality management. This will enable the realization of zero defect quality.

New Akita factories to dramatically change the concept of Monozukuri

Strengthening of Monozukuri was a major topic for TDK. The concept for the new Akita factories has its roots in the structural reform period that began in fiscal 2012. At the time, the competitiveness of our multilayer ceramic capacitors, which were one of our major products, decreased and the business became unprofitable. This was due to the fact that we were trailing competitors in terms of quality, lead time, and production costs, among other factors. Our factories in the Akita area were aging, and the need to move products between factories at scattered locations was hurting efficiency.

There was discussion whether production should be moved overseas, where costs were more competitive. One possibility would have been to avoid China with its rising labor costs and go to Southeast Asia or a similar location, but we realized that this would eventually lead to a dead end. Furthermore, developments such as the increasing use of electronics in automobiles and the onset of the IoT society are creating a world where electronic components are ever more intricately linked with daily life, and their quality therefore is an increasingly important factor.

With the intent to create a vibrant place where the latest technologies could flourish and where products that are competitive in many aspects could be manufactured, construction of two new factories was completed in October 2016.

“Location free” approach to producing the same quality anywhere in the world

Reduction of lead time is also a major factor in creating value for customers. To name one example, the Direct Sintering System (DSS) used in our ferrite production lines results in shorter pressing and firing processes. Stated in simple terms, the ideal is to “insert powder and get a finished coil.” We are also increasingly using robots, and we are not limiting ourselves to single-purpose types. Rather, we aim to utilize versatile robots that can perform multiple functions. Combining these efficiently with human labor is the key for increased productivity. By configuring integrated material + production lines, we will be creating a Monozukuri paradigm that results in consistent product output that is completely independent of the production location.
Boosting Earning Power through Speed

Major Reforms Aimed at Sustainable Growth

In anticipation of the long-term market environment, and with the aim of aggressively expanding the portfolio of strategic growth products for the IoT market and achieving Monozukuri reform, TDK is making concerted efforts to speed up development and operations in many areas, including development work to be carried out in close proximity to the customer. We are also aiming for optimization on a global basis by establishing specific KPIs for all processes including sales, manufacturing, and development to enable effective target management. The question of how to turn technological superiority into revenue used to be a challenge for TDK. We are currently building an optimized framework designed for higher profitability to enhance our competitive edge in the electronic components sector worldwide.

1 Speeding Up the Business Cycle through KPI-based Target Management

Important indicators
- Accounts receivable turnover
- Information network utilization count
- etc.

Sales

Important indicators
- Quality of unit time
- Cost management
- Manufacturing process review
- Optimal inventory management
- Information utilization count
- etc.

Manufacturing

Important indicators
- Number of R&D themes
- Number of patents
- Number of submitted sample prototypes to customers
- Number of technologies or products, including newspaper articles
- etc.

Development

Our main R&D and technical support base

2 “TDK Industry 4.5” to Speed Up the Monozukuri Cycle

TDK, while pursuing value for its customers, is of course a business operation. Being able to provide customers with a stable supply of high-quality products is important, but having to keep a large inventory is not a desirable situation. In order to increase the speed of inventory turnover, it is essential to create a framework for getting manufactured products to the customer without delay. “TDK Industry 4.5” is a revolutionary concept intended to solve such issues. Reducing the lead time of products is a key factor for increasing productivity. With the Monozukuri approach, an optimized inventory makes it possible to build a highly effective framework that keeps manufacturing processes as short as possible. This will speed up the overall business cycle and determine how quickly we are able to supply the customer with products. Establishing such a framework is a major step toward the intended increase in profitability.

At two new factories in Akita Prefecture, production lines with extremely short lead times are being introduced which will transform the Monozukuri process. In order to be successful, many modifications and improvements must come together. TDK intends to turn “TDK Industry 4.5” into a tangible reality without delay to gain the trust of customers.

3 Accelerating the Development Cycle to Bring New Products to Market Faster

We believe that a sense of speed is important in developing products and bringing them to the market-ready stage. In November 2014, the Technology HQ opened the ICT Devices Development Center tasked with developing high-frequency components and similar products for smartphones, and the Energy Devices Development Center for power-related products intended for automobiles, industrial equipment, and the like. The new facilities are contributing to increased development speed in their respective areas. Furthermore, the newly established Materials Development Center is conducting long-term intensive research aimed at the development of new materials and bringing out the properties of materials.

4 R&D at Global Bases Taking Advantage of Different Regional Characteristics

The requirements of customers for electronic components differ greatly depending on the location. In some areas, the pursuit of cutting-edge technology is a top priority, while customers in other areas are more interested in stable supply and available quantities. TDK has established R&D bases in various parts of the globe and is carrying out R&D activities that are matched to local conditions. We rapidly develop new technologies where customers need them, thereby shortening the time until delivery. At the same time, our sales staff is also in close contact with customers, working together with the R&D side to identify emerging needs as early as possible and provide input and feedback. In Japan, research with a medium- and long-term perspective is being carried out, aimed at new structures and new processes that will benefit the entire TDK Group.
Now that TDK’s growth strategy has made its way toward the transformative phase, we are going to apply our finance and capital strategies toward giving that growth strategy a formidable push.

Tetsuji Yamanishi
Director
Corporate Officer
General Manager of Finance & Accounting Group

Belief as director
Fulfilling duties based on the dual aspects of “setting the stage for dynamic attack strategy” and “practicing restraint”

One of my duties as I perceive them is setting the stage for various “dynamic attacking” measures by TDK that steer us in the direction of our growth strategy through such means as verifying investment recovery plans and procuring capital. At the same time, my approach is to look squarely at the act of voluntarily assuming risk amid growing levels of uncertainty, carefully verify the nature of the risks, and “practicing restraint.”

Finance strategy during business structure transformative phase
Allocating management resources to new growth fields with a view to sustainable growth

Under our Medium-Term Plan (from the fiscal year ended March 2016 to the fiscal year ending March 2018; see pages 20–21 for details), we are aggressively conducting growth investment that includes between ¥430 billion and ¥480 billion in planned capital expenditure and approximately ¥250 billion in planned research and development expenses. The size of this investment is the amount we anticipate to be necessary in order to achieve an operating income ratio of over 10%, one of our medium-term management targets, without sacrificing our operating income ratio in the immediate term.

Originally, TDK did not undergo any major changes in its business domains. Apart from the case of EPCOS Group, which we acquired in 2008, by and large we kept all the investments that we made, MAAs or otherwise, within the limits of our operating cash flow. Conversely, given the large-scale rearrangement of our business structure that we are currently advancing, TDK’s policy today is to fund our investments not only through our operating cash flow but also by taking cash that we will acquire through the transfer of our high-frequency components business to Qualcomm and allocate it to our growth businesses.

TDK has the option of setting 49% of its stake in the joint venture that it has with Qualcomm 30 months after the date on which we concluded our agreement with that company. Should this right be exercised, we anticipate that the total value of the resulting gains to us will come to approximately ¥33 billion in the end. Based on this, we are in the process of conducting certain investments, such as the corporate acquisition of Micronas, and capital expenditures ahead of schedule to elevate our management speed.

Optimum capital structure for realizing our long-term strategies
Designing our capital structure while keeping sustainable and stable investment in mind

In the electronic components industry where we base ourselves, the rate of technological innovation is extremely rapid. Additionally, the industry is affected by currency exchange rates and other market conditions, as well as macro-environmental shifts. In order to sustainably elevate our competitiveness amid such a situation, we need to continually make growth investments, particularly those in new products and technologies within key fields, based on long-term prospects. For that reason, TDK designs both its growth strategy and its optimum capital structure around a long-term timeline. Based on the idea that a certain degree of solidity in our shareholders’ equity is absolutely necessary in order for us to make stable research and development investments and capital expenditure even as our business performance fluctuates in the short term, we seek to continue maintaining a shareholders’ equity ratio in the range of 50%. At present, we are aggressively conducting advance investment in our leading businesses while implementing a structural rearrangement on a business-by-business basis.

For that reason, our debt-to-equity ratio following the resulting increase in the procurement of funds through borrowings reached approximately 0.5 in fiscal 2016. However, our policy is to build a formidable financial constitution over the medium to long term by both expanding the earnings of our existing businesses and ensuring returns on our M&As and other investments. With regards to dividends, we have set a dividend payout ratio target of 30%. As we endeavor to steadily increase dividends through growth in profit per share, we also recognize the acquisition of treasury stock as one of our policies for returning profits to shareholders. We intend to meet the expectations of shareholders who have supported our long-term strategies.

Improving capital efficiency in tandem with control indicators
Managing and controlling “Business ROA” as a KPI and realizing improved ROE

In formulating our Medium-Term Plan, after affirming our awareness of the cost of capital, TDK set its ROE target value at “over 10%.” To ensure that we realize improved capital efficiency going forward, we manage control indicators in tandem with ROE that can serve as targets under the business activities of each business group that are responsible for generating earnings. Starting in 1999, TDK set forth an indicator that we call “TVA,” or “TDK Value-Added.” This indicator serves to compare return (income margin before interest and after taxes) versus the cost of capital (shareholders’ equity plus interest-bearing liabilities). From there, we controlled that indicator on a companywide level while remaining mindful of the cost of capital. TVA has also served as the basis for computations of discount cash flow versus capital expenditure, terms of ROI when conducting M&As, and so forth. As an indicator, however, TVA was difficult to manage on a business level due largely to the fact that the concept of “capital” does not tie into business departments directly. As such, under our existing plan, we have elected to manage and control “Business ROA” as a KPI instead. Business ROA represents our profit margin versus inventory, fixed assets, and other assets under each business, which we collectively call “TVA assets.” Subtracting the cost of capital from Business ROA yields the added value generated by each business, or TVA. In other words, under this system, pursuing inventory turnover periods, accounts receivable collection periods, and other relatively familiar indicators along with operating income and investment profit ratios causes capital efficiency across our entire organization to go up even without our people on the front lines being directly mindful of ROE. Going forward as well, we will bring together the total capability of the TDK Group and strive to achieve improved Business ROA, and we intend to gradually elevate our company-wide ROE by realizing the maximization of the added value of each business.

Companywide and Business-specific Control Indicators

Improving capital efficiency in tandem with control indicators
Managing and controlling “Business ROA” as a KPI and realizing improved ROE

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Improving capital efficiency in tandem with control indicators
Managing and controlling “Business ROA” as a KPI and realizing improved ROE

In formulating our Medium-Term Plan, after affirming our awareness of the cost of capital, TDK set its ROE target value at “over 10%.” To ensure that we realize improved capital efficiency going forward, we manage control indicators in tandem with ROE that can serve as targets under the business activities of each business group that are responsible for generating earnings. Starting in 1999, TDK set forth an indicator that we call “TVA,” or “TDK Value-Added.” This indicator serves to compare return (income margin before interest and after taxes) versus the cost of capital (shareholders’ equity plus interest-bearing liabilities). From there, we controlled that indicator on a companywide level while remaining mindful of the cost of capital. TVA has also served as the basis for computations of discount cash flow versus capital expenditure, terms of ROI when conducting M&As, and so forth. As an indicator, however, TVA was difficult to manage on a business level due largely to the fact that the concept of “capital” does not tie into business departments directly. As such, under our existing plan, we have elected to manage and control “Business ROA” as a KPI instead. Business ROA represents our profit margin versus inventory, fixed assets, and other assets under each business, which we collectively call “TVA assets.” Subtracting the cost of capital from Business ROA yields the added value generated by each business, or TVA. In other words, under this system, pursuing inventory turnover periods, accounts receivable collection periods, and other relatively familiar indicators along with operating income and investment profit ratios causes capital efficiency across our entire organization to go up even without our people on the front lines being directly mindful of ROE. Going forward as well, we will bring together the total capability of the TDK Group and strive to achieve improved Business ROA, and we intend to gradually elevate our company-wide ROE by realizing the maximization of the added value of each business.
About TDK

Sales by Segment

TDK is harnessing its proprietary core technologies and Monozukuri power, creating innovative products in areas such as passive components, magnetic application products, film application products, and other.

- **Passive Components**
  - Net Sales (Outside): ¥1,152.3 billion (50.0%)
  - Net Sales (Inside): ¥222.4 billion (19.3%)

- **Magnetic Application Products**
  - Net Sales (Outside): ¥155.3 billion (27.3%)
  - Net Sales (Inside): ¥31.3 billion (3.4%)

- **Film Application Products**
  - Net Sales (Outside): ¥222.4 billion (50.0%)
  - Net Sales (Inside): ¥31.3 billion (3.4%)

- **Other**
  - Net Sales (Outside): ¥31.3 billion (3.4%)

High Level of Globalization

The TDK Group is active in over 30 countries and regions all over the globe, selecting suitable bases for plants, research facilities, and sales offices under the viewpoints of marketability, product range, distribution, etc. TDK has 129 consolidated subsidiaries, including 14 domestic consolidated subsidiaries and 115 overseas consolidated subsidiaries, and employs a total workforce of 91,648 people.

- **Americas**
  - Net Sales (Outside): ¥102.0 billion (8.5%)
  - Employees (Inside): 3,198 people (3.5%)

- **Japan**
  - Net Sales (Outside): ¥91.1 billion (7.9%)
  - Employees (Inside): 8,920 people (9.7%)

- **Europe**
  - Net Sales (Outside): ¥145.3 billion (12.6%)
  - Employees (Inside): 7,763 people (8.5%)

- **Asia and Others**
  - Net Sales (Outside): ¥813.9 billion (70.6%)
  - Employees (Inside): 71,767 people (78.3%)

Toward Genuine Globalization

Building Value with Our Global Partners

The TDK Group consists of numerous Group companies conducting business around the world. Group subsidiaries hire exceptional human resources without regard for nationality, race, gender, or other attributes, and some 72% have non-Japanese presidents.

In fiscal 2016, overseas sales accounted for 92.1% of the TDK Group’s total, and 86.3% of products were manufactured overseas. Thus, overseas production and sales are now a common feature of TDK’s business. At the same time, we carry out risk countermeasures in each region in response to effects from changes in the global macro-environment and work to control those risks to the greatest extent possible.

Passive Components

The passive components segment is TDK’s mainstay, generating about half of its total net sales. The segment includes the capacitors business, comprising ceramic, tantalum, electrolytic, and film capacitors; the inductive devices business with coils, etc.; and other passive components including high-frequency components, piezoelectric material components, circuit protection devices, and sensors. As mobile devices become more powerful and incorporate a variety of functions, and as automobiles rely ever more heavily on electrical and electronic equipment, the demand for passive components continues to expand, a trend that is expected to remain strong.

Magnetic Application Products

TDK’s magnetic application products segment mainly comprises HDD magnetic heads, a field in which we hold high worldwide market share. The segment is divided into the recording devices business, comprising HDD magnetic heads and HDD suspensions, and other magnetic application products business including power supplies and magnets. HDD magnetic heads handle the task of writing information to the magnetic media and reading the recorded information. Our mastery of thin-film process technology on the nanometer level has brought about an amazing increase in storage capacity. High-efficiency power supplies incorporating outstanding ferrite and transformer technology, and high-performance magnets also contribute significantly to the conservation of power and resources.

Film Application Products

The film application products segment covers energy devices such as rechargeable batteries primarily for smartphones, tablets, notebook PCs and other ICT devices, and similar applications.

Other

Products that are not part of the three major segments, such as mechatronics (production equipment), anechoic chambers, and flash memory applied devices, are grouped into this category.

TDK Corporation

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TDK Corporation

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Annual Report 2016
## Consolidated Business Results Highlights

**Years ended March 31**

### CO2 emissions in manufacturing (t-CO2) 2011

<table>
<thead>
<tr>
<th></th>
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### Dividends

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### Key Financial Ratios

#### Per Share Data

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<th>Item</th>
<th>2011</th>
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<tr>
<td>Yen</td>
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</tbody>
</table>

### Breakdown of Operating Income Changes

#### Fiscal 2016

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in sales</td>
<td>1,251</td>
</tr>
<tr>
<td>Change in exchange rate</td>
<td>(150)</td>
</tr>
<tr>
<td>Payment for purchase of debt-free investments</td>
<td>(484)</td>
</tr>
<tr>
<td>Payment for purchase of securities</td>
<td>(251)</td>
</tr>
<tr>
<td>Sale of investments</td>
<td>(75)</td>
</tr>
<tr>
<td>Acquisition of subsidiaries</td>
<td>(18)</td>
</tr>
<tr>
<td>Change in accounts receivable and bank balance of TDK</td>
<td>(3)</td>
</tr>
<tr>
<td>Other gain</td>
<td>18</td>
</tr>
<tr>
<td>Free cash flows</td>
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</tr>
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### Breakdown of Free Cash Flows

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### Notes

1. In accordance with the provisions of ASC No. 205-20, “Presentation of Financial Statements—Discontinued Operations,” operating results relating to the data tape business and the HDD business are separately presented as discontinued operations in the consolidated statements of operations for the year ended March 31, 2014. Also, reclassifications are made in the consolidated statements of operations for the year ended March 31, 2010, to conform to the presentation used for the year ended March 31, 2014.

2. The TDK Environmental Action Plan (hereafter referred to as “Plan”) was announced by TDK, in December 2012. The “CO2 emissions reduction targets (t-CO2)” figures are for June 2017 targets.
Performance was sluggish from fiscal 2009 due to poor demand for electronic components during the simultaneous slowdown of the world economy, the impact of the Great East Japan Earthquake, and other factors. But after structural reforms were implemented from fiscal 2012, results drastically improved, and net income in fiscal 2016 reached ¥1,450.6 billion, up 3.3% year on year.

Sales of products for smartphones in the Chinese market and for automobiles in the North American market were strong, and net sales in fiscal 2016 reached ¥1,152.3 billion, a new record high. The overseas sales ratio has been increasing over the past 10 years, particularly in the United States and Asia; in fiscal 2016, sales outside Japan accounted for 92.1% of total net sales.

Operating income in fiscal 2016 was up 28.9% year on year, to ¥204.4 billion, and the operating income ratio increased 1.4 percentage points, to 8.1%.

The Group’s operating capital was expended primarily for the acquisition of EPCOS AG, as well as for investment in manufacturing facilities and in research and development. In fiscal 2016, TDK conducted active capital investment to further reinforce its position. It is essential that we respond to rapid technological innovation in electronics markets and continuously make capital investments to create new products and develop new technologies. In fiscal 2016, TDK continued active capital investment to further reinforce its position.

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Stockholders’ equity and the stockholders’ equity ratio have been gradually increasing in recent years, although both figures declined due to the acquisition of EPCOS AG. These were also affected by goodwill depreciation arising from active mergers and acquisitions. As a result, stockholders’ equity in fiscal 2016 was ¥93.4 billion, down 8.6% year on year.

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Basic Policy and Prospects for Profit Distribution

TDK’s basic policy with regard to dividends is a stable increase through growth in profit per share, based on the understanding that long-term expansion of corporate value is the way to expand value to shareholders. In order to respond to rapid technological innovation in the electronics market, TDK aggressively invests for growth mainly in the priority areas of new products and new technologies. The aim is to further increase corporate value in the long term. We aggressively reinvest profits in business activities, and then base our dividends on a comprehensive evaluation, taking into account consolidated base return on equity (ROE) and dividend on equity (DOE) standards as well as changes to the business environment.

For fiscal 2016, the yearly dividend amounted to ¥120 per common share. Consequently, the dividend payout ratio was 23.3% and the ratio of dividends to stockholders’ equity was 2.1%.

For the next term, an interim dividend of ¥60 and a year-end dividend of ¥60 are planned, resulting in an expected yearly dividend of ¥120 per common share.

Strategy for Increasing ROE

The Ito Report released by the Ministry of Economy, Trade and Industry in August 2014 indicated the importance of striving for ROE that exceeds capital costs, raising motivation by incorporating ROE into workforce management indicators, and seeking to increase ROE over the medium to long term.

TDK conducts management with an emphasis on ROE which is a global investment criterion. In fiscal 2016, ROE was 9.2%, up 2 percentage points over fiscal 2015. TDK is currently conducting business with a target of achieving ROE of over 10% in fiscal 2018.

Comparison of Share Price and Tokyo Stock Price Index (TOPIX)

Comparison is based on monthly closing prices and a value of 1 for the April 2007 management integration.
Segments at a Glance

Sales by Segment (Fiscal 2016)

- Capacitors: ¥150.4 billion
- Inductive Devices: ¥149.2 billion
- Other Passive Components: ¥276.1 billion
- Other Magnetic Application Products: ¥315.3 billion
- Film Application Products: ¥222.4 billion
- Recording Devices: ¥219.8 billion
- Japan: 7.9% of sales, ¥91.1 billion
- Asia and Others: 70.6% of sales, ¥813.9 billion
- Europe: 12.6% of sales, ¥145.3 billion
- Americas: 8.9% of sales, ¥102.0 billion

Note: In accordance with the reorganization in the first quarter of fiscal 2016, certain products under Inductive Devices, Other Passive Components, and Other Magnetic Application Products were reclassified into “Other” that was not a part of these three reportable segments. The previous year’s sales were also reclassified to conform to the new segmentation.

Market environment and opportunities

For Automotive
- Trend toward lighter weight and electrification of in-vehicle equipment, driven by customers’ increased fuel economy awareness
- Development of new technologies such as ADAS and autonomous driving

For ICT
- Increased demand in the Chinese and Indian market and other emerging economies
- Market entry of new terminals
- Mobile terminals with lower profile, more functions, higher performance

For Industrial Equipment and Energy Applications
- Emergence of smart cities in various locations with smart grid (next-generation power distribution network) as energy infrastructure
- Increased demand for renewable energy systems such as wind power and solar power installations

Factors affecting the market
- New environment-related legislation in various countries
- Internalized measures by various governments aimed at saving energy and costs
- Strong pressure on prices due to commoditization of existing products leading to price wars
- Development of new technologies and products by competitors
- Higher prices for source materials due to increased demand
- Fluctuations in sales figures and raw material procurement costs due to exchange rate fluctuations
- General consumer trends in electronics products
Overview of fiscal 2016
Sales of ceramic capacitors, aluminum electrolytic capacitors, and film capacitors increased, and profits rose as well, due to a firmer automotive market. The same was true for inductive devices, with products for automotive applications performing well. Sales of high-frequency components for the ICT market increased significantly, and profit margins were strongly boosted by improved productivity and a better product mix.

In the area of piezoelectric material components and circuit protection devices, sales of products for camera modules increased, and sensors for the automotive and industrial equipment markets also showed an increase.

Net sales in the passive components segment rose by 8.2% year on year to ¥1,075.7 billion, and operating income rose by 81.4% to ¥66.4 billion. The fact that sales for the automotive and ICT markets in the United States and China remained strong greatly contributed to improved net sales and profit margins.

Increased sales of ceramic capacitors, aluminum electrolytic capacitors, and film capacitors were especially notable. In the automotive market, products such as various sensors (water, tooth, pressure, current, temperature) were effective for such things as improved fuel economy and functionality. TDK is harnessing materials technology, process technology, evaluation and simulation technology, and packaging technology. Furthermore, in the ICT market the advent of large-capacity, high-speed communications with increasing data volumes means that support for higher frequency bands along with higher performance and multifunctionality are more important than ever. The TDK product portfolio is characterized by its wide scope, including not only the widely used conventional SAW filters but also BAW filters suitable for high-frequency bands. The demand for such products as thin-film common mode filters for smartphones is expected to grow further, which will allow us to demonstrate our strengths in this area.

We are also continuing to develop strategic products for new markets in the industrial equipment and energy sector, including electronic components for wireless power transfer systems.

Medium- to long-term growth strategy
In the passive components segment, we will be targeting new IoT-related business opportunities via the automotive, ICT, and industrial equipment and energy sectors, which are our priority markets.

In the area of automobiles, manufacturers are looking toward further heightened levels of fuel economy, safety, comfort, and sustainability. To these customers, we are offering comprehensive solutions made possible by our expertise in materials technology, process technology, evaluation and simulation technology, and packaging technology. Furthermore, in the ICT market the advent of large-capacity, high-speed communications with increasing data volumes means that support for higher frequency bands along with higher performance and multifunctionality are more important than ever. The TDK product portfolio is characterized by its wide scope, including not only the widely used conventional SAW filters but also BAW filters suitable for high-frequency bands. The demand for such products as thin-film common mode filters for smartphones is expected to grow further, which will allow us to demonstrate our strengths in this area.

Outlook for fiscal 2017
In fiscal 2017, we expect net sales to grow by 3%–6%. Among inductive devices, the share of thin-film products and multilayer products for the ICT and automotive markets is expected to increase. Regarding high-frequency components, we are aiming to expand sales of compact, high-performance discrete products as well as modular products. As for piezoelectric material components, the business volume of actuator type optical image stabilizers (OIS) used in smartphone camera modules to prevent blurry photos is expected to expand, and we plan on further increasing sales in this area.

Initiatives based on growth strategy
- Strategic alliance and joint venture with Qualcomm
  In January 2016, we announced an agreement with U.S.-based Qualcomm Inc., a leader in next-generation wireless, technology, to establish RF360 Holdings Singapore Pte. Ltd. This joint venture company will be supplying high-frequency front-end modules, high-frequency filters, and similar products for various market segments, including mobile device systems, drones, robots, and automotive control systems. The mobile communications market is one of the most dynamic and fast-changing markets in the world, generating enormous demands for suitable products. In addition to offering multiband capability for 3G, 4G, and LTE, smartphones also need to support connectivity for many different wireless environments. With 5G expected to bring further complexity, end products nevertheless must be small and highly integrated while realizing sophisticated multi-functionality. Qualcomm has an excellent track record in advanced high-frequency technology and products. Combining these with TDK’s unique capabilities in micro-acoustic high-frequency filtering, packaging, and module integration technologies will make it possible to offer cutting-edge high-frequency solutions to customers.

- Going beyond high-frequency solutions, both companies also have agreed on business and technological cooperation in other key areas, including passive components, batteries, wireless power transfer systems, sensors, and micro-electro-mechanical systems (MEMS). In addition to strengthening TDK’s capabilities to achieve breakthrough solutions to technical problems that we may face in the future, this will bring new technological know-how to various markets and blaze a path toward the next generation of applications. By enhancing product power in key sectors and enabling technological development in new sectors, the alliance will expand our business opportunities.
Overview of fiscal 2016

Net sales in fiscal 2016 dropped by 13.2% year on year to ¥315.3 billion, and operating income dropped by 55.5% to ¥315.3 billion, and operating income dropped by 55.5% to ¥13.2 billion. Sales of HDD magnetic heads were affected by the drop in HDD publication volumes, which in turn was caused by the shift from HDD to SSD as storage media inside personal computers. This resulted in sluggish market performance and the above-stated decline. Sales of power supplies for industrial equipment rose, but sales of magnets both for the automotive and the ICT markets decreased. In order to strengthen our HDD suspension business and our position in the HDD magnetic head business overall, we acquired Hutchinson Technology Inc. in October 2016.

Medium- to long-term growth strategy

The scale of the HDD market is expected to shrink further due to reduced demand for personal computers and the shift to SSD storage. We are therefore facing a difficult business environment in this area. On the other hand, demand for HDDs in nearline and external storage applications and for surveillance camera systems is expected to remain solid. The demand for heads used in the internal HDDs of PCs will probably continue to contract, but the number of heads used per HDD unit is expected to increase, especially in nearline-type installations. TDK will continue to optimize the scale of production and utilize advanced technology to deliver superior products and services.

The HDD business also faces a severe business climate, but our advanced technological development continues. High-performance rare-earth-type magnets and next-generation ferrite magnets will be reaching the product stage, and we are also working on special magnets for hybrid and electric vehicles. We intend to improve profitability through the development of market-leading products. The power supply business is expected to experience growth in demand for industrial equipment products. We will continue to develop high-efficiency power supplies that contribute to savings in energy consumption by industrial equipment overall.

Outlook for fiscal 2017

In fiscal 2017, the magnetic sensor business for the automotive market is projected to expand, and we expect the acquisition of Micronas Semiconductor Holding AG in fiscal 2016 to contribute to business performance. By contrast, shipping volume of HDDs, which was in the order of 444 million in fiscal 2016, is predicted to drop to around 400 million in fiscal 2017, which means that sales of HDD magnetic heads will decrease. Due to the above factors, we expect net sales in fiscal 2017 to fall by about 11% to 14%, as compared with fiscal 2016.

Important Requirements for Future Products

• Further increase in storage capacity and miniaturization
• New technologies such as thermal assisted magnetic recording heads
• Development of high-speed and high-reliability products
• Supply magnets that reduce use of rare resources to a minimum
• Supply magnets with high magnetic properties (high magnetic force and high heat resistance) that contribute to miniaturization and higher efficiency of electric motors
• Development of high-efficiency power supplies

Customers

Car manufacturers, communication equipment manufacturers, industrial equipment manufacturers, infrastructure manufacturers, home appliance manufacturers, precision instrument manufacturers, etc.

Competitors

Domestic

HDD magnetic heads: Seagate Technology (USA)

Power supplies: Cosel

Magnet: Shin-Etsu Chemical, Hitachi Metals, etc.

Overseas

HDD magnetic heads: Seagate Technology (USA)

Power supplies: XP-Power (Singapore), MEAN WELL (Taiwan)

Magnetic Enterprise Group (China), etc.

World Market Share of Reputable Products

HDD magnetic heads: 20%–25%

Ferrite magnets: 20%–25%

Power supplies for industrial equipment: 19%–20%

Note: TDK is the only manufacturer in the world specializing in HDD magnetic heads. Currently, the production of such heads is concentrated in three companies: TDK, Seagate Technology, and Western Digital Technologies.

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Medium- to long-term growth strategy

The scale of the HDD market is expected to shrink further due to reduced demand for personal computers and the shift to SSD storage. We are therefore facing a difficult business environment in this area. On the other hand, demand for HDDs in nearline and external storage applications and for surveillance camera systems is expected to remain solid. The demand for heads used in the internal HDDs of PCs will probably continue to contract, but the number of heads used per HDD unit is expected to increase, especially in nearline-type installations. TDK will continue to optimize the scale of production and utilize advanced technology to deliver superior products and services.

The HDD business also faces a severe business climate, but our advanced technological development continues. High-performance rare-earth-type magnets and next-generation ferrite magnets will be reaching the product stage, and we are also working on special magnets for hybrid and electric vehicles. We intend to improve profitability through the development of market-leading products. The power supply business is expected to experience growth in demand for industrial equipment products. We will continue to develop high-efficiency power supplies that contribute to savings in energy consumption by industrial equipment overall.

Outlook for fiscal 2017

In fiscal 2017, the magnetic sensor business for the automotive market is projected to expand, and we expect the acquisition of Micronas Semiconductor Holding AG in fiscal 2016 to contribute to business performance. By contrast, shipping volume of HDDs, which was in the order of 444 million in fiscal 2016, is predicted to drop to around 400 million in fiscal 2017, which means that sales of HDD magnetic heads will decrease. Due to the above factors, we expect net sales in fiscal 2017 to fall by about 11% to 14%, as compared with fiscal 2016.
Film Application Products

Overview of fiscal 2016

In the film application products segment, we were able to expand our market share in energy devices (rechargeable batteries) for major customers in the ICT market, and we also expanded our customer portfolio. Furthermore, rising demand from new application areas, such as drones, boosted our net sales by 47.0% year on year to ¥222.4 billion, and operating income rose by 48.0% to ¥36.4 billion.

Medium- to long-term growth strategy

In the film application products segment, the TDK subsidiary Ampere Technology Ltd. (ATU) in Hong Kong plays a central role in our business operations. With regard to energy devices for the ICT sector, the trend toward thinner mobile devices suggests that the demand for lithium polymer batteries will continue to rise. Taking advantage of this changeover, we intend to broaden our customer portfolio and thereby further increase our market share. An additional manufacturing line at the Hong Kong subsidiary will boost production capacity for rechargeable batteries, and we are also intensifying various other facility investments with similar aims.

Unlike passive components, batteries are the final form of the integrated product, requiring mastery not only of battery technology but also of design and packaging aspects. In order to strengthen our capabilities in packaging technology, we acquired the Chinese company Navitasys Technology in 2012, giving us an advantage in the lithium ion battery packaging business. We are strengthening our RD&I power in the entire technology but also of design and packaging aspects. In order to strengthen our capabilities in packaging technology, we acquired the Chinese company Navitasys Technology in 2012, giving us an advantage in the lithium ion battery packaging business. We are strengthening our RD&I power in the entire

Outlook for fiscal 2017

We expect net sales of applied film products to grow by 12%–15% in comparison with fiscal 2016. Driven by the trend toward thinner mobile devices, sales of lithium polymer batteries are set to grow, not only for delivery to major North American customers but also to customers in China and South Korea. Demand in new application fields, such as drones, is also projected to rise. The move toward a broader spectrum of customers will result in a more balanced customer portfolio and further contribute to the stabilization of our operations.

Initiatives based on growth strategy

Development and production aimed at new applications

The demand for rechargeable batteries is spreading from smartphones to notebook computers, robots, drones, and various other application fields. Because computers need more power than smartphones, the battery capacity per unit has to be larger, which will translate into rising demand in the future. In addition, the demand for Energy Storage Systems (ESS) for solar power and wind power installations is also expected to expand.

TDK is considering making continuous investments directed toward increased lithium ion battery production by fiscal 2018. Especially in China, where high demand is expected, we are planning to expand facilities at production sites to establish a solid mass production framework. In addition to expanding and adding new equipment, we will also be updating existing equipment and boosting production efficiency.

Besides the production aspect, the development framework is also being strengthened. In the autumn of 2015, we opened a new research center in China where gifted engineers from all over the world are coming together. Development of composite parts for a management system to enhance the safety of batteries is progressing, with the aim of further enhancing our competitiveness.

TDK is also investing aggressively in the development of special and unique battery products, such as quick charging batteries.

Important Requirements for Future Products

+ Possible comprehensive solutions from battery cells to packaging design for batteries
+ Maintain pricing competitiveness
+ Minimize malfunction risks

Customers

Domestic: Panasonic, Hitachi Maxell, etc.
Overseas: Samsung SDI (Korea), LG Chemical (Korea), BYD (China), etc.

World Market Share of Representative Products (TDK Data)

Lithium ion polymer batteries 23%–30%

Other

Regarding areas other than the three segments reported previously, we are also active in mechatronics (production equipment) and various other fields. Net sales for fiscal 2016 rose by 8.0% over the previous term to ¥38.8 billion. Operating income for fiscal 2016 was ¥9.1 billion, a 229.4% year-on-year increase.

Main Products

Mechatronics (production equipment)
TDK has gained expertise in mechatronics through such production equipment as flip chip mounting machines. In this way, we are supplying the market with the most advanced factory automation equipment.

Radio wave anechoic chamber
High-performance antennas and automated measurement systems with dedicated software improve the efficiency of EMC measurements. TDK offers EMC solutions comprising highly accurate EMC measurement services to support effective noise countermeasures in electronic devices.

Flash memory application devices
TDK supplies solid state drives (SSDs) with proprietary memory control chips and CompactFlash cards for industrial use.
Investing Capital for Continuous R&D

In the electronics industry, which continuously undergoes rapid changes and technological innovations, there are numerous examples of the commoditization of new products in the blink of an eye. TDK is confident that releasing valuable and creative new products to markets one after another through continuous research and development will contribute to increasing corporate value and profits. Since fiscal 2007, TDK has placed particular emphasis on R&D, maintaining annual R&D expenses of ¥50 billion or more, equal to approximately 6%–7% of sales. In fiscal 2016, we spent ¥84.9 billion on R&D. Going forward, we will continue our efforts to develop new and valuable products with a focus on our three priority markets: automotive, ICT, and industrial equipment and energy.

TDK is also working to strengthen and utilize its patent portfolio by managing and acquiring patents, licenses, and other intellectual property rights regarding the functions, designs, and so on, of TDK products as a strategic intellectual property initiative that will contribute to profits. We are also continuing our efforts to protect new products.

SUSTAINABILITY

Building Global Systems for Continuous Development of Valuable New Products

■ Development of systems by leveraging local resources
One of TDK’s key features is the development of systems for conducting development globally and using local resources. We conduct joint R&D with leading universities in the United States and Europe and are constructing materials development systems tailored to local customers in China as well.

■ M&A’s and tie-ups reinforce TDK’s technological capabilities
TDK continuously expands its technological capabilities through M&A’s and tie-ups. The battery business, which currently boasts high-profits, was developed with Ampex Technology Limited in Hong Kong, which was acquired in 2005, while the high-frequency components business was jointly developed with EPCOS Group, with which TDK merged in 2008, expanding our customer base. TDK is now enhancing its development capabilities in such fields as packaging and modularization.

Four Global Bases Supporting Development

Focus on Development of Products for Our Three Priority Markets

One issue that TDK faced was low efficiency in R&D. In response, TDK withdrew from low profitability, non-core businesses and implemented structural reforms designed to create novel products by making use of its core technologies, including materials and process technologies. Under the Medium-Term Plan that began in fiscal 2016, TDK is concentrating its management resources in three priority markets—automotive, ICT, and industrial equipment and energy—and is working to develop new products with even greater added value.

TDK is also creating Development Centers that specialize in the markets for ICT devices, energy devices, and materials in order to bolster the specialization of R&D.

Development of Innovative Products Leads the Market

TDK is utilizing its core competence in areas such as process technology, materials technology, and device and module technology to develop products with high added value in terms of the impending age of IoT. Many of these products are distinctive and reflect unique TDK characteristics. These include extremely compact, low-profile, high-performance multilayer chip varistors and EMC countermeasure products for the ICT market, ultra-accurate TMR angle sensors using TMR elements for the automotive market, and bidirectional DC-DC converters that contribute to power conversion efficiency in the industrial equipment and energy market.
Human Capital

Our focus
At TDK, we consider our employees to be one of our most important assets in carrying out our corporate motto of “Contribute to culture and industry through creativity,” as well as in achieving ongoing growth over the medium to long term. We therefore respect each of our employees as individuals, working to maximize their unique abilities and potential and at the same time encouraging a high level of independence.

Basic policy
Our aim at TDK is growth through becoming a genuine global company. In this connection, human resource development is considered a cornerstone concept. Along with identifying highly capable human resources and fostering an environment that draws out their individual abilities and potential, we also work to forge a corporate culture that respects the diversity of our human resources and also encourages mutual respect and recognition of efforts between our employees. Shaping a global business environment that attracts truly global personnel to the TDK Group, we at TDK are committed to generating innovative business environment that attracts truly global personnel to the TDK Group, we at TDK are committed to generating innovative

Expectations by stakeholders
In tandem with implementing systems and a corporate culture that respect the differences and values of each of our employees, we also provide specific opportunities and an optimal environment designed to maximize the individual abilities and potential of our employees and to impart them with a significant degree of independence.

To Ensure and Foster Human Resources with High Potential and Expertise
In the electronics industry, which is experiencing rapid business environment changes, it is necessary to have a high degree of specialization and to develop and provide products that society and customers want in a timely manner. TDK hires recent graduates with high potential and mid-career recruitment.

TDK believes that the ideal is to enable each employee who makes up an organization to work autonomously. Our human resource development target is to produce numerous autonomous personnel with the ability to think things through on their own, undertake new challenges with courage, persevere to optimize change, and see things through to the finish. To achieve this target, TDK’s skills development and educational programs, which are designed to progressively teach employees how to work autonomously from the earliest stages of their careers, comprise four categories: “training programs on different levels,” “selective training programs,” “specialized education programs,” and “talent development support and qualification support programs,” the latter two are offered for those who need a higher level of professional training.

Leveraging Human Resources Globally
The TDK Group is made up of multiple companies that conduct global business, and approximately 90% of the Group’s employees are non-Japanese. We strive to increase corporate value by placing outstanding human resources in optimal positions regardless of nationality, race, gender, or other attributes. Some 72% of TDK Group subsidiaries have non-Japanese presidents.

TDK is expanding and reinforcing overseas training programs that enable young employees to gain a variety of experiences overseas so that we can accelerate the globalization of human resources in the future. We are also taking measures to progressively make human resources visible through the introduction and operation of a global human resource management system.

International Management Development (IMD) Training to Foster Global Leaders
IMD training is held to help our internal leaders acquire truly global skills and develop stronger borderless solidarity within the Group. This training is for candidates for managerial positions at the TDK Group’s overseas affiliates. The training seminars have been held since 1997. They take the form of a week-long residential training course with lectures and workshops. The participants gain a deeper understanding of TDK’s corporate philosophy, acquire a broader, more managerial perspective, and establish bonds that help build personal international networks. Some participants who have completed the IMD training have gone on to become presidents of overseas affiliates, playing a vital role in human resource development within the TDK Group.

Diversity Action Promotion Plan
The TDK Code of Conduct contains provisions requiring respect for human rights and prohibiting discrimination, and TDK carries out employee education and training. TDK also conducts company-wide programs, including specialized consultation services such as helplines, various programs relating to childcare and family nursing care by employees, and programs supporting female employees and employees who retire at the mandatory retirement age.

In response to the Act Concerning Promotion of Women’s Career Activities, which came into effect in April 2016, TDK adopted three action plans to have women account for at least 30% of graduates hired to begin working in 2018; to introduce a program to re-hire employees who resign because of childbirth, childcare, relocation of spouse, or provision of nursing care for a family member; and to introduce a system allowing employees to take leave due to the relocation of a spouse.

<table>
<thead>
<tr>
<th>Education / Seminar Training Costs (TDK Corporation)</th>
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<tbody>
<tr>
<td>FY 2016 FY 2015 FY 2014 FY 2013</td>
</tr>
<tr>
<td>3,242 3,155 2,960 2,800</td>
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<tr>
<td>Recruitment of New Graduates / Mid-Career Recruitment (TDK Corporation)</td>
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<tr>
<td>FY 2016 FY 2015 FY 2014 FY 2013</td>
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<tr>
<td>118 110 92 67</td>
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<tr>
<td>Recruitment of New Graduates</td>
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<tr>
<td>Mid-Career Recruitment</td>
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<tr>
<td>Job Leavers/Dismissals / Average Number of Years Worked (TDK Corporation)</td>
</tr>
<tr>
<td>FY 2016 FY 2015 FY 2014 FY 2013</td>
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<tr>
<td>20 21 22 23</td>
</tr>
<tr>
<td>Average number of years worked</td>
</tr>
<tr>
<td>30</td>
</tr>
<tr>
<td>Female</td>
</tr>
<tr>
<td>Male</td>
</tr>
<tr>
<td>Job Leavers/Dismissals</td>
</tr>
<tr>
<td>Number of Female Employees / Ratio of Female Employees Holding Managerial Posts (TDK Corporation)</td>
</tr>
<tr>
<td>FY 2016 FY 2015 FY 2014 FY 2013</td>
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<tr>
<td>305 307 307 310</td>
</tr>
<tr>
<td>Number of female employees holding managerial posts</td>
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<tr>
<td>218 217 215 217</td>
</tr>
<tr>
<td>Number of female employees</td>
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<tr>
<td>76.1 74.7 74.7 74.7</td>
</tr>
<tr>
<td>Number of managerial posts</td>
</tr>
<tr>
<td>218 217 215 217</td>
</tr>
<tr>
<td>Number of managerial posts</td>
</tr>
</tbody>
</table>

Note: Managerial posts are defined as posts having subordinates, or equivalent posts.
**Social and Relationship Capital**

### Our focus
TDK is a midstream company group that functions as both a supplier and a buyer. Along with avoiding risk by taking steps to protect the environment and social interests by way of our supply chain, we also boost the competitiveness of our supply chain through training and guidance.

### Expectations by stakeholders
At TDK, we not only comply with and observe the relevant laws and global industrial regulations, but we also fulfill our social responsibilities by providing assistance to our suppliers. Additionally, we work to ameliorate the social impact of corporate activities including issues such as conflict minerals.

### Basic policy
The societal and environmental impact of the supply chain represent extremely important issues for the TDK Group as a midstream company. In light of the latest related laws and ordinances as well as global industrial regulations, as part of our responsibilities as a supplier we take note of the labor environment at TDK Group production sites. Similarly, as a buyer, we ascertain the labor environment conditions of our business partners. We then implement training and guidance as required with a view to improvement. In this way we forge a solid supply chain—from upstream to downstream—to fulfill our social responsibilities.

### Response to Conflict Minerals
In the Democratic Republic of the Congo (DRC) and adjoining countries, at times the proceeds from the mining and sale of minerals have been used to fund armed groups. These actions serve to further conflict and violations of human rights of the local people.

TDK began its response to the problem of conflict minerals following the enactment of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act in 2010. A conflict minerals policy*2 for the TDK Group was formulated in April 2013. Surveys of suppliers are handled mainly by the Procurement Function and responses to customers by the Quality Assurance Function. In addition, each business group has designated persons in charge of the conflict minerals issue. Our suppliers implement surveys using the GSFi*3 and CMRi*4. Surveys are carried out regularly on new purchases, and for those items for which the smelting site cannot be identified through past surveys, new surveys are conducted. In a fiscal 2014 survey, 86% of 15,754 items surveyed were deemed to have no association with conflict minerals.

As for queries from customers, the entire process is integrated, spanning the initiation of a query at our sales divisions to responses by our operators divisions—yielding a rapid and accurate response system. In fiscal 2016, we issued 2,505 responses, an increase of 16 on the previous fiscal year. At TDK, we understand the necessity of initiatives throughout the supply chain; therefore, to approach the various issues of conflict minerals as effectively as we can, we participate in JEITA*5.

*1. For details of the TDK Group’s policy on conflict minerals, please refer to the following URL: http://www.global.tdk.co.jp/en/supplier_responsibility/csr220.htm
*2. GSFi: Conflict-Free Sourcing Initiative
*3. CMR: Conflict Minerals Reporting Template
*4. Suppliers of TDK Corporation
*5. For details on JEITA’s Responsible Minerals Trade Working Group, please refer to the following URL: https://www.jeita.org/cm/trade/smi_index_e.html

### Efforts at TDK’s Production Sites
TDK has compiled the TDK CSR Self-Check Sheet, based on the Electronic Industry Citizenship Coalition (EICC) Code of Conduct, with the aims of identifying issues in CSR activities and replying swiftly to customers. This self-diagnosis is implemented at all production sites every year. Furthermore, TDK responds to requests from customers for CSR audits, which have been increasing in recent years, seeing them as a good opportunity to further raise the level of CSR activities.

Regarding high-risk regions and production sites, including these customer CSR audits, since every two years we conduct internal audits by third-party organizations. Since 2013, TDK has also been implementing CSR internal auditor training every year with the aims of conveying a systemic understanding of the requirements of these CSR audits to employees and upgrading CSR activities at production sites.

### Promotion of CSR Procurement
CSR procurement, which is included in TDK’s purchasing policy, is an important issue for our company. Because we are a components manufacturer, we promote CSR from our position as a supplier. But it is also necessary for us to promote CSR among our own suppliers.

Therefore, we require our suppliers to reply to a CSR check every year; and if there are any issues with their answers, we request them to make improvements individually. In fiscal 2016, TDK provided guidance and called for improvements at seven companies*.

TDK also implements CSR audits with the aim of objectively understanding the situation, selecting targeted suppliers in consideration of such factors as their degree of importance and our dependence on them in the delivery of products to our customers.

* Suppliers of TDK Corporation

### Response to CSR audits
During fiscal 2015–16, TDK implemented CSR internal audits at 10 sites. Together with customer CSR audits, we undertook CSR audits at an aggregate total of 75 sites. In China, where there is a high risk of labor-related issues, audits were conducted at all sites. In Malaysia, where the forced labor of foreign workers has become a social issue, four production sites voluntarily accepted CSR audits in fiscal 2016. Each audited site made improvements regarding matters that were pointed out, and the CSR Office shared information with related head office functions, calling for attention to be paid to these problems and getting them reflected in measures.

Furthermore, CSR internal auditor training was implemented in China and Malaysia in fiscal 2016, bringing the total number of employees who have received this training to 171 persons.

### Expansion of CSR audits among commissioned manufacturers
In China, where working environment risks are high, TDK has been expanding CSR audits since fiscal 2016, not only among suppliers but also among commissioned manufacturers on which it depends. Of the areas specified by the EICC, these audits focus on the three items of labor, safety and health, and the environment in order to check that conditions in manufacturing workplaces are appropriate.

In fiscal 2016, TDK conducted CSR audits on six companies and made a total of 78 findings. Many of these findings concerned a lack of consideration for the storage and management of harmful substances and for workers engaged in handling them, and improvements were requested.
Reduction of CO₂ Emissions from Production Activities (Environmental Load)

“TDK Environmental Action 2020” sets the target of reducing the TDK Group’s global CO₂ emissions to less than one million tons by March 2021*. In fiscal 2016, TDK continued to promote energy-saving activities at its production sites in all countries. Unfortunately, those efforts failed to produce the targeted value of lowering CO₂ emissions to 1,050 thousand tons or less, with the final level tracked at 1,126 thousand tons.

Introduction of biomass boiler

Over the past three years, TDK has studied the introduction of the biomass boiler—a system anticipated to contribute to lowering both CO₂ emissions and cost. Such boilers are engineered to run on renewable energy with animal- and plant-derived resources as fuel, while exerting a minor impact on the environment. For this project, the Honjo Factory of TDK-MCC Corporation (a facility with high demand for steam year-round) was selected as the installation site.

Formulation of the New “TDK Environmental Vision 2035” as TDK Advances Toward Its 100th Anniversary

The TDK Group fast-tracked the goal of “carbon neutral” status originally outlined in “TDK Environmental Action 2020” (our third basic environmental action plan), achieving the stated targets in fiscal 2015. Being launched from fiscal 2017 is a new environmental vision with a more global and long-term perspective, and a medium- to long-range action plan to achieve that mission. Under this vision, formulated as “TDK Environmental Vision 2035,” our goal is “to halve the CO₂ emission basic-unit from a life-cycle perspective by 2035.”

This stance stems from the belief that minimizing the environmental load in business activities, and revitalizing the natural environment, is the duty of companies that supply products designed to contribute to the lives of their customers and society as a whole. Moreover, modeled on the United Nations Climate Change Conference (COP 21) Paris Agreement, which seeks to curb global warming by achieving a balance between greenhouse gas emissions and absorption sources, this is considered the ideal corporate posture for all TDK activities.

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Basic policy

As stated in the TDK Environmental Charter, “Develop and Prosper in Harmony with the Global Environment” is one of the TDK Group’s most important business themes. “TDK Environmental Vision 2035” has been established to contribute to developing a sustainable society. Based on this vision, “TDK Environment, Health and Safety Action 2025” has been formulated as a basic action plan for specific steps. Work is also under way to formulate industry-wide environmental standards promoting greater public understanding of the value of TDK’s environmental contributions.

Our focus

To support the sustainable development of society, the TDK Group unites in the quest to reduce CO₂ emissions, effluents and waste in production activities, and otherwise use its business activities to minimize the global environmental load.

Expectations by stakeholders

TDK complies with all environmental laws and regulations, working to lower the environmental load of its business activities, promote and invigorate the natural environment, and advance other basic initiatives. Through its products, the Group also contributes to reducing energy consumption and implementing climate change countermeasures.
TDK Corporation

Characteristics of Corporate Governance at the TDK Group

Proactive Invitation of Outside Officers and Aggressive Promotion of Non-Japanese Corporate Officers

Having recognized the importance of supervisory functions for management at an early stage, TDK has actively endeavored to invite outside directors and outside Audit & Supervisory Board Members into its organization. Also, the overseas sales ratio exceeds 90%. As such, the Company aggressively promotes capable personnel in its organization regardless of their nationality.

Outside officers 6 People

Directors and Audit & Supervisory Board Members

Inside officers 6 People

Non-Japanese corporate officers 7 People

Corporate Officers

Japanese corporate officers 10 People

Three out of seven directors are outside directors.

The post of chairman of the Board is filled by an outside director.

The posts of chairman of the Nomination Advisory Committee and the Compensation Advisory Committee are each filled by an outside director.

This helps ensure the transparency of HR and compensation processes and the validity of officer appointments and compensation.

Strengthening of Supervisory Functions Performed by Outside Directors

Three out of seven directors are outside directors.

Background to the fiscal 2016 Board of Directors evaluation

In fiscal 2016, some directors and Audit & Supervisory Board Members were replaced, and the Chairman of the Board of Directors was also replaced. TDK also adopted a Medium-Term Plan with fiscal 2016 as its first year and is working to increase corporate value even further through continuous growth based on this plan. In light of the changes to the composition of the Board of Directors and the current status of the transition to a new management stage, TDK determined that comprehensive verification of the effectiveness of the Board of Directors under the new system is necessary, and an external evaluation was conducted in fiscal 2016, as in the previous fiscal year.

Details of evaluation submitted in fiscal 2015

The structure and function of the Board of Directors were highly evaluated. It was also pointed out, however, that establishing governance systems that can complete structural reforms accelerate the pace of globalization, as well as increase shareholder value over the long term. Based on strategies that pursue growth, more time will be needed for deliberations by the Board on medium- to long-term management strategies and major risks in growth strategies. In addition, further strengthening of systems will be needed to enable such deliberations.

Implementation process

A questionnaire on the effectiveness of the Board of Directors as a whole, as well as of each committee, director, and Audit & Supervisory Board Member, was prepared based on the results of the fiscal 2015 evaluation and the current status of TDK’s Board of Directors and business. Each director and Audit & Supervisory Board Member prepared written answers in response to a questionnaire. Based on the responses, a third-party organization conducted detailed interviews of each director and Audit & Supervisory Board Member with a focus on matters of particular importance to the Board. The third-party organization submitted a report to the Board based on the responses to the questionnaire and the results of the interviews. The Board of Directors verified and evaluated the current status of the Board based on the report and identified issues. The main items of the evaluation of the Board’s effectiveness were as follows:

• Operational status of the Nomination Advisory Committee and Compensation Advisory Committee
• Roles of and expectations toward the Advisory & Supervisory Board
• Relationships with investors and shareholders

Results of Fiscal 2016 Evaluation of the Board of Directors

In fiscal 2016, new members joined the Board of Directors and Advisory & Supervisory Board, and a new Chairman was appointed to the Board of Directors. Under the leadership of the Chairman, who is an independent outside director, the culture of serious and open discussion was maintained, and substantive deliberations were actively conducted. In addition, confirmation was made that the audit functions of the Board of Directors were enhanced by focusing even more on medium- to long-term growth strategies. Confirmation was also made that appropriate measures were undertaken to address the issues identified in the prior evaluation as discussed in the previous item.

TDK became aware that under a climate of extreme change and a rapid pace of business, accelerating growth under the “true globalization policy” set forth in the Medium-Term Plan will require even further change in response by the Board of Directors and management systems. It was also confirmed that (1) enhanced deliberations on medium- to long-term issues; (2) development of a long-term succession plan; and (3) reinforcement of corporate functions in response to globalization are topics for continued deliberation over the medium to long-term.

Indications and the TDK Group’s Responses

The Board of Directors discussed how it should respond to these issues. The following are matters regarding which action has already been taken or will be continued into the future:

• Matters indicated in the Board of Directors evaluation for which measures have been taken
• Matters indicated in the Board of Directors evaluation for which measures will be taken in the future

Implementative measures taken in the fiscal 2016 evaluation process

Further enhancement of deliberations by the Board of Directors

• Verification of medium- to long-term plans and growth strategies
• Verification of the effects of investment and M&As
• Reinforcement of oversight regarding risks

The status of these measures will be confirmed in the next Board of Directors evaluation. TDK will verify the effectiveness of the Board of Directors each year and will continuously raise its effectiveness.

Governance of TDK from the Perspective of Board of Directors Evaluations

TDK sees ensuring the effectiveness of the Board of Directors as a crucial issue and takes measures to enhance the functioning of the Board.

Overview of Board of Directors Evaluations

Details of evaluation submitted in fiscal 2015

The structure and function of the Board of Directors were highly evaluated. It was also pointed out, however, that establishing governance systems that can complete structural reforms accelerate the pace of globalization, as well as increase shareholder value over the long term. Based on strategies that pursue growth, more time will be needed for deliberations by the Board on medium- to long-term management strategies and major risks in growth strategies. In addition, further strengthening of systems will be needed to enable such deliberations.

Measures to address indications

1. Reinforcing medium- to long-term deliberations

TDK reviewed the Board of Directors agendas and provided additional time for deliberating on medium- to long-term issues and major risks. The Board’s schedule was also reviewed, and the following measures were implemented:

A. A Board of Directors meeting will be held at the beginning of each fiscal year to provide an overview of the business of each business company and to explain medium- to long-term policies.
B. Board of Directors meetings will be held twice annually to allow each business company to report on the subsequent progress of its business plans.

2. Building systems to enable medium- to long-term deliberations

TDK recognized its head office functions and established the Corporate Strategy HQ to reinforce strategic functions. The Corporate Strategy HQ comprises legal affairs, management planning, human resource development, and public relations functions, and is responsible for Board of Directors operations, legal responses, formulating and managing business strategies, organizational structures, human resource development, internal and external communications, and carrying out company wide business strategies.
TDK Basic Policy on Corporate Governance

The basic views to achieve sustainable corporate growth and an increase in corporate value over the medium to long term of the TDK Group are as follows:

(1) Based on the founding spirit “Contribute to culture and industry through creation of new business of TDK,” which was established in 1935 as the world’s first company to industrialize a magnetic material called ferrite, TDK unremittingly pursues originality and increases corporate value through provisions of products and technologies which have created new value.

(2) TDK builds satisfaction, trust, and support among all stakeholders (shareholders, customers, suppliers, employees and communities, among others), continues to be helpful by resolving social issues, and contributes to the development of a more sustainable society.

(3) TDK clearly declares as the “TDK Charter of Corporate Behavior” that TDK will continue to respect human rights; comply with relevant laws, regulations, and international rules and the spirit thereof; and carry out its social responsibility with a strong sense of ethics, domestically and overseas.

Reasons for Nomination as a Candidate for Inside Director

The TDK Group believes that a structure including inside directors with a focus on human resources who can engage in deliberations and perform verifications from the perspective of overall optimization is important. TDK determined that the following persons with the experience and knowledge indicated can be expected to fully perform their roles in deciding key matters and overseeing the implementation of business by the Board of Directors and have appointed them as inside officers.

<table>
<thead>
<tr>
<th>Inside directors</th>
<th>Reasons for nomination as a candidate</th>
<th>Outside Audit &amp; Supervisory Board Members</th>
</tr>
</thead>
<tbody>
<tr>
<td>Takahiro Kageyama</td>
<td>After serving as the head of the HDD heads business, Mr. Kageyama served as president and representative director since 2006 and has demonstrated leadership in strengthening overall profitability and expanding business fields.</td>
<td>16 times / 16 times</td>
</tr>
<tr>
<td>Shigeru Ishiguro</td>
<td>After working in the business planning department in Europe, Mr. Ishiguro served as president and chief executive officer of TDK Corporation and has extensive global management experience and has delivered positive results, promoting the creation of new business and management reforms.</td>
<td>16 times / 16 times</td>
</tr>
<tr>
<td>Noboru Saito</td>
<td>Mr. Saito has extensive global management experience accumulated from working for sales subsidiaries in the United States and Europe and a thorough understanding of formulation and implementation of the company’s business strategies as head of the department responsible for corporate planning, human resources, and corporate communications.</td>
<td>16 times / 16 times</td>
</tr>
<tr>
<td>Teruaki Yamasaki</td>
<td>Mr. Yamasaki has experience in accounting and finance in domestic and overseas business and currently serves as head of the Finance &amp; Accounting Group. He has demonstrated a high level of expertise and skill in the company’s global financial and managerial administrative operations.</td>
<td>16 times / 16 times</td>
</tr>
</tbody>
</table>

Outside Directors and Outside Audit & Supervisory Board Members

TDK actively recruits outside directors in order to reinforce management oversight functions, conduct management with an awareness of stakeholders and various other stakeholders, and establish effective and disciplined corporate governance. To oversee management, it is important that outside directors have a deep understanding of sustainable society.

Reasons for Nomination as a Candidate

All members of the TDK Group seek to behave in strict compliance with the “Code of Conduct and Business Conduct” prescribed by the “TDK Code of Conduct.”

(4) TDK aims to achieve its management targets and further improve corporate value through the creation of products by adhering to the corporate motto. At the same time, TDK strives to foster a sound corporate culture and sincerely conducts business activities, always aware of its place as a member of society.

(5) TDK will be accountable to stakeholders through comprehensive, accurate, timely, and impartial disclosure of information. In addition, TDK enacts the “TDK Basic Policy on Corporate Governance,” setting forth the basic views and policy on corporate governance of TDK for the purpose of enhancing sustainable corporate growth and increasing of corporate value over the medium to long term of the TDK Group.

The full text of said policy is posted on the following website:

http://www.global.tdk.co.jp/tdk_management_policy/governance/basis/

Criteria for Independence of Outside Directors and Outside Audit & Supervisory Board Members

In order to secure the independence of outside directors and outside Audit & Supervisory Board Members it invites into its organization, the TDK Group has established its own “Terms to be verified regarding independence” with reference to criteria such as Rule 436-2 of the Securities Listing Regulations (“Securing Independent Directors/ Auditors”) and Rule III. 3(3)-2 of Guidelines Concerning Listed Company Compliance, etc., both of which are stipulated by Tokyo Stock Exchange, Inc.

Items to be Verified Regarding Independence

1) In cases where the relevant outside director/Audit & Supervisory Board Member has a business relationship with TDK, an outside director/Audit & Supervisory Board Member shall be judged not to be independent if they are present, or have been present during the past five years, a party with a business relationship with TDK as described in (i) below or a person who executes business for such party, or if (ii) below applies to them.

(i) When it is recognized, objectively and reasonably, that said business relationship is necessary for, or has a substantial influence on, the continued growth of the TDK or the other party to such business relationship (when there is a high degree of dependence in the relationship, where the relationship is the source of 2% or more of consolidated sales, and where the other party to the relationship receives money or other assets from TDK other than remuneration for services (where there is a high degree of dependence))

(ii) When it is recognized, objectively and reasonably, that the relevant outside director/Audit & Supervisory Board Member cannot perform duties as an independent outside director/Audit & Supervisory Board Member because the organization to which such person belongs (hereafter referred to as the “Relevant Organization”) receives money or other assets from TDK other than remuneration for services (where this income is equivalent to 2% or more of total annual remuneration)

(2) When TDK has a high degree of dependence on a professional or a Relevant Organization, such as a case where services, etc., rendered by such party and connected to the corporate management of TDK or it would be difficult to find an alternative provider of the same services, etc.,

(3) When it is recognized within TDK that the relevant outside director/Audit & Supervisory Board Member is involved with the services, etc., provided by the Relevant Organization

(a) In the case of a close relative of the relevant outside director/Audit & Supervisory Board Member

Outside director/Audit & Supervisory Board Members Reasons for nomination as a candidate

Kazumasa Yoshida | Mr. Yoshida has extensive experience of finance and accounting, as well as an awareness of experience and knowledge concerning the management of companies in the electronics industry |

Toru Ishiguro | Mr. Ishiguro has specialized knowledge regarding corporate governance and internal control, and considerable insight in such areas |

Kiyoshi Fujimura | Mr. Fujimura has extensive knowledge related to finance and accounting, as well as an awareness of experience and knowledge concerning the management of general banking companies |

Board of Directors meetings 16 |

Outside Audit & Supervisory Board Members’ rate of attendance at meetings 96%
Remuneration for Directors and Audit & Supervisory Board Members

Compensation Determination Process
TDK established the Compensation Advisory Committee chaired by an outside director and with outside directors as a majority of members as an advisory body to the Board of Directors. The committee deliberates and makes recommendations on compensation systems and levels for TDK’s directors and corporate officers, contributing to ensuring transparency in the compensation decision-making process and the appropriateness of individual compensation in light of the company’s financial results and individual performance.

Objectives of Compensation Programs and Compensation Levels
TDK designs compensation programs with the aims of encouraging, to the maximum extent possible, conduct by officers that contribute to financial results, and raising share prices and achieving sustainable increases in the corporate value of the Group as a whole. These programs emphasize the linkage with short-term and medium-to-long-term financial results in deliberations and verifications by the Compensation Advisory Committee, an advisory body to the Board of Directors. TDK also seeks to create competitive compensation programs so that it can recruit diverse and outstanding human resources.

With regard to compensation levels, TDK seeks to set compensation that maintains competitiveness compared to other companies in the same industry and to companies of the same size in other industries. The Compensation Advisory Committee periodically confirms the appropriateness of compensation levels based on surveys of corporate executive compensation conducted by third parties.

Results Linkage System

<table>
<thead>
<tr>
<th>Factor</th>
<th>Type of compensation</th>
<th>Strategic purpose of compensation</th>
<th>Method of calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Link to short-term financial results</td>
<td>Performance-based bonuses</td>
<td>Intended to clarify the responsibility of directors and corporate officers to achieve consolidated financial results in each fiscal year and to increase motivation for raising short-term financial results.</td>
<td>In addition to consolidated financial results (Operating Income, ROE) in the relevant fiscal year, indicators are set for each division, and bonuses vary from 0% to 200% of base salary, depending on the degree of attainment of targets.</td>
</tr>
<tr>
<td>Link to medium- to long-term financial results</td>
<td>Stock options (stock-based compensation)</td>
<td>Intended for raising corporate value from a medium- to long-term perspective and for directors and corporate officers to share with shareholders not only the benefits of rising share prices, but also the risks of declining share prices. Intended to enhance the performance of the relevant officers and increase motivation and determination to raise corporate value.</td>
<td>The exercise of a portion of stock options (stock-based compensation) is conditioned on achieving certain financial results with the objective of increasing the linkage of officer compensation with medium- to long-term financial results and corporate values. For the core business, consolidated financial results (Operating Income, ROE) under the Medium-Term Plan are set as indicators, and the number of options that can be exercised ranges from 0% to 100% of the options granted, depending on the degree of achievement of these indicators. TDK established the Corporate Stock Ownership Guidelines and encourages officers to hold at least a certain number of shares (including stock options) set according to the officer’s rank.</td>
</tr>
</tbody>
</table>

Standard Allowance

<table>
<thead>
<tr>
<th>Compensation structure</th>
<th>Basic remuneration</th>
<th>Short-term incentive (Performance-based bonuses)</th>
<th>Medium- to long-term incentive stock options (Stock-based compensation)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>0.6</td>
<td>0.7</td>
</tr>
</tbody>
</table>

Total Amount of Remuneration for Directors and Audit & Supervisory Board Members for the Business Year under Review ( Fiscal 2016 )

<table>
<thead>
<tr>
<th>Classification</th>
<th>Total number of payees</th>
<th>Total amount of remuneration (Millions of yen)</th>
<th>Basic remuneration</th>
<th>Results-based bonuses</th>
<th>Stock-based compensation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors</td>
<td>9</td>
<td>418 (51)</td>
<td>9 (4)</td>
<td>204 (51)</td>
<td>4 (40)</td>
</tr>
<tr>
<td>(outside directors)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit &amp; Supervisory Board Members (including Audit &amp; Supervisory Board Members)</td>
<td>8</td>
<td>85 (85)</td>
<td>8 (85)</td>
<td>8 (85)</td>
<td>4 (4)</td>
</tr>
<tr>
<td>Total number of payees</td>
<td>17</td>
<td>260 (31)</td>
<td>15 (27)</td>
<td>20 (27)</td>
<td>8 (8)</td>
</tr>
</tbody>
</table>

Notes:
1. The number of directors and Audit & Supervisory Board Members at the end of fiscal 2016 was 7 and 5, respectively. The total number of payees, the total amount of remuneration, and the basic remuneration in the breakdown thereof regarding directors and Audit & Supervisory Board Members as shown above include the amount of remuneration paid to one outside director retained within the term of the 33th Ordinary General Meeting of Shareholders held on June 25, 2015.
2. Performance-based bonuses and stock options (stock-based compensation) paid to directors are reported as expenses starting in fiscal 2016.

Initiatives to Reinforce Corporate Governance

1. Role of the Nomination Advisory Committee and Appointment of the CEO
TDK established the Nomination Advisory Committee as an advisory body to the Board of Directors. The Committee is chaired by an outside director, and a majority of its members are also outside directors. It deliberates on expected qualifications of candidates for director, Audit & Supervisory Board Member, and corporate officer and recommends candidates so as to contribute to ensuring the appropriateness of the nomination process and transparency of the decision-making process. The Committee also deliberates on the independence of outside directors.

When nominating the CEO, the Committee formed an image of the ideal person suitable for the role of top executive and conducted repeated deliberations that also covered such issues as systems and the term of office. An outside expert organization was also utilized, and emphasis was placed on ensuring objectivity. (See pages 64–66 for further details.)

2. Prerequisites for Ensuring the Effectiveness of the Board of Directors and Audit & Supervisory Board
One of TDK’s fundamental policies is to keep the number of members on the Board of Directors low in order to achieve timely management decision making. The Articles of Incorporation specify that the number of Board members shall be no more than 10; the Board currently has seven members. The Articles also specify that the Audit & Supervisory Board shall have no more than five members; it currently has five members. The current composition of the Board of Directors, including both directors and Audit & Supervisory Board Members, is seven directors, of whom three are outside directors, and five Audit & Supervisory Board Members, of whom three are outside members, for a total of six outside officers. Thus, the ratio of inside officers to outside officers is 5:5.

3. Measures to Reinforce Management Diversity
Approximately 90% of the TDK Group’s sales are from overseas, and non-Japanese employees account for approximately 90% of the workforce, giving the Group a considerable global character. In order to respond to this global management environment, the Group is actively hiring non-Japanese managers, including corporate officers and business division heads, and 41% of corporate officers are non-Japanese nationals. Some 72% of overseas Group subsidiaries have a non-Japanese president, and structures that enable local human resources to exercise leadership are taking root as they become more effective.

The TDK Group has a culture of continuously innovating through active discussions regardless of nationality, race, employer, or other factors.

Global Management Meeting shows strengths of integration
The Global Management Meeting (GMM) is a TDK Group body that meets at least once each month to discuss important issues, including business strategies, operations, and management. Membership includes corporate officers at the senior vice president level and higher, business division heads, and regional managers from Europe, the Americas, and China.

Non-Japanese heads of business divisions and managers from regional headquarters participate to encourage discussion from a broader range of perspectives amid a rapidly changing business environment.

Examples of GMM Topics
- Establishment of joint venture with Company X
- Acquisition of business company in Europe
- Investment in Chinese manufacturing site to increase production
- Establishment of overseas R&D center

Examples of GMM Members
- President of Business Company
- CEO of each Business Company
- Head of each regional headquarters
- CTO
- Officers responsible for head office functions
Expectations and Thoughts for TDK
— TDK’s Governance Viewed by an Outside Director

High hopes for new President Shigenao Ishiguro

An outstanding presence capable of growing the business and raising TDK performance

I serve as chairman of the TDK Nomination Advisory Committee. In approaching the Committee’s screening of candidates for president, I strongly believed that the role and the tenure of the President were key points. With 10 years having passed since former President Takehiro Kamigama assumed that post, along with other considerations, we thoroughly discussed what type of system to establish to ensure sustainable growth for TDK going forward.

Among the comments made, it was stated that in the case of TDK, a tenure of 10 years is certainly not short in view of the process from the manufacturing of materials through to development in creating any given product. However, the term of president and the product development cycle do not necessarily coincide. The Committee held numerous meetings, with discussions rooted in the perspective of it being preferable for TDK to be led by someone cut out to serve the interests of our stakeholders, how to build a system in support of such a figure, and whether the term of office should be determined on that basis. We also held numerous interviews. This was not limited to the Nomination Advisory Committee, with similar interviews arranged by outside experts and other concerted efforts made to uphold fairness and transparency.

Former President Kamigama established a solid track record for structural reform, aggressive M&A, and other new approaches. We wanted someone capable of shouldering the role of bringing such progress to even greater fruition, and further raising the performance of TDK.

Regarding the HDD magnetic heads business, a sector for which the market has continued to be harsh, new President Shigenao Ishiguro has acted with poise and wisdom in firmly dealing with the issues at hand. He conveys the impression of someone ready to exercise the leadership needed to take charge and get the job done, even in the event of crisis. Furthermore, he has followed the practical road of reappraising the HDD magnetic heads development and production systems, while maintaining a global mindset. Upon the acquisition of Micronas, it is my understanding that Micronas management initially expressed little desire in tying up with a Japanese company. Mr. Ishiguro responded by getting directly involved in the negotiations, persevering with continued discussions on how TDK was ready to put Micronas technology to fruitful use. An agreement was finalized in the end, with the continuation of brisk deliberations utilized to formulate a strategy geared to take full advantage of the TDK Group’s sensor technology. We arrived at the decision that such skills are dearly needed to build the next-generation TDK.

President Ishiguro is truly a man who inspires confidence in his profound knowledge of key technologies, and the ability to generate results. We have high expectations that he will lead TDK with a firm hand, acting in a capacity much like that of a “baseball closer” in securing victories in the end.

Grasping the philosophy of the Corporate Governance Code, building effective governance

Pursuit of genuine diversity in laying the groundwork for global development

A year has passed since the introduction of the Corporate Governance Code of Japan. While I understand that there is much debate over this matter, I also feel that the Corporate Governance Code provides a good opportunity to change how Japanese companies operate, thereby substantially raising their competitiveness over the medium to long term.

In my view, the decision to enact this code began with debate over how to improve the approaches of Japanese companies that have failed to demonstrate competitive strength on the global market. It is true that U.S. companies, overseas investors, and others have made harsh observations in this area. We must not conclude, however, that U.S. companies always approach their management with short-term vision. On the contrary, such enterprises tend to constantly redefine their business domains, striving to put their management on sound footing and further enhance competitiveness on a medium- to long-term basis. In other words, they carry on reforms to shape their businesses to meet the conditions of the new era. It is their board members, investors, and other stakeholders, moreover, who strictly assess the appropriateness of those reforms. In my opinion, such mechanisms have been inadequate in Japan.

It is important to not simply improve appearances, achieve numerical targets, and make other superficial progress. Of greater significance is the degree of commitment that top managers devote to generating high business earnings over the medium to long term. In that sense, I believe that the Corporate Governance Code will bring positive change to Japanese companies from the inside.

There is a proverb that can be roughly translated as, “Ploughing the field but forgetting the seed.” That is, even when the most outstanding rules are in place, failing to put them into practice will prevent progress in the desired direction. In that regard, I give TDK high marks for spreading recognition of the importance of governance throughout its entire management level, and the functioning of that governance in an effective manner. The Company took progressive steps in that direction from early on, such as disclosure of the...
Corporate Governance

The continuing quest to earn high expectations in the eyes of investors

Supporting the TDK mission for dynamic reform through governance

TDK is on the road to big change. These endeavors are not limited to aggressive M&A, with energetic pushes also underway toward major makeover in the company’s business portfolio, consolidation and new establishment of its domestic and overseas bases, and on other fronts. One factor fueling this trend is moves by customers to switch from domestic Japanese manufacturers to Asian, North American, and other overseas makers recording striking growth. We have likewise seen increases in emerging overseas corporate ventures successful in innovation and other new category customers. Conventional Japanese business practices and other means used to date are no longer adequate to forge deep ties with such new customers and effectively address their needs. To quickly identify the requirements of customers advancing diversification in quality, delivery, and cost, and establish speedy development and production systems, TDK must continue to dedicate itself to the never-ending pursuit of innovation.

Though TDK is bolstering its sales in electronic components for automobiles, today’s demands are not limited to safety alone. The level of electronic components geared for vehicles built for autonomous driving and other new intelligence, sensors closely matched to mobility systems, and other customer demands directed at our products continues to intensify. To respond to such desires, bold steps must be taken to concentrate the technology, engineering capacity, and other TDK resources indispensable for building such systems capable of marketing such developments. I am confident that as it advances this type of process, TDK will succeed in raising the level of its competence overall.

Over these past 20 years, TDK has truly dominated the market in the HDD magnetic heads business. Knowledge of this particular pattern for success is a precious asset. There are ample opportunities for applying the know-how cultivated in HDD magnetic heads and other areas to sensors and actuators, energy units, next-generation electronic components and other strategic growth products. As one of our outside directors, I will continue to keep a keen watch, steeped in high expectations, on just how far TDK can progress in the electronic components industry, a field that has clearly entered a new stage in its development and growth.

Major Business Risks and Risk Management System

The TDK Group is active in many markets and regions around the world; overseas sales ratio of the Group has exceeded 90%. In addition, competition in the electronic components industry, to which the Group belongs, is severe due to increased technological innovation. In view of this situation, we have developed the following risk management measures to address major business risks that may significantly affect the TDK Group.

<table>
<thead>
<tr>
<th>Details of Major Risks</th>
<th>Examples of Risk Management Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changes in economic trends due to global problems and economic fluctuations</td>
<td>Collect information on global political and economic developments in a timely manner</td>
</tr>
<tr>
<td>Reduction of sales revenue or operating income due to foreign exchange rate fluctuations</td>
<td>Increase purchases of raw materials in foreign currencies and local procurement of materials consumed overseas</td>
</tr>
<tr>
<td>Impacts from various problems in conjunction with conducting overseas business (international political risks, economic risks, social risks, etc.)</td>
<td>Procurse foreign capital and foreign currency futures contracts</td>
</tr>
<tr>
<td>Greater than expected decline in Group product prices and prolonged low prices</td>
<td>Analyze and implement countermeasures to address risks in each country with a focus on global economic developments</td>
</tr>
<tr>
<td>Failure of continuous technological reform and new product development</td>
<td>Continuously implement cost-cutting measures and efforts to raise profitability</td>
</tr>
<tr>
<td>Occurrence of quality-related problems, such as recalls and product liability claims</td>
<td>Identify unprofitable businesses and products and establish criteria for withdrawal</td>
</tr>
<tr>
<td>Occurrence of major disputes regarding intellectual property</td>
<td>Continuously implement cost-cutting measures and efforts to raise profitability</td>
</tr>
<tr>
<td>Inability to recruit and develop human resources as planned</td>
<td>Analyze and implement countermeasures to address risks in each country with a focus on global economic developments</td>
</tr>
<tr>
<td>Suspension of supplies of raw materials, etc., or extreme increases in raw materials prices</td>
<td>Use proprietary quality technology and previously accumulated quality data</td>
</tr>
<tr>
<td>Stricter regulatory restrictions on governmental agencies</td>
<td>Create quality assurance systems to ensure quality, from upstream development stages through to design reviews, internal quality inspections, supplier audits and guidelines, and process management at every product stage, including planning, design, prototyping, and manufacturing</td>
</tr>
<tr>
<td>Impacts on the value of financial assets and financial liabilities from fluctuations in interest rates</td>
<td>Continuously monitor related regulatory amendment trends, among others</td>
</tr>
<tr>
<td>Substantial reduction or termination of business as a result of deterioration of a customer</td>
<td>Continuously monitor related regulatory amendment trends, among others</td>
</tr>
<tr>
<td>Occurrence of a natural disaster, interruption of power supplies, or epidemics</td>
<td>Analyze and implement countermeasures to address risks in each country with a focus on global economic developments</td>
</tr>
<tr>
<td>Application of stricter environmental regulations</td>
<td>Establish highly detailed business continuity plans</td>
</tr>
<tr>
<td>Problems relating to mergers and acquisitions, including inability to recover invested funds and the occurrence of additional expenses</td>
<td>Implement M&amp;As taking into consideration market trends and customer needs, the business results, financial status, technological superiority, and market competitiveness of target companies, and the Group’s business portfolio</td>
</tr>
</tbody>
</table>

Addressing these risks, we will continue to pursue our strategy for medium-term growth and to achieve TDK’s vision of a leading global technology company that contributes to human society and thrives based on ethical management. The Board will vigorously work toward the realization of our business strategy and will be responsible for ensuring the successful implementation of our business goals. We will endeavor to keep you informed of our progress toward our vision and goals, which we will achieve together for the benefit of all who support and trust us.
Takehiro Kamigama  
Representative Director  
Chairman  
Number of shares held: 10,000 shares

Shigenao Ishiguro  
Representative Director  
President and CEO  
General Manager of Manufacturing HQ  
General Manager of Human Resources Management Corporation of TDK Corporation  
Number of shares held: 5,000 shares

Noboru Saito  
Director  
General Manager of the Corporate Strategy HQ  
Number of shares held: 1,000 shares

Tetsuji Yamanishi  
Director  
General Manager of Finance & Accounting Group  
Number of shares held: 2,000 shares

Audit & Supervisory Board Members

Osamu Yotsui  
Full-time Audit & Supervisory Board Member  
Number of shares held: 2,800 shares

Junji Yoneyama  
Full-time Audit & Supervisory Board Member  
Number of shares held: 2,000 shares

Corporate Officers

President and CEO  
Shigenao Ishiguro

Senior Executive Vice President  
Hiroyuki Uemura

Executive Vice President  
Atsuo Kobayashi

Senior Vice Presidents  
Seiji Osaka  
Noboru Saito  
Joachim Zichlarz

Takakazu Momozuka  
Mitsu Nagata  
Joachim Thiele  
Keichi Imamoto  
Satoru Sueki  
Christian Block  
Norbert Hess  
Michael Pocsatko  
Hong Tan  
Tetsuji Yamanishi  
Albert Ong
In response to these effects, TDK began a large-scale organizational restructuring in fiscal 2012 in order to create corporate structures that are less susceptible to impact from changes in the business environment. An important part of this undertaking was reform of the profit structure, which placed particular emphasis on the magnetic application product business centered on HDD magnetic heads. The focus was to increase the profitability of multilayer ceramic capacitors and other passive components. Aging domestic manufacturing sites were closed and consolidated, and measures to optimally place human resources were implemented. Internationally, joint technology development was undertaken to fully realize the effects from integration with Germany’s EPCOS Group, which TDK acquired in fiscal 2009. As a result, the high-frequency components business, which was able to utilize EPCOS’s strengths, achieved profitability, and passive components became a pillar of profits in conjunction with the widespread adoption of smartphones and tablet computers. More recently, the multilayer ceramic capacitors business has leveraged strengths including materials and process technologies, to achieve strong results in distinctive electronic components for automobiles, industrial equipment and energy. The operating income ratio has increased since fiscal 2013 as a result of a recovery in demand for electronic components, the effects of structural reforms, and other factors. Net sales surpassed ¥1 trillion in fiscal 2015 and reached a record high of ¥1,152.3 billion in fiscal 2016.

Analysis of Cash Flow during Last 10 Fiscal Years
During fiscal 2009, TDK conducted a large-scale M&A. Consequently, its free cash flow entered negative territory. However, even while continuing to aggressively conduct capital expenditures, the company has kept its free cash flow in positive territory due to an increase in cash flow from operating activities. TDK’s principle is to use cash and deposits, etc. (which includes cash, deposits, short-term investments, and securities), as liquid capital while using funds generated from operating activities. TDK has aggressively conducted capital expenditures on an ongoing basis. At the same time, the company’s adopted policy is to make such investments after always considering the balance between supply and demand. TDK is electing to use funds within the TDK Group to the fullest extent possible. In addition, the company has been managing cash on hand to focus on safety and liquidity.

Analysis of Net Sales and Operating Income in Past 10 Years
From fiscal 2003 to fiscal 2008, TDK reviewed its products and businesses through a process of selection and consolidation and achieved continuous growth with HDD magnetic heads as its main business. Demand for electronic devices slowed, however, when the financial crisis occurred in 2008, and an operating loss was posted in fiscal 2009. TDK undertook active measures, including withdrawing from unprofitable businesses, making improvements, optimizing personnel placement, and consolidating business sites. However, supply chains were disrupted as a result of the Great East Japan Earthquake and extensive flooding in Thailand in 2011, and the impact from changes in the external environment continued.

Analysis of Financial Position during Last 10 Fiscal Years
From fiscal 2008 through fiscal 2009, total assets increased due principally to the acquisition of the EPCOS Group. At the same time, as a result of raising funds, primarily in the form of acquiring stock, total liabilities also increased. This caused the company’s stockholders’ equity ratio to fall by approximately 20 points to 50%. Currently, the stockholders’ equity ratio is on a gradual incline. Since the end of fiscal 2012, net trade receivables, inventories, property, plant and equipment, and other items have each increased alongside higher net sales for certain products. The stockholders’ equity ratio increased through the end of fiscal 2015 but fell 6.0 points to 46.6%, at the end of fiscal 2016 as a result of investment in new products and new business and active M&As.

In order to accommodate rapid technological innovations and intensified sales competition in the electronics industry, TDK has aggressively conducted capital expenditures on an ongoing basis. At the same time, the company’s adopted policy is electing to use funds within the TDK Group to the fullest extent possible. In addition, the company has been managing cash on hand to focus on safety and liquidity.

Analysis of Net Sales and Operating Income (Loss) Ratio (Long-Term Trends)
Billions of yen

Factors behind recovery in operating income ratio
• Recovery in demand for electronic components
• Results of structural reforms

Factors behind decrease in operating income ratio
• Greater demand in growth markets
• Stronger yen
• Technological innovation in HDD magnetic heads

Passive components
Magnetic application products
Film application products
Other

Sales by Segment from Fiscal 2010 to Fiscal 2016
Billions of yen

Analysis of Cash Flow during Last 10 Fiscal Years
During fiscal 2009, TDK conducted a large-scale M&A. Consequently, its free cash flow entered negative territory. However, even while continuing to aggressively conduct capital expenditures, the company has kept its free cash flow in positive territory due to an increase in cash flow from operating activities. TDK’s principle is to use cash and deposits, etc. (which includes cash, deposits, short-term investments, and securities), as liquid capital while using funds generated from day-to-day business activities to cover operating capital and capital expenditure funds. The company has been endeavoring over a long period of time to maintain its liquidity at 2.0 months’ worth of monthly consolidated net sales or greater. Additionally, in order to improve its capital efficiency, TDK has introduced the Cash Management System (CMS) in Japan, the United States, and Europe.

Through this system, the company centrally manages funds using headquarters functions as much as possible. However, for its subsidiaries that are unable to cover operating capital and capital expenditure funds with cash on hand, the company is electing to use funds within the TDK Group to the fullest extent possible. In addition, the company has been managing cash on hand to focus on safety and liquidity.
Operating Results for Fiscal 2016

Summary of Market Conditions
The electronics market, which has a large bearing on the consolidated performance of TDK, saw production levels differ by finished product. Production of smartphones increased from the previous fiscal year, driven by sustained growth in demand in the Chinese market. Production in the automobile market was slightly higher than the level of the previous fiscal year, driven mainly by solid automobile sales in the United States. Meanwhile, production of PCs declined compared with the previous fiscal year, when there had been firm demand for replacement of PCs spurred by the end of support for Windows XP. Production of hard disk drives (HDDs) declined substantially compared with the previous fiscal year due to the decreased demand for PCs and the continued replacement of HDDs inside PCs by solid state drives (SSDs), despite demand for data center applications continuing to hold firm.

Sales of passive components mainly for the ICT market centered on smartphones as well as for the automotive market, and sales of film application products increased, meeting up for the drop in the HDD market. In addition, there was a 9.4% depreciation of the yen versus the U.S. dollar in actual terms during fiscal 2016, which also contributed to the increase in net sales.

Net Sales and Operating Income by Segment
During fiscal 2016, TDK recorded consolidated net sales of ¥1,152,255 million, up 6.4% from fiscal 2015, and operating income of ¥93,414 million, up 28.9% from fiscal 2015.

The Passive Components segment comprises the company’s: (1) capacitors business, (2) inductive devices business, and (3) other passive components business. Segment net sales were ¥575,746 million, up 8.2% year on year. The segment reported profit of ¥66,404 million, up 81.4% from fiscal 2015. In the capacitors business and inductive devices business, sales to the automotive markets increased in particular. Sales of film application products increased, meeting up for the drop in the HDD market. In addition, there was a 9.4% depreciation of the yen versus the U.S. dollar in actual terms during fiscal 2016, which also contributed to the increase in net sales.

The Magnetic Application Products segment comprises the company’s: (1) recording devices business and (2) other magnetic application products business. Segment net sales decreased 13.2% year on year, to ¥315,322 million. Segment profit decreased 55.5% from fiscal 2015, to ¥13,194 million. Sales of HDD magnetic heads and HDD suspension assemblies declined due to the lackluster HDD production level. Other magnetic application products sales of power supplies increased to the industrial equipment market, but sales of magnets decreased to the automotive market and the ICT market for use in HDDs.

The Film Application Products segment includes energy devices (rechargeable batteries) and applied films. Segment net sales increased 47.0% year on year, to ¥222,359 million. Segment profit increased 48.0% from fiscal 2015, to ¥36,356 million. Sales of energy devices to the ICT market increased in particular.

The Other segment, which is made up of businesses that do not belong to any of the three reportable segments, comprises mechatronics (production equipment), among others. Net sales for this segment increased 8.0% over fiscal 2015, to ¥38,828 million. Segment earnings increased 229.4% over fiscal 2015, to ¥1,881 million.

Net Sales by Segment: Comparing Fiscal 2016 and 2015

Operating Income by Segment: Comparing Fiscal 2016 and 2015

Status of Capital Expenditures
In fiscal 2016, TDK spent ¥160.674 million on capital expenditures. Capital expenditures in the Passive Components segment totaled ¥75.877 million. These expenditures were mainly for the purpose of increasing the production capacity of high-frequency components and inductive devices. Capital expenditures in the Magnetic Application Products segment totaled ¥16.131 million, mainly for the development and production of high-density next-generation HDD magnetic heads at SAE Magnetics (H.K.) Ltd. Capital expenditures in the Film Application Products segment totaled ¥52.837 million, mainly to boost production of lithium ion polymer batteries at Amperex Technology Ltd. Capital expenditures in Other totaled ¥2.280 million. Capital expenditures for the R&D divisions at the headquarters totaled ¥13.549 million, mainly for investments in building new plants and in internal IT infrastructure construction and fundamental development research.

Effect of Foreign Exchange Fluctuations
Regarding average currency rates during fiscal 2016, the yen’s value depreciated 9.4% versus the U.S. dollar and 4.5% versus the euro year on year. Exchange rate fluctuations had the effect of increasing net sales by approximately ¥85.3 billion and operating income by approximately ¥17.3 billion in fiscal 2016. Additionally, TDK and certain overseas subsidiaries have entered agreements for the likes of forward foreign exchange contracts and currency swaps in order to mitigate foreign exchange fluctuation risk. The company’s policy regarding said risk is that, in principle, it will hedge up to 50% of foreign currency-denominated net trade receivables expected to be generated over the course of the coming six months.

Cost and Net Income
Cost of sales in fiscal 2016 increased 3.6% from fiscal 2015, to ¥383,123 million, due to an increase in net sales. However, the cost of sales ratio decreased 2.0 percentage points over fiscal 2015, to 72.1% of net sales. Despite cost increases driven by higher labor costs in China and other emerging markets and strong pressure for price discounts on products, the cost of sales ratio decreased due to contributions from improvements in productivity and lower material prices, lower costs of sales resulting from the effects of structural reforms, improvements to the company’s product mix as a result of terminating unprofitable product lines, and an increase in sales volumes. As a result, gross profit increased ¥40,757 million (14.6%) year on year in fiscal 2016, bringing the gross profit ratio to 27.9%.

Selling, general and administrative expenses in fiscal 2016 increased ¥19,842 million from fiscal 2015, to ¥227,718 million. The main factors in the increase in expenses are an increase of ¥8.2 billion due to the effects of currency translation adjustments resulting from the yen’s depreciation and an increase in sales expansion drive costs in the company’s main businesses. R&D expenses included in selling, general and administrative expenses for fiscal 2016 climbed 20.2% from fiscal 2015, to ¥84,920 million.

Other income (deductions) deteriorated by ¥9,633 million from fiscal 2015. The main reason is loss on sale of marketable securities and investments in securities and impairment loss of investments in securities increased by ¥1,829 million from fiscal 2015, respectively.

TDK posted net income attributable to TDK of ¥64,828 million, resulting in diluted net income attributable to TDK per common share of ¥504.66. Return on equity improved from 7.2% to 9.2%.

Production Results and Status of Orders Received by Segment
TDK’s production results for fiscal 2016 are as follows:

Fiscal 2016

Passive Components segment, ¥110,335 million for a year-on-year decrease of 16.4% in the Magnetic Application Products segment, and ¥229,246 million for a year-on-year increase of 46.4% in the Film Application Products segment. Net orders received for fiscal 2015 are as follows: ¥965,958 million for a year-on-year increase of 8.7% in the Passive Components segment, ¥305,049 million for a year-on-year decrease of 15.9% in the Magnetic Application Products segment, and ¥316,687 million for a year-on-year increase of 32.9% in the Film Application Products segment.

In the Film Application Products segment, both production volume and order volume expanded significantly. As demand for lithium polymer batteries and demand in non-smartphone application areas such as drones is rising, we will be expanding production capacity to meet demand.

Annual Report 2016
Total liabilities amounted to ¥765,952 million, a ¥119,677 million increase from the end of the previous fiscal year. Short-term debt and current installments of long-term debt increased by ¥98,062 million and retirement and severance benefits increased by ¥41,449 million.

Cash Flows

Cash Flows from operating activities
Operating activities provided net cash of ¥151,563 million, a year-on-year increase of ¥8,713 million, mainly due to increases in net income and trade payables.

Cash Flows from investing activities
Investing activities used net cash of ¥140,585 million, a year-on-year increase of ¥13,327 million, mainly due to an increase in capital expenditures.

Cash Flows from financing activities
Financing activities provided net cash of ¥46,303 million, a year-on-year increase of ¥13,273 million, mainly due to decreases in foreign currency translation adjustments and pension liability adjustments.

Cash Flows from operating activities

Operating income is expected to be ¥74.0 billion. We project that sales in the Passive Components segment will be up 3%–4% compared fiscal 2016, in the Magnetic Application Products segment will be down 11%–14%, and sales in the Film Application Products segment will increase 12%–15%. With regard to the acquisition of noncurrent assets, TDK plans to make active capital investments in order to reinforce production capacity and technological capabilities, and capital investment is expected to reach ¥200 billion, up 24.5% over fiscal 2016. R&D expenses are projected to increase 6.0% year on year, to ¥90 billion.

Outlook for Fiscal 2017

With regard to the outlook for the global economy in fiscal 2017, the U.S. economy is expected to grow, but the economies of resource-producing countries will likely slow with the decline in growth in China and falling crude oil prices, as well as concerns regarding the withdrawal of the United Kingdom from the European Union. The impact of currency exchange rates remains uncertain, but demand in electronics markets is expected to continue growing. Net sales are expected to be ¥1,160.0 billion, an increase of 0.7% over fiscal 2016, and operating income is expected to be ¥74.0 billion. We project that sales in the Passive Components segment will be up 3%–4% compared fiscal 2016, in the Magnetic Application Products segment will be down 11%–14%, and sales in the Film Application Products segment will increase 12%–15%. With regard to the acquisition of noncurrent assets, TDK plans to make active capital investments in order to reinforce production capacity and technological capabilities, and capital investment is expected to reach ¥200 billion, up 24.5% over fiscal 2016. R&D expenses are projected to increase 6.0% year on year, to ¥90 billion.

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Medium- to Long-Term Management Plan

Electronics markets, including the markets for automotive and smartphone components, are generally growing at a steady pace as products incorporate more advanced functions, become slimmer, and achieve higher safety levels. In light of the demands by customers for higher quality and performance in electronic components, including automotive components, the TDK Group has positioned early achievement of zero defect quality as a key issue. We are reinforcing production processes that integrate management of all aspects, from materials to manufacturing, and accelerating Monozukuri Innovation in three core areas—raising quality, implementing innovations in procurement and energy efficiency, and cost cutting.

In the first year of our Medium-Term Plan, we carried out five business growth strategies with automotive, ICT, and industrial equipment and energy as our three priority markets. Going forward, we will strengthen cooperation with U.S.-based Qualcomm in a wide range of business fields and use the acquisition of Micronas, a Switzerland-based magnetic sensor company, to accelerate the expansion of strategic growth products and acquire business opportunities in IoT markets (see page 23). In the recording devices business, it is expected that business operations will be difficult as a result of the decline in demand for PCs and the shrinking HDD market. By normalizing the scale of production and using our state-of-the-art technological capabilities to supply products and services, we will strive to remain a needed presence even in shrinking markets (see page 47).

The headquarters development function that supports these business operations will organize three centers for ICT device development, energy device development, and materials development and establish development structures tailored to market characteristics. TDK will also reinforce R&D functions in the United States, Europe, and China to carry out R&D activities tailored to the specific attributes of each region.

Net Sales and Operating Income

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Net Sales (¥ billion)</th>
<th>Operating Income (¥ billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>1,200</td>
<td>80</td>
</tr>
<tr>
<td>2013</td>
<td>1,160</td>
<td>80</td>
</tr>
<tr>
<td>2014</td>
<td>1,120</td>
<td>80</td>
</tr>
<tr>
<td>2015</td>
<td>1,080</td>
<td>80</td>
</tr>
<tr>
<td>2016</td>
<td>1,040</td>
<td>70</td>
</tr>
</tbody>
</table>

With regard to the outlook for the global economy in fiscal 2017, the U.S. economy is expected to grow, but the economies of resource-producing countries will likely slow with the decline in growth in China and falling crude oil prices, as well as concerns regarding the withdrawal of the United Kingdom from the European Union. The impact of currency exchange rates remains uncertain, but demand in electronics markets is expected to continue growing. Net sales are expected to be ¥1,160.0 billion, an increase of 0.7% over fiscal 2016, and operating income is expected to be ¥74.0 billion. We project that sales in the Passive Components segment will be up 3%–4% compared fiscal 2016, in the Magnetic Application Products segment will be down 11%–14%, and sales in the Film Application Products segment will increase 12%–15%. With regard to the acquisition of noncurrent assets, TDK plans to make active capital investments in order to reinforce production capacity and technological capabilities, and capital investment is expected to reach ¥200 billion, up 24.5% over fiscal 2016. R&D expenses are projected to increase 6.0% year on year, to ¥90 billion.
## ASSETS

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Millions of yen</td>
<td>%</td>
<td>U.S.$ Thousands</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>740,241</td>
<td>52.7</td>
<td>740,994</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>201,091</td>
<td>13.8</td>
<td>21,964</td>
</tr>
<tr>
<td>Marketable securities</td>
<td>1,301</td>
<td>0.1</td>
<td>—</td>
</tr>
<tr>
<td>Net trade receivables</td>
<td>238,089</td>
<td>15.9</td>
<td>226,218</td>
</tr>
<tr>
<td>Inventories</td>
<td>151,012</td>
<td>10.0</td>
<td>157,129</td>
</tr>
<tr>
<td>Other current assets</td>
<td>64,644</td>
<td>4.4</td>
<td>50,215</td>
</tr>
<tr>
<td><strong>Noncurrent assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments in securities</td>
<td>664,041</td>
<td>47.3</td>
<td>709,591</td>
</tr>
<tr>
<td>Net property, plant, and equipment</td>
<td>427,254</td>
<td>28.8</td>
<td>487,639</td>
</tr>
<tr>
<td>Other assets</td>
<td>191,054</td>
<td>12.9</td>
<td>186,617</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>1,404,282</td>
<td>100.0</td>
<td>1,450,585</td>
</tr>
</tbody>
</table>

For convenience only, an exchange rate of U.S.$1 = ¥113 has been used.

## LIABILITIES AND EQUITY

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Millions of yen</td>
<td>%</td>
<td>U.S.$ Thousands</td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term debt</td>
<td>387,877</td>
<td>27.6</td>
<td>451,234</td>
</tr>
<tr>
<td>Current installments of long-term debt</td>
<td>136,098</td>
<td>9.7</td>
<td>158,683</td>
</tr>
<tr>
<td>Trade payables</td>
<td>111,591</td>
<td>7.9</td>
<td>112,664</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>118,836</td>
<td>8.4</td>
<td>123,892</td>
</tr>
<tr>
<td><strong>Noncurrent liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term debt, excluding current installments</td>
<td>32,641</td>
<td>2.3</td>
<td>32,641</td>
</tr>
<tr>
<td>Other noncurrent liabilities</td>
<td>21,228</td>
<td>1.5</td>
<td>21,228</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>646,275</td>
<td>46.0</td>
<td>765,952</td>
</tr>
<tr>
<td>Common stock</td>
<td>32,641</td>
<td>2.3</td>
<td>32,641</td>
</tr>
<tr>
<td>Additional paid-in capital</td>
<td>39,755</td>
<td>2.8</td>
<td>39,755</td>
</tr>
<tr>
<td>Legal reserve</td>
<td>29,685</td>
<td>2.1</td>
<td>29,685</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>661,159</td>
<td>46.4</td>
<td>707,508</td>
</tr>
<tr>
<td>Accumulated other comprehensive income (loss)</td>
<td>(5,882)</td>
<td>(0.4)</td>
<td>(102,285)</td>
</tr>
<tr>
<td>Treasury stock</td>
<td>(18,497)</td>
<td>(1.3)</td>
<td>(17,807)</td>
</tr>
<tr>
<td><strong>Total TDK stockholders’ equity</strong></td>
<td>738,861</td>
<td>52.6</td>
<td>675,361</td>
</tr>
<tr>
<td>Noncontrolling interests</td>
<td>21,101</td>
<td>1.5</td>
<td>19,767</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td>758,962</td>
<td>54.1</td>
<td>695,128</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,404,282</td>
<td>100.0</td>
<td>1,450,585</td>
</tr>
</tbody>
</table>
CONSOLIDATED STATEMENTS OF INCOME

For convenience only, an exchange rate of U.S.$1 = ¥113 has been used.

TDK Corporation and Consolidated Subsidiaries (U.S. GAAP)

For the years ended March 31, 2016 and 2015

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For convenience only, an exchange rate of U.S.$1 = ¥113 has been used.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS’ EQUITY
### Corporate Information

**Corporation Name**
TDK Corporation

**Corporation Headquarters**
Shibaura Renaike Tower, 3-9-1 Shibaura, Minato-ku, Tokyo 108-0023

**Date of Establishment**
December 7, 1935

**Authorized Number of Shares**
48,000,000 shares

**Number of Shares Issued**
129,590,659 shares

**Number of Shareholders**
91,648

#### Principal Shareholders (10 largest shareholders)

<table>
<thead>
<tr>
<th>Name of shareholder</th>
<th>Number of shares held (thousands of shares)</th>
<th>Percentage of number of shares held in the total number of shares held (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The Master Trust Bank of Japan, Ltd. (Trust account)</td>
<td>18,318</td>
<td>14.14</td>
</tr>
<tr>
<td>2. Japan Trustee Services Bank, Ltd. (Trust account)</td>
<td>11,813</td>
<td>9.12</td>
</tr>
<tr>
<td>3. JP Morgan Chase Bank 386065</td>
<td>5,990</td>
<td>4.39</td>
</tr>
<tr>
<td>4. Trust &amp; Custody Services Bank, Ltd.</td>
<td>2,562</td>
<td>2.01</td>
</tr>
<tr>
<td>5. Japan Trustee Services Bank, Ltd. (Trust account B)</td>
<td>2,562</td>
<td>2.01</td>
</tr>
<tr>
<td>6. BNP Paribas Securities (Japan) Limited</td>
<td>1,878</td>
<td>1.47</td>
</tr>
<tr>
<td>7. Nippon Life Insurance Company</td>
<td>1,940</td>
<td>1.52</td>
</tr>
<tr>
<td>8. Goldman Sachs Japan Co., Ltd.</td>
<td>1,554</td>
<td>1.20</td>
</tr>
<tr>
<td>9. The Master Trust Bank of Japan, Ltd. (Trust account 7)</td>
<td>1,186</td>
<td>0.90</td>
</tr>
<tr>
<td>10. The Master Trust Bank of Japan, Ltd. (Trust account 9)</td>
<td>834</td>
<td>0.66</td>
</tr>
</tbody>
</table>

**Transfer Agent**
Sumitomo Mitsui Trust Bank, Limited 4-1, Marunouchi I-chome, Chiyoda-ku, Tokyo 100-8233

**Independent Registered Public Accounting Firm**
KPMG AZSA LLC (the Japan member firm of KPMG International)

**ADIR Information**
Type: Level 1 with sponsorship

**ADIR Ratio**
1 common stock = 1 ADR

**Ticker Symbol**
TDK

**Depositary Bank**
Citibank, N.A. Shareholder Services

**CUSIP**
87235L108

**Ticker Symbol**
TTDKY

**Stock price (left) | Volume (right)**

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### Consolidated Statements of Cash Flows

**For convenience only, an exchange rate of U.S.$1 = ¥113 has been used.**

#### Cash Flows from Operating Activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>2015 Millions of yen</th>
<th>2016 Millions of yen</th>
<th>U.S.$ Thousands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>52,779</td>
<td>66,622</td>
<td>589,584</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to net cash provided by operating activities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>80,249</td>
<td>83,224</td>
<td>736,496</td>
</tr>
<tr>
<td>Changes in assets and liabilities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decrease (increase) in trade receivables</td>
<td>4,919</td>
<td>(7,262)</td>
<td>(64,266)</td>
</tr>
<tr>
<td>Decrease (increase) in inventories</td>
<td>(4,368)</td>
<td>(10,591)</td>
<td>(93,726)</td>
</tr>
<tr>
<td>Increase (decrease) in trade payables</td>
<td>(12,375)</td>
<td>16,465</td>
<td>145,064</td>
</tr>
<tr>
<td>Increase (decrease) in accrued expenses</td>
<td>7,892</td>
<td>(5,099)</td>
<td>(4,509)</td>
</tr>
<tr>
<td>Decrease (increase) in other assets and liabilities, net</td>
<td>(3,947)</td>
<td>3,964</td>
<td>35,964</td>
</tr>
<tr>
<td>Other-net</td>
<td>11,101</td>
<td>3,543</td>
<td>31,354</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>142,850</td>
<td>151,563</td>
<td>1,341,265</td>
</tr>
</tbody>
</table>

#### Cash Flows from Investing Activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>2015 Millions of yen</th>
<th>2016 Millions of yen</th>
<th>U.S.$ Thousands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents at end of period</td>
<td>265,104</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of period</td>
<td>250,848</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net increase in cash and cash equivalents</td>
<td>14,256</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effect of exchange rate changes on cash and cash equivalents</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisitions of noncontrolling interest</td>
<td>(24,633)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends paid</td>
<td>(10,069)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase (decrease) in short-term debt, net</td>
<td>(916)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from sales of tangible and intangible assets</td>
<td>7,698</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other–net</td>
<td>1,083</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net cash provided by investing activities</td>
<td>142,850</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Cash Flows from Financing Activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>2015 Millions of yen</th>
<th>2016 Millions of yen</th>
<th>U.S.$ Thousands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from long-term debt</td>
<td>34,777</td>
<td>22,700</td>
<td>200,885</td>
</tr>
<tr>
<td>Repayment of long-term debt</td>
<td>(37,300)</td>
<td>(1,289)</td>
<td>(11,407)</td>
</tr>
<tr>
<td>Increase (decrease) in short-term debt, net</td>
<td>(916)</td>
<td>50,213</td>
<td>444,363</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>(10,069)</td>
<td>(13,864)</td>
<td>(122,690)</td>
</tr>
<tr>
<td>Acquisition of noncontrolling interest</td>
<td>(24,633)</td>
<td>(28,504)</td>
<td>(252,248)</td>
</tr>
<tr>
<td>Other-net</td>
<td>2,918</td>
<td>49</td>
<td>433</td>
</tr>
<tr>
<td>Net cash provided by financing activities</td>
<td>142,850</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**As of March 31, 2016**