The Story of TDK’s Sustainable Corporate Value Creation

**Constantly Upholding a Spirit of Originality**

“Creating value that does not yet exist in the world on a material level”

Today’s TDK was founded in 1935 as Tokyo Denki Kagaku Kogyo K.K., with the goal of industrializing ferrite. Identifying with Dr. Kato’s statement that, “the Japanese must develop their own genuine industries,” Kenzo Saito, the Company’s first president, succeeded in commercializing a so-called “ferrite core.” His philosophy of “creating value that does not yet exist in the world on a material level” continues to be handed down at TDK today.

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**Constantly Refined Magnetics Technology**

“A more than 80-year history in tandem with magnetism”

The magnetic material “ferrite” is an original Japanese invention of Dr. Yogoro Kato and Dr. Takeshi Takei of the Tokyo Institute of Technology. As an important magnetic material for cutting-edge electronic equipment, ferrite continues to contribute widely to society, and in 2009 was designated as an IEEE Milestone. With its origins in this landmark invention, TDK has continued to refine its magnetics technology throughout the course of its more than 80-year history.

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**Corporate Motto**

Contribute to culture and industry through creativity

"Creating value that does not yet exist in the world on a material level"
Innovation and Self-Transformation as Driving Forces

With magnetics technology as its core competence, TDK has developed a succession of global innovations that leverage its spirit of originality. Continuous innovation in its existing products, a process repeated throughout TDK’s more than 80-year history, along with nonlinear innovation via strategic withdrawal from non-core businesses and optimization of its business portfolio, will continue to be the driving forces behind the Company’s ongoing growth.

Magnetics Technology

Spirit of Originality

Innovation That Drives Transformation

The multilayer chip inductor, based on the world-leading fine multilayering technology developed by TDK in 1980, contributed greatly to the creation of small, thinner electronic equipment. Continuous innovation in these types of passive components and other existing products is one driver of TDK’s sustainable growth.

Nonlinear Innovation with Magnetism at Its Core

While its main products are doing well, TDK works to forecast long-term technology trends and develop core businesses for the future, sometimes boldly replacing its main business focus. This is what we call “nonlinear innovation,” and it provides a schematic for TDK’s sustainable growth. HDD magnetic heads that have achieved phenomenal recording density are one such example.

Corporation

Net Sales

1935

1945

1950

1960

1970

1980

1990

2000

2010

2020

Founded in Shiba-ku, Tokyo, with the goal of industrializing the world’s first ferrite core.

Establishes TDK Electronics Corporation, a local subsidiary in New York (with manufacturing and sales sites later established around the world).

Acquires SAE Magnetics (H.K.) Ltd., a Hong Kong-based magnetic head manufacturer.

Acquires Delta Electronics Corporation, a local subsidiary in New York (with manufacturing and sales sites later established around the world).

Acquires Lambda Power Group, the power supply business of U.K.-based Invensys plc.

Acquires Amperex Technology Limited of Hong Kong, a manufacturer and seller of lithium polymer batteries.

Acquires EPCOS Group, a German electronic device manufacturer.

Acquires Micronas Semiconductor Holding AG, a Swiss developer and manufacturer of magnetic sensors.

The TDK of the Future

Sensors & Actuators

Power supplies

Batteries

TDK = Electronic components for smartphones

The Story of TDK’s Sustainable Corporate Value Creation

MILESTONE

Shift to Growth Areas

Expansion of Automotive Sales

Globalization

Overseas Production Ratio

1995 2017

12% 30%

Acquires Headway Technologies Inc., a U.S.-based magnetic head manufacturer.

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Commoditization

New innovation

Transformation

Portfolio Shift

Capacitors

Magnetic tapes

Inductors

Transformed

Magnetic tapes

HDD magnetic heads

Magnetics

TDK = Magnetic tapes

The TDK of the Future

Sowing

Growth

MILESTONE
Achieving Sustainable Growth in Corporate Value through 5 Competitive Advantages

Competitive advantages, including materials and process technologies, a customer base, strength of diversity, a global business base, and integrated production, are the foundation of TDK’s growth. Synergies between these competitive advantages, which stand solidly on the magnetics technology TDK has cultivated over many years, are a hidden strength supporting the sustainable growth in corporate value.

Infinite Innovation

With ferrite as a starting point, TDK has extended the boundless potential of innovation by refining and exerting its competitive advantages, and today, we are taking on the challenge of new business innovation.
1 Materials and Process Technologies

Creating “Black Boxes” to Prevent Imitation
Materials technology elicits the targeted properties in a product through advanced expertise in complex composition processes and control of additives. Process technology maximizes the properties of these materials while also expanding the scope of their application in products. Creating “black boxes” for techniques for controlling crystal particles at the atomic level, for intellectual property, and for other know-how makes them difficult to imitate overnight.

Competitive Advantages Supporting the Creation of Innovation and Long-Term Value

2 Customer Base

Enabling Investment from a Long-Term Perspective
TDK has built strong relationships with its customers in the automotive, ICT, industrial and energy markets, and other markets. This competitive advantage allows us to more accurately forecast future changes in technology trends, and reduces the risks involved in making aggressive R&D and capital investments.

3 Strength of Diversity

A Spirit of Equality Leading to M&A Success
TDK has built its relationships with the companies it acquired based not on controlling them, but on positioning them as equal partners. This expertise in post-merger integration, cultivated over long years of experience in M&A, is a powerful weapon in ensuring the success of our business portfolio.

4 Global Business Base

Overseas Sales in Excess of 90%
TDK began full-scale globalization efforts in the 1960s, enhancing its local production and technical support infrastructure overseas and expanding its business with manufacturers outside Japan. This global business base, with approximately 90% of production and sales generated overseas, is a competitive advantage that will allow us to capture business opportunities in the IoT market, which is expected to expand worldwide.

Honjo Factory East Site

- Location: 1-8 Manganji, Yurihonjo City, Akita Prefecture, Japan
- Floor space: Approximately 50,000 m²
- Building structure: Two-story building
- Main business: Development, design, and manufacture of high-frequency components, piezoelectric components, and other electronic components

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- Percentage of Overseas Production: 86.1%
- Percentage of Non-Japanese Employees: 90.7%
- Percentage of Overseas Sales: 91.1%

(As of end of June 2017)
### Automotive Market

**Leveraging Relationships with Automobile Manufacturers and a Broad Portfolio to Accelerate Business Expansion**

TDK has worked to enhance its product portfolio in such areas as passive components, magnets, and power supply, contributing to the increased use of electronics by offering products compatible with demands for high reliability. The expected widespread use of xEV (HEV, PHEV, BEV, etc.) and the rapid development of IoT mean that the market for electronic components for automobiles is also expected to expand. By adding a broad array of non-optical sensors and wireless power transfer systems to its portfolio, TDK is expanding its business in the automotive market.

### ICT Market

**Contributing to the Evolution of ICT Devices through Use of Thin-Film Technology and Modularization**

TDK offers more than 20 types of products for smartphones, including lithium polymer batteries, thin-film power inductors, and various types of sensors. As smartphones simultaneously become more highly functional, incorporate a wider range of functions, and become thinner, the electronic components built into them will require even greater integration. TDK will support the evolution of ICT devices by accelerating the creation of next-generation electronic components that take advantage of its strength in thin-film technology, and the modularization of electronic components utilizing SESUB, TDK’s innovative semiconductor embedded substrate technology that allows for high-density mounting.

### Industrial and Energy Market

**Contributing to Energy Savings and Efficiency with a Focus on Power-Related Components and Sensors**

The industrial and energy market is also a priority for TDK. We provide highly reliable, highly efficient electronic components for renewable energy systems, railways, and industrial robots, contributing to energy savings and efficiency. In addition to wireless power transfer coils and other power-related components that control and supply electrical power and which take advantage of our core competence in magnets technology, we are working to expand sales with a focus on sensors. We are also working to provide high-value-added solutions for industrial robots, an area where particularly rapid growth is expected.
The Story of TDK’s Sustainable Corporate Value Creation

We Are Ready to Transform

Through a series of M&As, beginning with Micronas in 2016 and concluding with InvenSense in 2017, through its business tie-up with Qualcomm, and through the establishment of the joint venture company RF360, TDK has prepared for the transformation to a hybrid business model. Building on a foundation of materials and electronic components differentiated by advanced technology, we will provide sensor solutions and power solutions, creating a high-value-added business model and pushing forward with market expansion.

Shift to a High-Value-Added Business Model

Taking advantage of its strengths as a comprehensive manufacturer of electronic components, TDK will go beyond stand-alone sales of those products to provide solutions centered on sensors, building a business model with even higher added value.

Into the Vast IoT Market

By shifting the focus of its business from the product-dependent Monozukuri (manufacturing excellence) model of the past to a Kotozukuri (integrated solutions) model based on offering the optimal solutions for leading customers to business success, TDK will capture the unlimited potential of the vast IoT market, achieving sustainable growth in corporate value.

Market Expansion

In addition to developing new customers in the automotive, ICT, and industrial and energy markets, and expanding the scope of applications for its products, TDK will work closely with Qualcomm and other IC manufacturers as it looks to develop demand for consumer applications, which represent an even larger market.
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.

Cautionary Statements with Respect to Forward-Looking Statements
The Annual Report contains forward-looking statements, including projections, plans, policies, management strategies, targets, forecasts, evaluations, and explanations about TDK and its Group companies (“the TDK Group”). These forward-looking statements are based on the current forecasts, estimates, assumptions, plans, policies, management strategies, targets, forecasts, evaluations, and explanations of the TDK Group in light of information currently available to it, and contain inherent risks and uncertainties, and other factors.

The TDK Group considers forward-looking statements to be 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. The TDK Group does not have any obligation to update forward-looking statements after the issue of this Report except as provided for in applicable laws and ordinances.

Editorial Policy
Annual Report 2017 provides financial data, including information on business results, business and marketing activities, the Medium-Term Plan, and related topics. In addition, it also contains general information on environmental (E), social (S), and governance (G) topics. For further information on financial topics not covered here, as well as on topics related to corporate social responsibility (CSR), and for product information, please visit the TDK website.
## Consolidated Business Results Highlights

### Years ended March 31

#### Consolidated Business Highlights

<table>
<thead>
<tr>
<th>Year</th>
<th>Net sales ¥</th>
<th>Net income (loss) attributable to TDK (¥)</th>
<th>Total assets ¥</th>
<th>Number of shares issued (thousands)</th>
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</thead>
<tbody>
<tr>
<td>2007</td>
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<tr>
<td>2009</td>
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<td>(63,160)</td>
<td>1,101,036</td>
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<tr>
<td>2010</td>
<td>779,254</td>
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<tr>
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<td>862,492</td>
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<td>2012</td>
<td>802,534</td>
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<tr>
<td>2013</td>
<td>841,847</td>
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<tr>
<td>2014</td>
<td>984,520</td>
<td>211,717</td>
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<td>2015</td>
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<td>2016</td>
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<td>2017</td>
<td></td>
<td>207,408</td>
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#### Notes:

1. The ratios of overseas sales and production, overseas employees, CO2 emissions in production, and manufacturing, and ratio of overseas production to manufacturing (t-CO2) are adjusted from fiscal 2010 onward to reflect the impact of the TDK Environmental Action 2020 Plan.

#### Financial Ratios

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#### Breakdown of Operating Income Changes

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Business Trends

Years ended March 31

The TVS market recorded initial assumptions, and strong sales of products for the automotive markets in Europe and North America continued, resulting in record-full year sales of ¥1,178.3 billion in fiscal 2017. The overseas sales ratio has increased over the past 10 years, particularly in the United States and Asia, and in fiscal 2017, sales outside Japan amounted to 45.1% of total net sales.

The HDD market exceeded initial assumptions, and strong sales of products for the mobile phones market due in part to the business tie-up with Qualcomm, but after the implementation of structural reforms, both have improved as a result of higher net income and other factors. In fiscal 2017, profits increased significantly due to the business transfer to Qualcomm, with ROE growing 80% percentage points year on year, to 19.8% and ROA increasing by 8 percentage points year on year to 5.1%.

As a result of structural reforms that have continued since fiscal 2012, a profit structure with a good balance among the three main segments has been firmly established. In fiscal 2017, capital gains of ¥34.8 billion were recorded in connection with the business tie-up with Qualcomm and the agreement to establish joint ventures, and operating income were ¥124.7 billion, up 14.7% year on year, to ¥124.7 billion, while the operating income ratio increased by 1.6 percentage points, to 17.7%.

ROE and ROA reached sharply high in fiscal 2009 following the global economic downturn, but after the implementation of structural reforms, both have improved as a result of higher net income and other factors. In fiscal 2017, profits increased significantly due to the business transfer to Qualcomm, with ROE growing 80% percentage points year on year, to 19.8% and ROA increasing by 8 percentage points year on year to 5.1%.

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To Our Stakeholders

Always quick to sense society’s changing needs
TDK has achieved sustainable growth through nonlinear change

About 80 years ago, TDK (then known as Tokyo Denki Kagaku Kogyo K.K.) was founded with the goal of turning “ferrite,” a unique Japanese invention, into a commercial product. At the time, ferrite was a completely unknown quantity, both in terms of its applications and its potential for commercialization. Our corporate motto, “Contribute to culture and industry through creativity,” embodies the spirit of originality expressed in the words of TDK’s founder, Kenzo Saito, who spoke of “creating value that does not yet exist in the world on a material level,” and also his belief that “if there is a will that something is truly of social value, there is a way.”

Over the years, this spirit of originality has been handed down at TDK, which has always concerned itself with what society will need next, and we have continued to generate original innovation—including the cassette tape in 1968, fine multilayering technology in 1980, and HDD magnetic heads in 1987—and contribute to society’s development. This ability to quickly sense society’s needs is what has enabled us to replace our product portfolio before our main products enter their decline, and has allowed us to undertake a transformation of our business structure, leading to our sustainable growth.

Today, TDK is facing a new time of change. Growth has slowed in HDD magnetic heads, our mainstay product since the 1990s, and commoditization is expected to progress further across a wide variety of components we supply for use in smartphones and other information and communication technology (ICT) equipment. As we look ahead to this new society, concern is growing that reliance on Monozukuri (manufacturing excellence), our founding strengths in materials technology and process technology, will limit our ability to deliver sustainable growth.

To continue to “contribute to culture and industry” in the years ahead, TDK is embarking on a transformation, not only of its business portfolio, but of the very nature of the business itself.

Driven by the spirit of our founder, handed down for more than 80 years, we will open up the future for TDK.

The TDK Group is bringing a sense of speed to driving self-transformation forward. By resolving social issues through a hybrid business model combining materials, components, and solutions, we will achieve sustainable growth in corporate value.

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Shigenao Ishiguro
President & CEO

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Shigenao Ishiguro
President & CEO
Capturing the limitless potential of electronic components

To create “something that does not exist in the world” today requires change

It is difficult to accurately predict how future society will be shaped by the Internet of Things (IoT), artificial intelligence (AI), and other technologies. Still, we are confident in the limitless potential of electronic components. In 2015, TDK launched production of highly accurate, highly sensitive tunnel magnetoresistance (TMR) sensors applying HDD magnetic head technology, marking its full-scale entry into the sensor market. Going forward, sensors will begin replacing functions in which people had previously intervened across a variety of fields, including automobiles, public infrastructure, and healthcare, and their potential will expand endlessly.

Power electronics is another very promising field, and power electronics technology and products are nothing less than TDK’s core competence. I believe their potential is far greater than that of sensors, as the need for power electronics grows in every field—including in the home—to efficiently generate, supply, convert, and store electricity. In the past, single issues were solved with single solutions, offering solutions that anticipate those needs. Doing so will require a wide-ranging arsenal of technology.

M&A as a means to an end

The TDK approach to post-merger integration means respect for diversity and a willingness to hand over the leading initiative

TDK has, since prior times, made active use of M&As as a means of transforming its business portfolio. In many cases, we have developed our own acquisition candidates that have the technology we need to achieve our long-term growth strategy, examining them carefully in terms of whether or not our philosophies can be shared and our technologies integrated. We have also consistently taken an approach that gives the leading initiative in the business to the respective acquired companies, resulting in greater corporate value for both sides. For example, our HDD magnetic head business expanded significantly with our EBG acquisition of SAE Magnetics (H.K.) Ltd. (SAE). Thanks to the contributions of Amperex Technology Limited (ATL), acquired in 2005, TDK saw solid growth in net sales of rechargeable batteries. The EPCOS Group, a major German components manufacturer acquired in 2008, played a leading role in our growth in the smartphone market with, among others, its high-frequency components. Around 2015, we began moving forward with M&A centered on the sensor business, with an eye on possible gains from a sale through the transfer of the EPCOS Group’s high-frequency components business. In that process, we narrowed our focus to non-optical sensors, rather than optical sensors, a field in which we had no core technology and in which other companies already had a strong lead.

In March 2016, we made Micronas Semiconductor Holdings AG (Micronas) a subsidiary, building a foothold in the market for Hall sensors, which make up 80% of magnetic sensors. At the same time, along with TMR sensors, pressure sensors, and temperature sensors, we bolstered our portfolio for the automobile industry and enhanced our expertise, enabling us to expand our sales channels. In December 2016, we added inertial sensors with high-accuracy MEMS technology to our portfolio with the acquisition of Tronics Microsystems SA (Tronics) as a subsidiary, marking the beginning of our entry into the aviation market. In May 2017, we completed our acquisition of InventSense, Inc. (Inventionec), which developed the world’s first six- and nine-axis motion sensors. By adding MEMS technology-based inertial sensors, pressure sensors and ultrasonic sensors, microphones, and other products to our portfolio, we can now consider the entire non-optical sensor market a target.

In March 2017, we completed our acquisition of C-Sense NV (C-Sense), which develops and supplies Application Specific Integrated Circuit (ASIC) technology to read values detected by sensors and perform signal processing, as well as offering custom IC design services. This will enable TDK to design ASICs tailored to the characteristics of specific sensors, building an end-to-end value chain that extends from materials technology to sensor elements, signal processing, and software provision. Through these M&As, TDK has built a balanced portfolio that allows it to approach a wide range of markets.

Open collaboration and an internal focus on continuing to develop competitive advantage

Materials and components refined over 80 years

Today, with the rapid changes taking place across all areas of society, we believe that basing ourselves in an open environment that includes other industries is the way to expand the range of solutions we can offer. For example, in wearable devices we are seeing an increase in opportunities for collaboration with universities and other institutions with the expertise to make use of data on vital signs to improve health. This is a new development that is different from the conventional electronic components business. Semiconductor manufacturers will be particularly important partners as we work to create a new business model. Fourth generation mobile communication system (4G) smartphones today increasingly offer multiband capability, and also need to support a diverse wireless environment that includes wireless LAN and Bluetooth connectivity. With 5G expected to bring further complexity, IoT devices must be small and highly integrated while achieving sophisticated multi-functionality. Modularization technology is essential to that complexity. We believe that a rational approach going forward will be not to work alone, or to work with high-frequency components alone, but to offer modules and solutions by developing close relationships with semiconductor manufacturers.

This was behind the February 2017 establishment of our joint venture with Qualcomm Incorporated (Qualcomm), RF360 Holdings Singapore PTE Ltd. (RF360), a carve-out of our high-frequency components business. We are now working with Qualcomm on high-frequency solutions across a broad range of areas, including next-generation mobile telecommunications, IoT, and automotive-related fields. We are also engaged in a variety of joint development projects, including sensor reference design. Our hope is to build relationships with a wide range of semiconductor manufacturers, using our technology and products to give form to algorithms and leveraging our mutual strengths to generate new values.

While intensifying efforts toward open collaboration, there is another area we need to continue refining internally, and that is the competitiveness of our materials technology and process technology centered on magnetics, and of the passive components developed utilizing those technologies. These represent a competitive advantage TDK has worked to establish throughout its more than 80-year history, and a base for sustainable growth that cannot easily be imitated by other companies. They also form a solid foundation for our new business model.
A new business model

Creating a virtuous cycle of materials, components, and solutions

Our technology arsenal is in place, and TDK is embarking on a new, hybrid business model that combines materials, components, and solutions. By refining our materials and components technologies, we have built a base of competitive, single components, and utilizing the resources of Qualcomm and other IC partners, we will offer high-value-added sensor solutions and power solutions in the priority ICT, automotive, and industrial and energy markets. By quickly tying the needs of these industries to our development efforts, we will further enhance the competitiveness of our components and expand volume, creating a virtuous cycle by connecting those components to high-value-added solutions. This in turn will increase the value of the business model as a whole, and result in expanded earnings.

In the sensor business, we will take advantage of our world-leading lineup of non-optical products, contributing to resolving customer issues with a variety of advanced compound sensors while also expanding into sensor fusion with the addition of software. At the same time, we will move forward to offer total solutions across a wide range of markets, not only for the automotive industry, but also for fields such as entertainment, IoT, and industrial equipment, including robotics. Our goal is to become the world’s No. 1 sensor solution provider (P.36 Special Feature: Sensor Solutions).

With regard to power solutions, enormous potential exists even when narrowed down to batteries alone. Smartphones and automobiles are not the only things that run on batteries. There are many other familiar areas where solutions can be provided using light, safe, high-efficiency pouch cell batteries, including power tools and home appliances. The possibilities are also limitless for new applications, including drones, industrial robots, and automated guided vehicles (AGVs). TDK is proud to offer a broad array of products for the power conversion field, including DC-DC and AC-DC converters, as well as for the power control field. Further, we plan to offer high-value-added power solutions leveraging these technologies that allow for freedom of control over energy. One example is in the automotive market, where our magnets for power generating motors contribute to efficient power generation, and in power supply and charging, where we are going beyond sales of individual products such as compact, un-board chargers and coils to push ahead with practical development of a magnetic resonance wireless power transfer system for charging moving vehicles (P.38 Special Feature: Power Solutions).

Goals of the InvenSense acquisition

The foremost objective is to obtain the ability to conduct a fast-paced business and draw out future needs

The background to our approximately U.S.$1.3 billion investment in acquiring InvenSense requires, I think, a more detailed explanation. This acquisition aims for an impact viewed from a long-term, big-picture perspective.

One reason for the decision was, as mentioned earlier, the fact that this will enable us to target the entire non-optical sensor market through the acquisition of MEMS sensor technology. Also a factor was our determination that we could significantly increase the corporate value of InvenSense. While the company’s portfolio is centered primarily on inertial sensors for the mobile and IoT markets, it has particular strengths in MEMS technology. By combining that technology with a wide variety of the TDK Group’s sensors, and by utilizing our sales channels, we can expand the potential for market development and build a balanced customer portfolio. In doing so, we will enhance corporate stability, and by further leveraging our piezoelectric elements, also bolster our development of next-generation products. Additionally, use of mounting technology and semiconductor embedded substrate (SEUS) technology will make a variety of other composite products possible.

InvenSense is the first fabless company acquired by TDK. Previously, we had sought out value in companies that vertically integrated everything from development to production, acquiring manufacturing firms. Meanwhile, the value in InvenSense, a fabless company, lies not in its manufacturing capabilities, but in its ability to accurately translate customer needs into the product designs and prototypes it provides. This ability to conduct a fast-paced business and draw out future needs is precisely the value in which I have the highest expectations. It would not be exaggerating to say that InvenSense holds the key as TDK looks to expand its solutions business. In the sensor business, we have already begun sharing in their expertise. We hope to work together from a short-term, medium-term, and long-term perspective to utilize our customer bases, expand our portfolio of products that apply our respective technologies and applications, and ensure this partnership generates synergy.

Speed increases competitiveness and profitability

Under a “First-to-Market” approach, we are working to increase our speed Companywide

The cassette tapes and HDD magnetic heads that have driven our growth, and the battery business led by ATL, all have speed in common—the ability to quickly deliver products that anticipate market needs. As change accelerates in the years to come, speed will become an increasingly important factor in business.

Speed is also an important target of M&As and business tie-ups. For example, the ability of InvenSense to respond quickly directly accelerates the speed of business, and by bringing their production in-house at TDK, we can significantly reduce the lead times required for prototype development compared with contracting production outside. The total value chain we have built through our collaboration with Qualcomm and our acquisition of ICsense similarly bring speed to development.

Based on this thinking, I have proposed a “First-to-Market” approach, and by involving development, production sites, and all of our other organizations and personnel in the effort, we are making a strong push to speed up our business.

Development is being encouraged to of course anticipate the needs of the market, but also to stay ahead of our road map by getting an early start on development efforts. The value-added time when we manufacture at our production sites in fact represents only about 20-30% of the overall time. The rest can be considered non-value-added time, during which for one reason or another the flow of production has fallen behind. We are now promoting reduction of non-value-added time, not just at our production sites but in all of our divisions. We are also advancing efforts to shift our business from a monthly to a weekly basis. This allows for a more flexible response to changing plans, and also reduces waste, which we believe will greatly shorten the business cycle.

I believe that improving our cost rate and shortening our cash conversion cycle are certain to lead to a stronger earnings structure for TDK. By shortening working hours, efforts to reduce non-value-added time will, I think, also contribute to enhancing human productivity.
Near-term performance trends and an outline for medium-term growth

Many seeds being planted for growth under the next Medium-Term Plan

Fiscal 2017 was positioned as the year we decided and embarked on building a new business portfolio aimed at future growth. While operating income increased by 52 percent year on year, excluding the ¥144.4 billion gain on the sale of our high-frequency components business, it actually fell by 9.2 percent. Our goal for fiscal 2018 will be to bring our operating income ratio to levels sufficient to fill in for what was cut out, but it is expected to remain at 7.2 percent, and neither the operating income ratio nor ROE will achieve the target of greater than 10% set out in our current Medium-Term Plan. Next year, we will be announcing our upcoming three-year Medium-Term Plan, and a clear explanation of TDK’s growth strategy for building a new business model, upon which we have already embarked, will be provided then. At that time, we will also officially report on our numerical targets, but for now, I would like to just touch on the outlines. In fiscal 2023, the sensor business is expected to still be in the midst of generating synergies with the companies we have acquired. However, we hope to increase our share of that market, which is expected to grow at an annual rate of 8% from approximately 13% today to around 20%. We envision net sales doubling from current levels, reaching the ¥200.0 billion range. Given the current situation, I think we have the ingredients to make that happen. In addition, there will be ¥120.0 billion from organic growth in our existing components business, as well as ¥200.0 billion in net sales from sensors and an additional ¥400 billion in power solution-related sales, centered on power supply products. That total of ¥1,600.0 billion in consolidated net sales is what we are picturing for the final fiscal year of the plan. As we build a new business model, we will simultaneously strengthen our earnings structure. We will be examining our long-term goals more closely going forward, but my hope is to attempt to generate operating income on a scale of ¥200.0 billion.

Growth realized by utilizing internal resources to expand current product sales.

Monozukuri
Pushing forward to become a “centennial company”
Continuing to pursue what society needs

In the sensor business, we have integrated an organization that was scattered across a variety of business units, establishing Sensor Systems Business Company, comprising six Group companies with development and production sites in 25 countries worldwide. We will ensure a speedy launch of the sensor business by sharing resources and promoting cross-divisional collaboration in development, marketing, and production. We also plan to begin putting structures in place for the expansion of our energy-related businesses. Maturation of the market for HDD magnetic heads is expected to progress further, with the addition of HDDs for next-generation applications, where the number of heads installed in each HDD is expected to increase. By providing thermal-assisted recording and other advanced technology, we aim to support our customers while building a lean operation centered on Headway Technologies, Inc. (Headway Technologies) of the United States and SAS to ensure stable earnings. We also plan to merge the production and development technology of Hutchinson Technology (Incorporated) (Hutchinson), acquired in October 2016, achieve vertical integration of the sensor business, and maximize the synergies of the business merger under a policy of extending application of the company’s technology to new components in the ICT market and elsewhere.

Pushing forward to become a “centennial company”
Continuing to pursue what society needs

Having embarked on new reforms, no issue is more important for TDK than people as we solidly execute our strategy, prepare to mark our 100th anniversary in 2015, and work toward the continued expansion of corporate value beyond that milestone. Since first setting out to globalize its business in 1950, TDK has cultivated strength of diversity, readily accepting the varied cultures and values of the companies we have acquired and incorporating their dynamism in our business. Of our 18 current corporate officers, six are non-Japanese, and we have made steady progress in diversifying our management ranks.

Corporate Governance

Continued from previous pages...

Shigenao Ishiguro
President & CEO
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 to “advance autonomous collaboration within the Group and 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.

### Five Priority Businesses

1. **Inductive Devices**
2. **High-Frequency Components**
3. **Piezoelectric Material Products**
4. **HDD Magnetic Heads**
5. **Rechargeable Batteries**

### New Businesses

- **Sensors for Automobiles and Industrial Equipment**
- **TMR sensor**
- **MEMS pressure sensor die**
- **Energy units for automobiles and industrial equipment**
- **Wireless power transmitting and receiving coil unit for wireless power transfer**
- **Bidirectional DC-DC converter**
- **Wearable and Healthcare Devices**
- **Semiconductor embedded substrate (SESUB)**
- **Thin-film power inductor**
- **Thin-film capacitor (TFCP) for embedding in substrate**

### Expansion of new businesses in growth fields

**Automotive**

- **Increasing automotive sales to 30% of total net sales**
- **Fiscal 2015**: 17%
- **Fiscal 2018 (target)**: 30%

**On the strength of our global 4-pole network, we are making full use of the rich and varied technological resources of the TDK Group to drive the creation of new businesses.**

**Expansion of new businesses in growth fields**

- **Fiscal 2015**
- **Fiscal 2018 (target)**
- **1% → 8%**

### Current Medium-Term Forecast (Totals for fiscal 2016 and fiscal 2017 results, and fiscal 2018 forecast)

- **Capital Expenditure**
  - **About ¥488.0 billion**
- **R&D Investment**
  - **About ¥270.0 billion**

### Previous Medium-Term Result (Fiscal 2013 to fiscal 2015)

- **Capital Expenditure**
  - **¥256.7 billion**
- **R&D Investment**
  - **¥188.0 billion**

### Monozukuri Innovation

- **“Zero defect” quality based on superior technological competence**
- **Pursuit of “zero defect” through narrowed tolerances via product upstream management**
- **Achieve “location independent,” whereby the same quality can be achieved regardless of actual production location**

**Implement this innovation at new factories in Akita Prefecture**

**Roll out to other factories around the world**

With our new Akita factories as the mother factory, spread “location independent” worldwide

### Strengthening Growth Investment

- **Acceleration of strategic growth product expansion**
- **Strengthening of overseas R&D base**
- **Acceleration of existing core business expansion**
- **Acceleration of Monozukuri Innovation**

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**Medium-Term Plan** (Fiscal 2016 to fiscal 2018)
Finance and Capital Strategy during Transformative Phase

Giving TDK’s new nonlinear evolution a strong push from the finance side

Tetsuji Yamanishi
Director
Senior Vice President
General Manager of Finance & Accounting HQ

Fiscal 2017 review

Placing emphasis on ensuring procurement of capital for acquisitions

In fiscal 2017, TDK pushed forward with a large-scale conversion of its business portfolio. Based on an agreement with Qualcomm related to the establishment of RF560, a joint venture company that provides high-frequency components and other products, in February 2017, TDK received approximately ¥130.0 billion, representing 51% of the funds from the transfer of its high-frequency components related business, and plans to receive the remaining equity amount, equivalent to 49%, in August 2019. Because the Company proceeded with M&A in fiscal 2017 ahead of the completion of this business transfer, ensuring we procured acquisition capital was a top priority in terms of our finance and capital strategies. We also set up a commitment line for the first time, part of our effort to secure an adequate capital procurement facility and ensuring our ability to carry out M&A.

Net sales in fiscal 2017 increased 2.2% over the previous fiscal year, while operating income rose by ¥143.3 billion year on year. Deducting the ¥144.4 billion in capital gains from the transfer of the high-frequency components business, ¥21.2 billion in structural reform expenses, and other one-time losses and gains for an actual operating income of ¥85.5 billion, the operating income ratio was 7.3%. Even assuming the transfer of the high-frequency components business, our outlook called for achieving the current Medium-Term Plan (for fiscal 2016 to fiscal 2018). Several factors, however, including (1) sluggish growth in profit levels from passive components and rechargeable batteries; (2) a delay in the timing of income contributions from acquired companies; and (3) delays in profit improvements, primarily in the magnet business, mean that achieving the management targets we have set, which call for an operating income ratio and ROIC in excess of 80% each, will be difficult.

Fiscal 2018 positioning and priority measures

Working to stabilize our financial constitution by bringing free cash flows into positive territory

Fiscal 2018 is being positioned as a run-up period in preparation for the next Medium-Term Plan. The operating income projection of about ¥80.0 billion, intended to absorb the impact on results associated with the transfer of the high-frequency components business, was compiled assuming organic growth. Considering trends in orders received in existing businesses, this target is well within range. With impairment losses in the current fiscal year in HDD magnetic heads, aluminum electrolytic capacitors, and magnets, business structure reforms are in sight, and we have paved the way for conversion of our profit structure in fiscal 2018 as well.

Under the current Medium-Term Plan, investment has taken precedence, with active M&As and a plan for capital investment of about ¥490.0 billion over three years, equivalent to slightly less than double depreciation and amortization, and as a consequence, our stockholders’ equity ratio has fallen to 47.2% as of the end of fiscal 2017. Because the acquisition of InvenSense was covered by borrowing, that ratio is expected to fall further in fiscal 2018, but through selection and consolidation of capital expenditures, and by generating solid results from our M&As, we will bring free cash flows into positive territory while stabilizing our financial constitution in preparation for the next Medium-Term Plan.

Direction of the next Medium-Term Plan

Increasing capital efficiency through investment based on rigorous selection and consolidation

In April 2018, we plan to announce our next Medium-Term Plan. We will offer an official briefing on our profit outlook at that time.

With regard to capital structure, we are aiming for an interim stockholders’ equity ratio of greater than 30%, and improvement in our debt-to-equity ratio to approximately 0.3 from slightly more than 0.4 in fiscal 2017. This will allow us to carry out investments from a long-term perspective while ensuring flexibility in procuring capital, in the midst of an industry in which technological innovation is extremely rapid, and which is affected by currency exchange rates and macro-environmental shifts. To accomplish this, we will select and consolidate our capital expenditures, aiming for slightly more than depreciation, and generate solid free cash flows.

With regard to dividends, we have set a dividend payout ratio target of 30%, under a policy of working to steadily increase dividends through growth in profit per share. During the period of the next Medium-Term Plan, demand is expected to grow further, particularly in the market for electric vehicles in 2020 and beyond, and that may require investing in increased production. Acquisition of treasury stock as part of returning profits to shareholders will be included among our options for use of surplus funds generated through timely investment in response to increases in demand.

Organically linking strategy to the front lines

Ensuring growth strategy is incorporated in front-line policies

We are also focused on increasing capital efficiency. We will work to organically tie the growth vision conceived by management not only to our finance and capital strategy, but all the way to policies on the front lines. Part of that effort is our performance management framework (P.41 Linking Strategy to the Front Lines), which we are working to strengthen. TDK has introduced TDK Value Added (TVA) as a comparison of return against capital cost (the weighted average cost of capital, or WACC, multiplied by invested capital), which was introduced in 1999. Under the logic tree tied to this TVA, we not only evaluate the profitability of each business, the efficiency of business assets, and the ability to capture cash, but also factorize and monitor KPIs tailored to specific front-line policies and business characteristics. This not only allows us to unite as a single company in promoting our growth strategy, but, we believe, will enable us to build a financial constitution capable of achieving ROE of 45% or more by also tying that strategy to selection and consolidation of capital expenditures through stronger management of investment efficiency.
Overview of Business Conditions by Segment (Fiscal 2017)

Note: Beginning in fiscal 2018, changes were made to reported segments. The following is an explanation of fiscal 2017 performance under the former segments.

### Passive Components Segment

| Net sales | ¥348,730 million (down 6.0% year on year) |
| Operating income | ¥204,681 million (up 202.8% year on year) |

Fiscal 2017 operating income includes ¥144.4 billion in business transfer gains associated with the establishment of the joint venture business with Qualcomm. Operating income excluding the impact of this amount was down 9.2% year on year, to ¥605.3 billion, but the operating income ratio was 11%, on par with the previous fiscal year’s level. High-frequency components saw particularly significant improvement in profitability through productivity improvements, with profits leading the segment as a whole. At the same time, impairment losses, etc., associated with profit structure conversion in the aluminum electrolytic capacitor business resulted in the posting of ¥0.8 billion in structural reform expenses for the segment as a whole.

### Magnetic Application Products Segment

| Net sales | ¥349,698 million (up 10.9% year on year) |
| Operating income | ¥1,802 million (— year on year) |

Thanks to strong shipments of HDD magnetic heads for a Japanese customer, and solid sales of magnetic sensors from Micronas, acquired in March of fiscal 2016, for the automotive market, net sales increased in March of fiscal 2017. At the same time, as a result of an active push toward structural reforms, the Magnetic Application Products segment as a whole posted ¥714 billion in structural reform expenses. We also completed our evaluation of goodwill carve-out assets with regards to our acquisition of Micronas and Hutchinson, which resulted in the posting of approximately ¥3.3 billion in depreciation and amortization expenses in the period under review.

### Film Application Products Segment

| Net sales | ¥247,693 million (up 12.6% year on year) |
| Operating income | ¥41,217 million (up 11.3% year on year) |

In rechargeable batteries, while sales to North America fell year on year, sales to smartphone manufacturers in China increased significantly. Sales also increased for new applications aside from smartphones, including drones and game consoles. Timely efforts to boost production capacity and improve production efficiency enabled us to respond to this increased demand, and resulted in a significant increase in both net sales and income.

Corporate Value

### 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 2017, the yearly dividend amounted to ¥120 per common share. Consequently, the dividend payout ratio was 10.4%, and the ratio of dividends to stockholders’ equity was 1.5%.

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 ¥180 per common share.

### 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 2008 management integration.

<table>
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<th>Year</th>
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<th>TOPIX</th>
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<td>1.1 0.8 1.5 1.2 1.2 0.7 0.9 1.5 1.2 1.1</td>
<td></td>
</tr>
</tbody>
</table>

### Social Recognition by Outside Organizations

- Member of Ethical EXCELLENCE
- MS-SRI (Morningstar Sustainability Investment index)
- TOY/TMSpring 2016 received the Automotive Components Award of the 2016 “CHO” (Monogram Awards)
- Research Human Resources Development Award from Malaysia’s Ministry of Human Resources
- TDK CSR REPORT 2016 received an award at the SIRI Environmental Communication Awards for Excellence
Over the years, TDK has achieved sustainable growth through “nonlinear progress,” our ability to remain alert to the future needs of society and make bold changes in our business portfolio before existing businesses enter a period of maturity. Today, in anticipation of the future before us, we are taking our powerful first steps toward a new nonlinear progress.
A Complete Technology Arsenal

Beginning with our agreement to acquire Micronas at the end of 2015, TDK has pursued aggressive M&As, primarily in the sensor field, and we have quickly moved to deepen our relationships with IC manufacturers, starting with Qualcomm with which we established a joint venture to provide high-frequency components. With the subsequent closing of our acquisition of InvenSense in May 2017, TDK now has a complete technology arsenal and has begun a new series of reforms.

Target Markets
Demand for the non-optical sensors TDK considers its target is expected to grow at an annual rate of 8% up to fiscal 2020. Through its acquisition of InvenSense, TDK has obtained a platform for sensors based on micro electro mechanical systems (MEMS) technology, putting the entire non-optical sensor market within range. It has also allowed us to expand our target from our previous focus on the automotive market to other fields, including mobile and IoT, enabling us to build a more balanced product portfolio.

Outlook for Global Sensor Demand (Non-Optical)

Key Factors behind New Reforms

The source of competitiveness in business lies in the speed with which needs can be captured, prototypes can be offered, and those new offerings can be incorporated into products and solutions, and thus the cycle also leads to improved profitability. TDK is engaged in a Companywide effort to increase the speed at which it does business.

Speed-Related Synergies with InvenSense

1. Ability to offer solutions
   The speed with which InvenSense is not only able to develop software, but to take a concept from the initial capturing of market needs to actually providing a solution, will enhance the ability of the TDK Group as a whole to offer solutions.

2. Accelerated prototype development through in-house manufacturing
   InvenSense is a fabless operation, and by bringing their production in-house within the TDK Group, we will significantly shorten the time required to provide prototypes, as well as the time needed to offer solutions.

Accelerated Cycle Times

TDK is working not only to reduce lead times between development, manufacturing, and sales, but is pushing to cut non-value-added time Companywide, including in the back office, thus accelerating the entire business cycle (P.59 Manufacturing).

Building a Total Value Chain in the Sensor Business

With our acquisition of ICsense, which deals in ASIC development, manufacturing, and sales, but is pushing to cut non-value-added time Companywide, including in the back office, thus accelerating the entire business cycle (P.59 Manufacturing).

Driver of a New Business Model —— Collaboration with Qualcomm

TDK’s collaborative relationship with Qualcomm is a powerful driving force behind our new business model.

Key Collaborative Synergies
• The ability to use advanced RF solutions to provide integrated systems via the joint venture RF360
• Technical cooperation across a wide range of advanced technologies in next-generation mobile communications, IoT, and automotive-related sectors, including passive components, batteries, wireless power transfer, sensors, and MEMS
• Enhanced reference design capabilities through Qualcomm
• Early disclosure of Qualcomm technology road map

Customers and Business Partners

- Solutions and fusion
- Software
- Modules
- Sensors
- Materials and manufacturing technologies

Key Feature: The Start of a New “Nonlinear Progress”
What TDK Can Do

Sensor Solutions

With a full lineup of non-optical sensors, TDK is now prepared to respond to any market need. Our goal is to contribute to resolving social issues and become the world’s No. 1 provider of sensor solutions by creating sensor elements that offer higher sensitivity, higher accuracy, and lower power consumption; by developing compound sensors and integrating sensors with arithmetic elements and memory; and, with the addition of software, by increasing added value through sensor fusion.*

* Combining multiple sensors with software to achieve advanced sensor functions.

TDK’s Goals for Sensor Solutions

- Key TDK Sensor Products
  - Magnetic sensors
  - Ultrasonic sensors
  - Pressure sensors
  - Gas sensors
  - Gyro sensors
  - Acceleration sensors
  - Barometric pressure sensors
  - Others

TDK integrated some divisions and related companies belonging to disparate business domains by fiscal 2017, including magnetic sensors, temperature and pressure sensors, MEMS and microphones, etc., and established Sensor Systems Business Company. With six Group companies in 13 locations worldwide engaged in marketing and R&D efforts across the Group, we are aiming at a rapid launch of the sensor business (note the addition of “Sensor Application Products” in our segment reporting beginning in fiscal 2018).

Sensor Business Integration and Rapid Launch

Examples of Compound Sensor and Software Application Solutions

- Improved Workability and Efficiency
  - Gyro (angular velocity) sensors are used to detect the orientation and state of motion of a moving object. Familiar uses include car navigation systems, camera image stabilization, and more. Gyro sensors can be adapted for use in anything that moves. Used in combination with software in industrial and mobile robots, they contribute to improved workability and efficiency by enabling robots to create and learn new motions. Installed in wearable devices, they can detect a person’s posture and movements, and may have applications in the sports and healthcare sectors.

- Improved Security
  - The use of biometric authentication systems involving passwords is expanding. One of these is a fingerprint authentication system with an ultrasonic sensor using MEMS technology. With excellent water resistance, it can read fingerprint and blood vessel patterns deep in the skin, eliminating the errors common with conventional methods. This makes high-performance fingerprint authentication systems possible, and contributes significantly to improved security. Depending on the software, ultrasonic sensors can be combined with wearable devices and used in near-field communications, offering a wide range of potential applications.

- Improved Redundancy
  - Ultra-high-sensitivity TMR sensors, adapted from HDD head technology, and Hall sensors, a kind of sensor flexible enough to adapt to a diverse range of applications, are the two leading types of magnetic sensing technologies, and one of TDK’s strengths is its lineup of magnetic sensor products. Angle sensors, rotation sensors, position sensors, and others each bring their distinctive characteristics to the automotive, robotics, and other fields. In addition, use of TMR sensors and Hall sensors together as a set enhances the likelihood that one or the other will maintain its sensor functions even in the harshest conditions, significantly improving redundancy.

- Improved Safety
  - Combining acceleration sensors with gyro sensors creates inertial sensors capable of detecting the attitude of a vehicle around three different axes: front and back, left and right, and up and down. The angular velocities around each of these axes are known as the roll rate, the pitch rate, and the yaw rate. During left and right turns, for example, the sensor detects angular velocity in terms of yaw rate, preventing drift, where the vehicle cannot turn, and spin, where the vehicle turns too far. This technology is also critical to ensuring the safety of autonomous-driving vehicles. Applications can also be expected for mobile robots.

- Improved Navigation Accuracy
  - Inertial sensors made up of acceleration sensors and gyro sensors can be combined with barometric pressure sensors to achieve highly accurate car navigation even on roads with height differences. Going forward, we will also see the development of software and systems that use it to analyze and manage the information gathered by various automotive sensors, using it to drive in the event of possible breakdowns or accidents. Automobile sensor networks, connected by the vehicle’s engine control unit (ECU), will also connect to sensor networks in the IoT society to come.

Future Potential

Efforts are underway worldwide to utilize sensor networks as means of improving the safety and economic efficiency of public infrastructure. The number of potential targets for sensing devices is immense, from railways and roads, to houses, factories, and steel towers. Because many of these involve dangerous working environments, sensor units equipped with internal batteries need to remain usable for long periods of time following installation. This is why the ability to offer highly durable, highly reliable sensor units will greatly enhance competitive advantage in the IoT market to come.
What TDK Can Do
Power Solutions

Complex Solutions That Leverage Competitive Advantage

Building on its strengths in high performance and reliability based on technology accumulated over many years, TDK is working to enhance its position as the leading manufacturer of batteries for consumer use, while also further expanding its range of energy-related products, including its rich lineup of power supply equipment. Leveraging our competitive advantage in developing products from the material and component stage, TDK will offer complex power solutions with high added value.

Expanding Power Solutions Unique to TDK

Today, TDK is focusing on power solutions in addition to sensors and actuators and next-generation electronic components. Energy devices such as lithium-ion polymer batteries, as well as power supply equipment, generally relied primarily on conventional stand-alone sales. By pivoting to offer high-value-added units that combine these products with hardware and software, TDK’s policy going forward will be to push aggressively ahead with proposals for unique power solutions in the three priority markets of automotive, industrial, and energy, and ICT.

From its origins in the development of ferrite, an innovative magnetic material, TDK has continued to refine its core competence in magnetics technology, and today offers a diverse range of products related to core power electronics functions, including energy conversion, storage, and control. Utilizing our technology and expertise that allow for free manipulation of energy, we will develop highly-value-added power solutions.

Examples of the Integration of TDK Elemental Technology for High-Value-Added Power Solutions

- **Wireless Power Transfer System for Industrial Equipment**
  - Expectations are high for the introduction of wireless power transfer systems in the industrial equipment sector as well, including for automated guided vehicles (AGVs) and robots, in terms of their ability to improve convenience, safety, and reliability, while reducing manpower and costs through automated charging. Envisioning a wide variety of applications, TDK has developed three platforms (1kW, 200W, 50W) for rotating bodies that allow for the building of wireless power transfer systems that employ advanced magnetic field resonance methods.

- **On-board Chargers for EV and PHEVs**
  - EVs and PHEVs are installed with on-board chargers used to charge the main battery. The chargers are comprised of a rectifying and smoothing block that converts commercial AC power to DC, a power factor correction (PFC) block, a DC-DC converter, and other components. One of TDK’s strengths lies in the fact that it has commercialized a diverse range of electronic components that comprise on-board chargers, and can offer compact, lightweight, high efficiency on-board chargers that represent a concentration of power electronics technology.

- **Regenerative Energy Bidirectional DC-DC Converters**
  - Bidirectional DC-DC converters function to store that regenerative energy in a battery, providing a boost for stored power when the motor is started and requires a high level of power. TDK can offer comprehensive systems that integrate power conversion, storage, and control.

- **AC-DC Power Supply Units for Storage Battery Charging**
  - Power storage systems using lithium-ion batteries are widely used in peak cut and peak shift power demand systems as well as emergency power sources during disasters. TDK’s AC-DC power supply units for storage battery charging utilize advanced power electronics technology to provide a constant-voltage, constant-current (CVCC) power supply optimized for charging storage batteries. The units offer particularly outstanding charging performance when used in commercial high-capacity power storage systems.

- **Power Management Unit (PMU)**
  - SESUB Technology
  - TDK’s semiconductor embedded substrate (SESUB) is a proprietary substrate technology for embedding thin IC chips in a resin substrate, allowing for three-dimensional mounting of other components. Power management units installed in smartphones and tablet devices were developed using this technology. Power supply management functions, including DC-DC converter circuits, battery charging circuits, and LCD backlight power supply circuits are packaged in a single module, not only saving space, but enhancing heat discharge and noise characteristics.

TDK’s Wireless Power Transfer System Development Portfolio

TDK’s wireless power transfer systems, which target the three priority markets of automotive, industrial and energy, and ICT, feature a broad development portfolio that includes high-power systems for EV and PHEV use, medium-power systems for industrial equipment, and low-power systems for wearable and mobile devices. Our greatest competitive advantage is that we have the wide range of core technologies needed for system development, as well as many of the electronic components and devices that comprise those systems.
Strengths of Materials and Components Technologies for Enhancing Competitive Advantage

To enhance the competitiveness and sustainability of its new business model, TDK is working to build up the strengths of its components business, based on a foundation of materials and process technologies and integrated production, and the passive components they generate.

Strengthening Monozukuri (Manufacturing Excellence) Power

TDK is moving forward to expand its business in fields that require not only high efficiency, but also high reliability, including the automotive market, the industrial and energy market, and the healthcare market. Under our policy of pursuing “zero defect” quality in addition to the “Industry 4.0” concept, we are pushing ahead with Monozukuri reforms (Next-Generation Manufacturing).

The Endless Pursuit of Compact, Low-Profile Technology

Going forward, requirements that IoT devices be compact, slim, and highly integrated are expected to increase even further. TDK continues to pursue highly competitive, compact, low-profile technologies, as typified by semiconductor embedded substrate (SESUB), and will promote the development of high-value-added next-generation electronic components and modules.

SESUB

This proprietary technology embeds integrated circuits thinner than 100μm three-dimensionally in the substrate, rather than mounting them on the substrate. Used in ultra-compact power supply modules and Bluetooth modules, this technology contributes to the development of thinner, more compact mobile devices. We are also working to develop more highly integrated modules and a wide range of other IoT device applications.

Fundamental Restructuring of the Magnet Business

In fiscal 2017, the magnet business recorded an impairment loss, due in part to a large number of production sites, process segmentation, and other structural issues. While working to incorporate demand for use in automobiles and wind power generation, which is expected to grow, we will undertake a fundamental restructuring of the business.

Linking Strategy to the Front Lines

To ensure the solid execution of our growth strategy leads to improvements in profitability and corporate value, TDK is working to instill that growth strategy on the front lines. The performance management framework we are working to deploy calls for KPIs to be established by individual business division and site, and for an acceleration in the speed of business, which is key to our new business model. The goal of these efforts is to improve profitability Companywide. Investment effectiveness, including assessment of the efficiency of business assets and capital expenditures based on TDK Value Added (TVA, a proprietary index for evaluating performance), will come under even stricter monitoring, which will lead to an improvement in capital efficiency for the Company as a whole.

Accelerating the Speed of Business by Reducing Non–Value–Added Time

At TDK, we are working to reduce lead times based on three strategies: (1) getting an early start; (2) reducing non-value-added time (on the front lines of manufacturing, equivalent to time not spent in production); and (3) shortening of work cycles. A variety of projects are underway, led by the front lines, with one factory working to reduce lead times by half from the planning and coordination stage through material procurement and manufacturing. By sharing success stories, we are working to accelerate the speed of business with the participation of all our employees.
Assessment by the Chairman of the Board (Outside Director)

Makoto Sumita
Outside director
Chairman of the Board of Directors
Chairman of the Nomination Advisory Committee
Chairman & CEO of ENNOELED CORPORATION

About three years ago, it became clear that under the status quo, profit growth would slow not only in HDD magnetic heads, which had led TDK’s growth, but also in the core electronic components business. That was when TDK began discussions around what its future strengths would be and the direction the Company should take going forward. As discussions progressed regarding which technologies should be nurtured internally and which should be acquired by borrowing outside capabilities, the conclusion was reached that a partnership between Qualcomm, which has software and algorithm technology, and TDK, which is capable of embodying those technologies in its own products, would be ideal. The business tie-up with Qualcomm that emerged from those discussions eventually determined the direction of a major strategy that included expansion of TDK’s sensor business. Once that larger direction was decided, it was not long before competitors such as Micronas and InvenSense came to the fore as potential acquisitions.

In selecting those deals, we analyzed demand trends in the sensor market and the status of competitors from a variety of angles, looking for the companies that would best fit TDK’s growth strategy. The cycle of technological change in the high tech sector has sped up and the cost of corporate acquisitions has risen; the risks involved have grown compared with five years ago. At the same time, it is impossible to predict whether those acquisition costs will drop going forward. To ensure that the execution side could take risks within an appropriate range when carrying out this series of acquisitions, we continued to review the suitability and growth potential of businesses brought before the Board by the management meeting, while the Board conducted a multifaceted review of the investment effects and risks and continued to provide feedback. With regards to InvenSense, a fabless firm, I gave high marks to the execution side for their speedy response to employee and customer retention risks.

Because TDK is pursuing an offensive investment strategy, we try, to some extent, to keep positive scenarios in mind as we conduct feasibility studies. In the case of InvenSense, for example, while the deal presented significant potential for synergies in terms of software and algorithms, my assessment of areas that are not making much of a contribution to profit is quite conservative. I also believe that TDK’s true capabilities will be tested as it attempts to enhance corporate value for both parties to these acquisitions, extracting value from technologies dependent on individuals that may not even appear as intangible fixed assets on the balance sheet, or value of which the acquired party may not even be aware.

In terms of corporate governance, I think TDK has made progress in splitting the business execution function from the supervisory function. On the Board of Directors, of which I am chairman, the three outside directors share an understanding of the importance of balancing accelerated decision-making with the need for vigorous discussion as part of fulfilling our obligation to be accountable to the Company’s shareholders and investors. Based on his past experience, Mr. Yoshida is well acquainted with the investment risks associated with venture companies, and Mr. Ishimura has extensive experience in corporate acquisitions overseas. I think that kind of background has proven useful in discussions about the assessment of M&A deals and management of post-acquisition risks.

To encourage deeper discussions by the Board of Directors, about three years ago we instructed the management meeting to present the Board only with the most important agenda items, and only after they had been discussed thoroughly at the management meeting level. Beginning in 2017, we narrowed down the number of members participating in the management meeting, which has led to progress on this issue. With the “shape” of the business in place, now comes the time to deliver results. I plan to keep a close eye on whether plans are being executed with a sense of speed, and whether strategies and investment targets are undergoing proper review. As one of TDK’s outside directors, I look forward to seeing the Company quickly integrate its acquisitions, dispel any concerns in the market, and demonstrate growth that exceeds investor forecasts.

The Strength of Diversity

Fully Leveraging the Strengths of Acquired Companies through TDK-Style Post-Merger Integration

I currently serve as the CEO of the EPCOS Group, which became part of the TDK Group in 2008. This merger was a very attractive deal for both companies, as it helped in complementing our respective product portfolios. In addition, the merger process was carried out very smoothly thanks to the fact that TDK treated EPCOS not simply as a company it acquired but rather as a business partner of equal status that it newly incorporated as an important member of the Group.

I believe that the trust-based relationships that were subsequently established between the two companies have acted as the foundation for the synergies we are creating in various areas of operation today. TDK has adopted a Group-wide approach that respects the culture and values of the companies it acquires, without forcing its approach on them, in an effort to realize mutual growth. TDK is today a truly global company, with over 90% of its employees on a consolidated basis being from countries other than Japan. Management meetings are conducted mainly in English, allowing participating members of various nationalities to voice their opinions without hesitation. This, in turn, encourages the active exchange of opinions. All members participating in these meetings, including myself, find these meetings to be very engaging as we are able to experience TDK’s global spirit and business approach. Moreover, TDK has fostered a corporate culture that allows anyone, regardless of age or position, to voice their opinions to the Company’s management. I believe that such a culture represents a strength that will support TDK’s growth going forward.

By fully leveraging the strength of diversity in these ways, TDK will be able to move forward with Group-wide initiatives to realize further growth.
Segments at a Glance (Fiscal 2017)

Passive Components Segment

- **Main Products**
  - Capacitors
    - For Automotive: Multilayer ceramic chip capacitors with soft-connectorless terminal electrodes, Aluminum electrolytic capacitors
    - For ICT: Film capacitors
    - For Industrial and Energy: Film capacitors, Aluminum electrolytic capacitors
  - Inductor
    - For Automotive: SMD inductors with high-temperature ratings, Common mode filters for automotive-use LAN
    - For ICT: SMD inductors, Thin-film common mode filters
  - Other Passive Components
    - For Automotive: Posi actuators
    - For ICT: Ceramic high-frequency components, Inductors/DTIs, Multilayer chip varistors
    - For Industrial and Energy: Transformers, EMI filters

- **Competition**
  - Murata Manufacturing, TAIYO YUDEN, SEMICO (Korea), Yangtze (Taiwan), etc.

- **World Market Share of Representative Products (TDK Data)**
  - Ceramic capacitors for automobiles: 40%–45%
  - Inductors: 25%–25%
  - Ceramic high-frequency components: 25%–25%

- **Fiscal 2017 net sales** ¥528.3 billion

Sensor Application Products Segment

- **Main Products**
  - Sensors
    - For Automotive: Barometric pressure, Gyro, Acceleration, MEMS microphone, etc.
    - For Automotive: Gas sensors, Pressure, Gyro, Acceleration, Current, Temperature, etc.
    - For Industrial Equipment: Sensors (Pressure, Gyro, Acceleration, Current, etc.)

- **Competition**
  - Murata Manufacturing, TAIYO YUDEN, SEMICO (Korea), Cycom (Taiwan), etc.

- **World Market Share of Representative Products (TDK Data)**
  - Temperature sensors (RTC: Thermistor): 35%–35%
  - Other sensors: Currently undisclosed

- **Fiscal 2017 net sales** ¥42.9 billion

Magnetic Application Products Segment

- **Main Products**
  - Recorders
    - For Automotive: HDD magnetic heads
    - For ICT: HDD suspensions, etc.
  - Magnetic Application Products
    - For Automotive: HDD magnetic heads
    - For ICT: HDD suspensions, HDD magnetics
  - Other Magnetic Application Products
    - For Automotive: DC/DC converters, Battery chargers
    - For ICT: Power supplies for industrial equipment

- **Competition**
  - HDD magnetic heads: Seagate Technology (USA), Western Digital Technologies (USA)
  - HDD suspensions: NEW SPRING, etc.
  - Power supplies: XP Power (Singapore), MEAN WELL (Taiwan), Cosel, etc.

- **World Market Share of Representative Products (TDK Data)**
  - HDD magnetic heads: 35%–35%
  - HDD suspensions: 55%–60%

- **Fiscal 2017 net sales** ¥329.9 billion

Film Application Products Segment

- **Main Products**
  - Film application products
    - For Automotive: Lithium polymer batteries for game consoles
    - For ICT: Lithium polymer batteries for smartphones
    - For Industrial and Energy: Bidirectional DC-DC converters, Battery chargers

- **Competition**
  - Lithium polymer batteries for game consoles: Samsung SDI (Korea), LG Chemical (Korea)
  - Lithium polymer batteries: Sony (Japan), Panasonic, Maxell, etc.

- **World Market Share of Representative Products (TDK Data)**
  - Lithium polymer batteries: 25%–35%

- **Fiscal 2017 net sales** ¥247.7 billion

Business Environment Surrounding TDK

- **Market environment and opportunities**
  - For Automotive
    - Trend toward lighter, weight and electricalization of automotive 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 markets and other emerging economies
    - Market entry of new terminals
    - Mobile terminals with lower profile, more functions, higher performance
  - For Industrial and Energy
    - Development of new technologies and products by competitors
    - Higher prices for raw materials due to increased demand
- **Factors affecting the market**
  - New environment-related legislation in various countries
  - Intensified measures by various governments aimed at saving energy and costs
  - Strong pressure on prices due to commoditization of existing products leading to price wars
  - Fluctuations in sales figures and raw material procurement costs due to exchange rate fluctuations
  - General consumer trends in electronics products

About Segment Changes

On April 1, 2017, TDK established Sensor Systems Business Company to target the sensor business, a market where significant expansion is expected. Businesses comprising the sensor application products segment have been realigned from their previous use in a variety of applications and other business areas. From formerly reported segments, temperature and pressure sensors from the Passive Components segment; magnetic sensors from the Magnetic Application Products segment; and the MEMS microphone business from the Other segment.

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.
Passive Components Segment

The Passive Components segment is TDK’s mainstay, generating about half of total net sales. It comprises the capacitor business, which includes ceramic capacitors, aluminum electrolytic capacitors, and film capacitors; the inductive device business, including coils; as well as other passive components, including high-frequency components, piezoelectric material components, and circuit protection components. As mobile devices become more powerful and incorporate a variety of functionality, and as automobiles rely ever more heavily on electric and electronic equipment, the demand for passive components will continue to expand, and growth is expected to remain strong going forward.

A Brief Guide to Passive Components

Passive Components Support Electronics Society

Electronic components include IC, LSI, and other active components, and capacitors, inductors, resistors, and other passive components that store, discharge, and consume electric power. Active components only function with help from passive components.

Installed on the circuit boards of mobile devices, electrical home appliances, office equipment, automobiles, robots, industrial equipment, and other devices are memory and CPUs—consisting of an aggregation of many semiconductor devices—as well as a wide variety of passive components. To sustain the ceaseless evolution of electronic equipment and automobiles, TDK is working to make these passive components smaller, lighter, lower in profile, and more modular.

Business Strategy

- Strengthen Monozukuri (manufacturing excellence) power and enhance QDC competitiveness (P.59 Manufacturing)
- Maximize cooperation with Qualcomm and achieve high-value-added products through a “First-to-Market” approach
- Continue endless pursuit of compact, low-profile design (thin-film and SESUB technology)

Market Data

Spread of Electric Vehicles (HV, PHV, EV)

<table>
<thead>
<tr>
<th>Year</th>
<th>HV</th>
<th>PHV</th>
<th>EV</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
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<tr>
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</tr>
</tbody>
</table>


As mobile devices grow more powerful and incorporate a wider variety of functionality, there will be even further advances in the shift to high-density mounting of electronic components. 5G (fifth-generation mobile communications systems) service, scheduled to begin in 2020, will require a degree of high-density mounting on a completely different level from before. To respond to the need for modularization—one solution for achieving this—TDK is pushing to develop compact, high-performance modules using advanced semiconductor embedded substrate (SESUB) technology, which merges our materials, thin-film, and other technologies. We will also work to strengthen customization and enhance module characteristics by leveraging IC reference designs based on our collaboration with Qualcomm.

We are also engaged in the development and deployment of innovative engineering methods intended to strengthen the competitiveness of individual passive components.

02 A Full Line of Passive Components to Support Automotive Evolution

Social and Market Needs

- Enhancing reliability and offering comprehensive solutions in response to automotive electronic equipment needs

Automobiles today are equipped with a wide variety of electronic components, to the point they have become known as “electronic devices on wheels.” The xEV (HEV, PHEV, EV, etc.) market is expanding rapidly worldwide, and the use of advanced driver-assistance systems (ADASs) is spreading, with the commercialization of autonomous-driving technology also in sight.

To strengthen our lineup of passive components that offer comprehensive support for these evolving technologies, TDK is focused on developing and commercializing electronic components that meet the needs and performance requirements of automotive electronic equipment. These include highly vibration- and heat impact-resistant resin electrode terminal multilayer ceramic chip capacitors, high-temperature-resistant surface-mount device (SMD) inductors, and others.
By positioning sensors as its primary strategic growth products, and by deploying an aggressive program of acquisitions, TDK has added a wide variety of sensors to its existing line of magnetic, temperature, and other sensor products, while also building a world-class lineup of non-optical sensor products in a very short time.

Under our newly established Sensor Systems Business Company, which has merged the TDK Group’s various sensor businesses, we are also working with IC manufacturers to push forward with development of multi-functional, modularized sensors and even more advanced sensor fusion, as we aim to become the world’s No. 1 provider of sensor solutions.

Alongside our business expansion, we are also working to generate synergies with the companies we have acquired in terms of streamlining operations. Aside from certain processes, InvenSense runs an entirely fabless operation. Our goal is to maximize operational efficiency by utilizing TDK factories to produce specialized MEMS products and wafers, while continuing to outsource production of application-specific integrated circuits (ASICs) and other products where there is little room for differentiation. By utilizing our ceramics-based packaging technology, as well as our semiconductor embedded substrate (SESUB) technology and others, we will work to strengthen the competitiveness of TDK sensor elements and compound sensors.

Utilizing our global No. 1 lineup of non-optical sensors, TDK is working to develop its customer base, expanded through acquisitions. This we will achieve by offering solutions that add compound functionality and software, targeting customer bases that either had no previous need for individual products or which we were unable to break into before.

TDK’s newly developed digital output TMR sensors are warranted for accuracy within an angle tolerance of ±0.2 degrees, and in room temperature environments, have achieved an angle tolerance of ±0.05 degrees, top class in the industry.* Compound sensors that combine TDK’s tunnel magneto resistance (TMR) sensor technology and expertise with Hall sensor technology from Micronas allow detection of both dynamic and static magnetic fields, enabling ideal measurement of position and angle. Combining sensors of differing principles and structures also enhances sensor functional stability and redundancy, important in autopilot and other systems.

*As of June 2017; based on TDK research.

### A Brief Guide to Sensors

#### Closing in on One-Trillion-Sensor Age

Sensors detect information concerning our five senses, including sight, hearing, and touch, as well as physical sensations such as temperature, humidity, barometric pressure, acceleration, and inertia, and even properties such as magnetism and ultrasound that cannot be detected by human senses, and convert that information into electric signals. They are installed in a wide array of electric and electronic devices all around us, including mobile devices such as smartphones as well as automobiles and others, providing unseen support for everyday life, business, and industry.

With the explosive growth of a variety of IoT devices, annual production of sensors is expected to exceed one trillion units by the 2020s. With non-optical sensor technology accumulated through M&A and an overwhelmingly strong product lineup, TDK aims to lead the world in the age of IoT.

### Market Data

#### Outlook for Global Sensor Demand (Non-Optical)

<table>
<thead>
<tr>
<th>Market</th>
<th>By market U.S. $ millions</th>
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<tbody>
<tr>
<td>Automotive</td>
<td>15,000</td>
</tr>
<tr>
<td>IoT/Industrial equipment</td>
<td>12,000</td>
</tr>
<tr>
<td>Mobile</td>
<td>3,000</td>
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*TDK estimates
TDK’s Magnetic Application Products segment is divided into the recording devices business, comprising HDD magnetic heads and HDD suspensions, and the other magnetic application products business, including power supplies and magnets.

The segment mainly comprises HDD magnetic heads, a field where we hold high worldwide market share. 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 at the nanometer level has brought about an amazing increase in storage capacity. High-efficiency power supplies incorporating outstanding low-loss ferrite transformers and transformer technology, and high-performance magnets utilizing our materials technology, also contribute significantly to the conservation of power and resources.

Magnetic Application Products Segment

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A Brief Guide to Magnets

Modern People Would Be Helpless without Them

Magnets, which retain their magnetic force without a supply of energy, are fundamental to sustaining modern society. For example, automobiles are equipped with about 100 compact motors that use ferrite magnets. Powerful neodymium magnets are also used in AC/DC drive motors.

Going forward, demand for high-performance magnets is expected to grow even further, including magnets for industrial equipment and robot motors, and for power generators used in wind power generating systems. Since its founding, TDK has spent more than 80 years refining the magnetic materials technology that is part of its DNA, and will contribute to society by continuing to refine that technology.

Business Strategy

1. Completely rebuild the magnetics business, the starting point of the materials business
2. Lead change and technological innovation in the HDD industry

- Completely rebuild the magnetics business, the starting point of the materials business
- Lead change and technological innovation in the HDD industry

Market Data

Global Market Forecast for In-Vehicle Motors by System Area

<table>
<thead>
<tr>
<th>Million units</th>
<th>Powertrain</th>
<th>Chassis</th>
<th>Body</th>
<th>Next-generation automotive systems</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>550</td>
<td>2,500</td>
<td>1,000</td>
<td>2,000</td>
</tr>
<tr>
<td>2025</td>
<td>1,000</td>
<td>4,500</td>
<td>1,500</td>
<td>3,000</td>
</tr>
</tbody>
</table>

Note: 1. Based on number of vehicles produced
Note 2. Forecast figures for 2015 and beyond (as of August 2016)
Source: Yano Research Institute Ltd., In-Vehicle Motors (Monitor 2016)

Global In-Vehicle Motors Market Size

- In recent years, Europe, China, and other regions have announced policies promoting a shift to electric vehicles, and it is expected to accelerate the spread of electric vehicles worldwide. In anticipation of the growing popularity of next-generation eco-cars, which are effective in reducing hazardous substances in exhaust emissions and CO2 emissions levels, TDK is working to further the evolution of automotive DC-DC converters and on-board chargers, utilizing the circuit and design technologies gained through development of switching power supplies for consumer product and industrial equipment use.

- Automotive DC-DC Converter (Generation 5) and On-Board Charger (Generation 2)
  - Merges TDK proprietary materials technology (ferrite core), circuit technology (high efficiency), and simulation technology (magnetic field and heat analysis) to achieve even more compact, lightweight, high-efficiency design with greater reliability
  - Enhanced efficiency improves vehicle fuel economy
  - Significantly enhances output power per unit volume

01 Leading Change and Technological Innovation in the HDD Industry

While demand for HDDs for consumer products is expected to decline, the explosive growth in the amount of data generated, backed by the development of cloud computing and IoT, means that the number of magnetic heads installed on each HDD for nearline applications used in data center servers is expected to increase.

TDK is working to contribute to the right-sizing of the industry through vertical collaboration in development and manufacturing, and by promoting a horizontal division of labor to avoid overlapping investments. At the same time, by leading in technological innovation, we will achieve an ongoing increase in HDD memory capacity for nearline applications, thus contributing to market growth.

02 Improving Fuel Economy in Next-Generation Eco-Cars and Contributing to Reducing a Variety of Environmental Burdens

- In recent years, Europe, China, and other regions have announced policies promoting a shift to electric vehicles, and it is expected to accelerate the spread of electric vehicles worldwide. In anticipation of the growing popularity of next-generation eco-cars, which are effective in reducing hazardous substances in exhaust emissions and CO2 emissions levels, TDK is working to further the evolution of automotive DC-DC converters and on-board chargers, utilizing the circuit and design technologies gained through development of switching power supplies for consumer product and industrial equipment use.

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Note 2: Forecast figures for 2015 and beyond (as of August 2016)
Source: Yano Research Institute Ltd., In-Vehicle Motors (Monitor 2016)
Business Segment Strategies

Film Application Products Segment

The Film Application Products segment covers a variety of energy devices, primarily rechargeable batteries for ICT devices such as smartphones, tablets, and notebook PCs, as well as for automotive use and use in industrial equipment.

ATL, which develops and produces lithium polymer batteries, has established a position as the leading company in the lithium polymer battery field. Drones and other new areas of application are also beginning to expand.

Providing the Highest Level of Performance and Reliability as a Leading Manufacturer

Building around its acquisition of ATL in 2005, TDK has established a position as a leading company in the market for lithium polymer batteries for consumer product use, which carries enormous potential.

Under the current Medium-Term Plan, TDK is taking a more aggressive approach to investments needed to respond to growing demand. In China, where particular growth in demand is foreseen, we are building a new R&D center in addition to boosting production capacity.

Going forward, in addition to further enhancing our strengths— including the business speed that has been a driver of growth to date, the flexible responsiveness that exemplifies our outstanding customer service, our leading-edge technology, and our excellent operational functionality— we will continue to invest in technology aimed at ensuring high reliability and safety.

As we capture demand for an alternative to square cell batteries for smartphones and notebook PCs, we will also seize on growing demand outside of the ICT market, in robots, drones, AGVs, and energy storage systems (ESS) for solar and wind power generation.

Flash memory application devices

TDK supplies solid state drives (SSDs) with proprietary memory control chips and CompactFlash cards for industrial use.

A Brief Guide to Batteries

Significant Potential Lies in Rechargeable Lithium Polymer Batteries

Rechargeable lithium polymer batteries are a type of lithium-ion rechargeable battery, use of which has expanded in mobile devices, but which use a polymer electrolyte in gel form.

In addition to making compact, lightweight design easier, high freedom of form factor, further boosted by increasingly thinner smart devices, has increased demand for lithium polymer batteries dramatically over the past 10 years. Going forward, demand is expected to increase as an alternative to square cell batteries in notebook PCs and smartphones, and increase in IoT devices requiring compact, high-capacity batteries. Adoption is also progressing in drones and virtual reality devices, as well as in robots, automated guided vehicles (AGVs), and other applications in the industrial equipment and energy sector.

Business Strategy

- Provide the highest level of performance and reliability as the leading manufacturer of batteries for consumer products
- Use vertical integration strengths in materials and components to expand energy-related product line (P.38–39 Special Feature)
- Begin putting in place structures aimed at future business expansion

Market Data

Forecast Worldwide Demand for Rechargeable Batteries (Non-ICT Market) (GDh)

<table>
<thead>
<tr>
<th>Year</th>
<th>Power tools/Gardening tools</th>
<th>Jump starters</th>
<th>Cleaners</th>
<th>Other</th>
<th>UPS/EPS (compact)</th>
<th>Drones</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>25,000</td>
<td>22,500</td>
<td>20,000</td>
<td>17,500</td>
<td>25,000</td>
<td>22,500</td>
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<td>2018</td>
<td>22,500</td>
<td>20,000</td>
<td>17,500</td>
<td>15,000</td>
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<td>20,000</td>
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<td>2017</td>
<td>20,000</td>
<td>17,500</td>
<td>15,000</td>
<td>12,500</td>
<td>20,000</td>
<td>17,500</td>
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<tr>
<td>2016</td>
<td>17,500</td>
<td>15,000</td>
<td>12,500</td>
<td>10,000</td>
<td>17,500</td>
<td>15,000</td>
</tr>
<tr>
<td>2015</td>
<td>15,000</td>
<td>12,500</td>
<td>10,000</td>
<td>7,500</td>
<td>15,000</td>
<td>12,500</td>
</tr>
</tbody>
</table>

Other Segment

Main Product Portfolio

Mechtronics (production equipment)

TDK is supplying the market with the most advanced factory automation equipment, including flip-chip bonders that make use of mechatronics technology.

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.
Business Model Continuity as Seen through the Value Chain

Across the entire value chain, from raw material procurement to development, design, manufacturing, logistics, and sales, TDK has established what it considers important themes, in terms of both strategy and ESG, and is engaged in efforts to achieve them.

### Strategic Fit (Optimization of value chain to promote strategy)

**Overall value chain**
- Pursuit of integrated production from raw materials to finished product
- Creating “black boxes” in core domains to ensure firm control of technological advantage
- Enhancement of profitability by speeding up the business cycle across all processes

**ESG**
- Development of human resources to promote Monozukuri (manufacturing excellence)
- Development of global human resources
- Cultivation of a corporate culture that respects diversity
- Workstyle innovation
- Technology transmission
- Establishment and implementation of environmentally friendly policies

### ESG

- Ensure quality of purchased goods
- Ensure quality of purchased raw materials
- Ensure CSR compliance of suppliers
- Green procurement
- Conflict minerals survey
- Consider supplier work environments

### KPI

- **Fiscal 2018 Goal**
- **CSR-compliant supplier ratio**
- Over 95%

### Environment

- **CO2**
  - Total emissions volume: 1,463,396 t-CO2
- **Water utilization**
  - 13,701 km³

### Society

- **Average number of years worked**
  - 210 people
- **Education / seminar training costs**
  - 77,915 ¥

### Economy

- **Net sales**
  - 14,78,53 billion ¥
- **Operating income**
  - 2,08,7 billion ¥
- **Free cash flows**
  - 89,0 billion ¥

---

**Value Chain**

<table>
<thead>
<tr>
<th>Input</th>
<th>Procurement</th>
<th>Development and Design</th>
<th>Manufacturing</th>
<th>Logistics</th>
<th>Sales</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economy</td>
<td>Cost of sales</td>
<td>¥853.9 billion</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Selling, general and administrative expenses</td>
<td>¥239.4 billion</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Capital expenditures</td>
<td>¥167.6 billion</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>R&amp;D expenses</td>
<td>¥91.3 billion</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Society</td>
<td>Consolidated number of employees</td>
<td>99,093 people</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Average number of years worked (TDK Corporation)</td>
<td>20.8 years</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Education / seminar training costs (TDK Corporation)</td>
<td>¥242 million</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environment</td>
<td>Resources</td>
<td>210,945 t</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Electric power</td>
<td>2,230,914 MWh</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Fuel</td>
<td>1,137,091 t</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Water utilization</td>
<td>13,701 km³</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

*Targeting suppliers of TDK Corporation*
Specific Initiatives

1 Procurement

**Strategic Fit**
- Global Partnership Purchasing to Rapidly Provide High Quality Products

TDK seeks to build solid partnerships with its suppliers and maintain a relationship that benefits both, guided by our “global partnership purchasing principles.” Global partnership purchasing refers to the practice of local procurement of materials consumed overseas to ensure rapid product development, essential to a company such as TDK with manufacturing bases in Japan, Asia, North America, and Europe. Global partnership purchasing also emphasizes the crucial importance of close collaboration with our suppliers to TDK product quality and to raising customer satisfaction. TDK has established the TDK purchasing policies to put this principle into practice.

**Assurance of Stable Supply**

In unforeseen circumstances, such as the outbreak of a large-scale natural disaster, TDK, as a member of the supply chain, has a duty to share social responsibility with suppliers in meeting demand so as to ensure the stable supply of products required by customers. Recognizing that the securing of stable supplies is an important responsibility, TDK addresses this issue in three main ways: BCP/BCM surveys of suppliers; advance collection and organization of information for use in an emergency; and timely communication using the Supplier Partnership System.

With regard to rare minerals and other raw materials for which stable procurement carries risks associated with restrictions set by the producing countries, TDK also works to develop new production methods that reduce the use of such materials.

**Promotion of CSR Procurement**

TDK treats CSR as a key component of its purchasing policy while striving to earn understanding from suppliers of the importance of CSR and encouraging increased awareness in that area. We incorporate provisions into contractual agreements keyed to specific conditions at each of our Group companies while continuously engaging in evaluations based on CSR check sheets, CSR audits, and other efforts. When problems are found in the details, individual requests for improvements are issued.

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

**Value Chain**

- Ensure quality of purchased goods
- CSR check sheets audits
- Green procurement
- Conflict minerals survey
- Consider supplier work environments

**Specific Conditions**

- Reliably secure magnetic materials
- Ensure raw material quality
- Procure alternatives to rare metals

**Strategic Fit**

2 Development and Design

**Strategic Fit**
- Acceleration of Development Speed through M&A and Business Tie-Ups

In the rapidly changing electronics industry, speed has become an increasingly important factor in anticipating needs and quickly delivering products, and recently TDK has been actively accelerating the speed of its business through M&As and business tie-ups.

We expect that the ability of failure developer InvenSense to provide solutions, and the total value chain we have built through our collaboration with Qualcomm and our acquisition of InvenSense, will contribute significantly to reducing prototype development lead times, and the Group as a whole is pushing strongly ahead toward the realization of a “First-to-Market” approach.

**Provision of Rapid Response to Diverse Needs via Global 4-Pole Network**

With an overseas sales ratio in excess of 90%, the TDK Group is expanding its R&D activities globally, with a network centered in Japan and connected to sites in Asia, the U.S., and Europe. By moving to transfer authority locally, and by conducting R&D close to areas of demand, we are able to quickly provide products in accordance with customer needs. At the same time, leveraging the significance each field of business has in those respective regions, we acquire the knowledge and technology to respond to the leading-edge needs of the times.

In addition, R&D and sales and marketing move as one to allow us to quickly catch up on the needs of our customers.

**Development of Products Contributing to the Environment**

In 1997, TDK introduced product assessment to evaluate the environmental impact of products throughout their entire life cycle. Only products approved through this screening are commercialized and distributed in the market. In addition, TDK focuses on the contribution of products and expertise to the reduction of CO2 emissions. TDK began working to establish computing criteria for quantifying this environmental contribution in fiscal 2012, and in fiscal 2016, we formulated a set of guidelines for calculating product contributions that reflect those results. By means of continued product assessment activities, we aim to promote the reduction of CO2 emissions through products.

**Value Chain**

- Speed up development cycle
- Develop areas of demand through our joint e-pole network
- Consolidate development resources in strategic sectors
- Develop new products based on long term road map
- Integrate intellectual property within the Group
- Collaborate with IT manufacturers
- Manage and use intellectual property
- Develop products that do not use rare metals

**Specific Initiatives**

- Collaborate with IC manufacturers
- Develop products that do not use rare metals
- Manage and use intellectual property
- Development of magnetic materials that do not use dysprosium, a rare earth metal
- Increase in energy-saving products
- Development of products that contribute to the environment

**Strategic Fit**

- Reduce environmental load from a life cycle perspective
- Develop products that contribute to the environment

**Value Chain**

- Ensure quality of purchased goods
- CSR check sheets audits
- Green procurement
- Conflict minerals survey
- Consider supplier work environments

**Specific Initiatives**

- Reliable secure magnetic materials
- Ensure raw material quality
- Procure alternatives to rare metals
**The Akita Future Project**

The Akita region is the birthplace of TDK. Beyond being where the passive components business is deeply rooted, the region also continues to be at the leading edge of Monozukuri. The Akita Future project, currently underway, was conceived with the goal of achieving sustainable growth based on the vision of our Medium-Term Plan. Under the project, TDK will create world-leading technologies and products, expanding a new Monozukuri worldview.

**Creation of New Products around Elemental Technologies**
TDK will surmount the business division structure previously organized vertically around products, create a structure centered on elemental technologies, and swiftly respond to market changes. New product development will also be accelerated.

**Production Base Reorganization**
Reorganization of production bases around individual elemental technologies for passive components will lead to strengthened Monozukuri capabilities. TDK will be responsible for materials and assembly, TDK Akita for multilayering, and TDK Shonai primarily for thin-film and winding.

**T abduction**

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**T abduction**

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**T abstraction**

**T abstraction**

**T abstraction**

**T abstraction**

**The museum introduces how TDK’s products and technologies, centered on our strengths in ferrous and magnetism, have played a role in the evolution of society, and how TDK will be involved in the society of the future, all in an easy-to-understand, enjoyable, and hands-on manner. The goal of the museum is to introduce the history of TDK and electronics, and a vision for the future, while also contributing to making the Akita region a more attractive destination.**
Specific Initiatives

Reduction of the Environmental Load of Logistics

TDK is tackling the reduction of CO2 emissions from logistics with the aims of contributing to the control of global warming, improving transportation efficiency, and reducing transportation costs.

In Japan, TDK set up a committee to improve energy conservation in distribution in fiscal 2007, when the revised Energy Conservation Act went into effect, and is making efforts to reduce logistics-related energy. TDK will expand its survey of CO2 emissions from logistics to overseas sites and endeavor to promote their reduction in the TDK Group as a whole.

Concrete Activities

• Modal shift
• Improved loading efficiency through reduced delivery frequency
• Better efficiency of inter-plant transportation through the concentration of production sites
• Shortening of domestic land transport distances through the effective use of local ports
• Switch of means of transporting imported cargo from subsidiaries from air to boat

Activities for Improving Customer Satisfaction

For customers who purchase its mainstay electronic components, TDK assesses customer satisfaction levels using the following three methods. By offering comprehensive customer satisfaction from the perspectives of quality, delivery, cost, technologies, and services, TDK aims to become a highly trusted company.

• Supplier evaluation information, whereby our business customers evaluate TDK products
• Product-related complaint information from our customers
• Customer satisfaction evaluation, whereby sales staff members evaluate TDK products from a customer’s point of view

Also, at the Huawei Technologies Co., Ltd.’s Suppliers Conference held in Shenzhen, China, in September 2017, TDK received the Excellent Supplier 2017 H1 Award in the Storage Cards Division. This award recognizes suppliers with outstanding quality, supply, technological capacities, and prices, and that have met standards determined by Huawei Technologies.
Human Resource Strategy

I have interacted with a great many employees to date, and it is never easy for people of diverse corporate cultures and cultural backgrounds to convey their thoughts to one another constructively. To create a sense of group solidarity, we are focusing on improving communication, and the most important elements in doing that are transparency and trust.

At TDK, we have established a Global Human Resources & General Affairs Department within the Human Resources & Administration HQ, and with the goal of improving transparency and trust, we are working to put in place a common Group global human resource management system, develop successors to important positions, and establish global systems for positions, evaluations, incentives, and communication training in English. Further, by making human resource information more visible and promoting the sharing of good practices within the Group, we will make more effective use of the capabilities of outstanding human resources worldwide, which in turn will strengthen the competitive power of the TDK Group.

A Global-Scale Human Resource Base to Support Sustainable Growth

Approximately 90% of the TDK Group’s employees on a consolidated basis are non-Japanese, and our human resource policy calls for HR systems that are rational and which have a sense of fairness, with an emphasis on a merit-based approach and equal opportunity. We strive to increase corporate value by placing and working to develop outstanding human resources in optimal positions regardless of nationality, race, gender, or other attributes.

International Management Development (IMD) Training to Foster Global Leaders

IMD training seminars, which have been held since 1997, are held to help our internal leaders acquire truly global skills and develop strong, borderless solidarity within the Group. The training is for candidates for managerial positions at the TDK Group affiliates overseas. The seminars take the form of a week-long residential training course with lectures and workshops. The participants gain a deeper understanding of TDK’s corporate philosophies, acquire a broader, more managerial perspective, and establish bonds that help build global personal 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.

Securing and Fostering Human Resources with Strong Potential and Expertise

In the electronics industry, which is experiencing rapid changes in the business environment, 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 drive and actively recruits mid-career personnel with high levels of specialization. TDK believes that the ideal is to enable each employee 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 “skill development support programs,” the latter two of which are offered for those who need a higher level of professional training.

Consolidated Number of Employees

Education / Seminar Training Costs (TDK Corporation)

Recruitment of New Graduates / Recruitment of Mid-Career Personnel (TDK Corporation)

Job Leavers / Average Number of Years Worked (TDK Corporation)
**Corporate Governance**

**Message from the Chairman**

I am exerting myself to achieve “zero defect,” our lifeline going forward, with our front lines and suppliers.

Takehiro Kamigama
Chairman

TDK is moving forward steadily, and dynamically, along the path it should take. As we aim to become the world’s largest sensor manufacturer, we are first striving to double sales in our sensor business—the kind of leap we need to make to keep things interesting. We also have major expectations for rechargeable batteries and power solutions as a whole. Still, there are several important issues to address if we are to ensure the success of that growth strategy.

The most important of these issues is quality. Having dealt with an accident in which a fire caused by a TDK humidifier resulted in the loss of precious human life, TDK and all of its employees are deeply cognizant of the weight of our responsibility to society with regard to quality. As the use of electronics in automobiles continues to progress, poor quality could lead to major accidents involving human life, making quality improvement and quality control more important than ever. This is why TDK is engaged in an across-the-board pursuit of Monozukuri (manufacturing excellence) that eliminates defects, and as part of strengthening compliance, I personally visit the front lines to spearhead our quality audits. Given our plans to bolster our expansion in modules and units, I am also meeting directly with the presidents of our component suppliers and asking for their cooperation in ensuring thorough quality control.

We also continue to strengthen our corporate governance. TDK’s Board of Directors has made progress in splitting its audit and executive functions, and our three outside directors are making use of their respective, extensive experience to provide shrewd advice to our executive team. Going forward, we will not only focus on a complete split of audit and executive functions in the formal sense, but will work to create a structure that is both effective and balanced. Governance with regard to the companies we have acquired in recent years is another important subject. Particularly crucial to ensuring the success of these acquisitions is the management of people. It is essential that we continue to engage in technology exchange and dialogue, and increase the motivation of the employees.

As we have done for the past more than 80 years, we must diligently invest in technology while continuing to think about and create the things required by society in the near future. This approach we must not fail to maintain. To continue tailoring the evolution of our products to society’s requirements will require that we preserve and continue to refine a consistent Monozukuri, from the materials that are the foundation of our products to the products themselves, and further, that we constantly lead in the development of methods that are different from other companies.

As we continue to aim for TDK’s name to become synonymous with magnetism, we will also work to achieve long-term, sustainable improvement in corporate value.

**Director compensation is designed to link to short-term and medium- to long-term corporate value.**

**Standard Allowance**

- **Basic remuneration**: 1

**Medium- to long-term incentive (Stock-linked compensation stock options)**

- **Linked indicators**: Operating income, ROE
- **Target of each division**: 0.7

**Short-term incentive (Results-linked bonuses)**

- **Linked indicators**: Operating income, ROE
- **Target of each division**: 0.6

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**TDK Governance Snapshot**

**Promoting Diversity**

- **Non-Japanese Corporate Officers**: 6 people (2017)
- **Japanese Corporate Officers**: 12 people (As of the end of June 2017)

**Actively Inviting Outside Officers**

- **Outside Officers**: 6 people (2012)
- **Directors and Audit & Supervisory Board Members**: 6 people (As of the end of June 2017)
- **Inside Officers**: 6 people

**Outside Directors with Rich Management Experience**

- Makoto Sumita
  - Chairman and CEO of INNOTECH CORPORATION (present post)
- Kazumasa Yoshida
  - Former Representative Director and President of Intel K.K.
- Kazuhiko Ishimura
  - Chairman and Representative Director of Asahi Glass Co., Ltd. (present post)

**Outside Directors fill the posts of chairman** of the Nomination Advisory Committee and the Compensation Advisory Committee.
Everything Is Aimed at Long-Term, Sustainable Improvement in Corporate Value

**TDK Basic Policy on Corporate Governance**

The basic views to achieve sustainable corporate growth and increases 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 creativity” as the corporate motto of TDK, which was established in 1935 as the world’s first company to industrialize a magnetic material called “ferite,” TDK unremittingly pursues originality and increases corporate value through the provision of products and services that 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. All members of the TDK Group seek to behave in strict compliance with the “Corporate Standards of 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 enacted 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 corporate value over the medium to long term of the TDK Group.

**Outside Directors and Outside Audit & Supervisory Board Members**

![The full text of said policy is posted on the following website:](http://www.global.tdk.com/corp/en/ir/tdk_management_policy/governance/basic/index.htm)

<table>
<thead>
<tr>
<th>Outside Directors</th>
<th>Reasons for nomination</th>
<th>Chairmen of the Board of Directors</th>
<th>Nomination Advisory Committee</th>
<th>Corporate Governance Advisory Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Makoto Sumita</td>
<td>Mr. Sumita has an abundance of experience and knowledge in management as a manager of operating companies as well as a broad perspective.</td>
<td>♦</td>
<td>♦ Committee Chairman</td>
<td>♦</td>
</tr>
<tr>
<td>Kazunisa Yoshiida</td>
<td>Mr. Yoshiida has an abundance of experience and knowledge concerning the management of companies related to the electronics industry, global business, and consumer business as well as a broad perspective.</td>
<td>♦</td>
<td>♦ Committee Chairman</td>
<td>♦</td>
</tr>
<tr>
<td>Kazuhiko Ishimura</td>
<td>Mr. Ishimura has an abundance of experience and advanced, specialized knowledge regarding business management as well as a broad perspective.</td>
<td>♦</td>
<td>♦ Committee Chairman</td>
<td>♦</td>
</tr>
<tr>
<td>Toshiyuki Fujimura</td>
<td>Mr. Fujimura has extensive knowledge related to finance and accounting, as well as an abundance of experience and knowledge concerning corporate management in the electronics industry, and considerable insight in such areas.</td>
<td>♦</td>
<td>♦ Corporate Governance Advisor Committee</td>
<td>♦</td>
</tr>
<tr>
<td>Keiko Suzuki</td>
<td>Mr. Suzuki has extensive knowledge related to finance and accounting, as well as an abundance of experience and knowledge concerning corporate management in the electronics industry, and considerable insight in such areas.</td>
<td>♦</td>
<td>♦ Corporate Governance Advisor Committee</td>
<td>♦</td>
</tr>
<tr>
<td>Yukihiro Kato</td>
<td>Mr. Yukihiro has extensive knowledge related to finance and accounting, as well as an abundance of experience and knowledge concerning corporate management in the electronics industry, and considerable insight in such areas.</td>
<td>♦</td>
<td>♦ Corporate Governance Advisor Committee</td>
<td>♦</td>
</tr>
</tbody>
</table>

**Nomination Policies and Procedures**

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 contributes to the securement of the transparency in the decision-making process and the reasonableness in the appointment of Directors, Audit &

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**Outside Directors and Outside Audit & Supervisory Board Members**

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 at present, or have been 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 Group 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, or where the other party to the relationship receives money or other assets from the TDK Group other than remuneration for Directors/Audit & Supervisory Board Members)

   (ii) When it is recognized within TDK that the relevant outside Director/Audit & Supervisory Board Member is involved in the business relationship with the other party to such relationship

2. In cases where the relevant outside Director/Audit & Supervisory Board Member is a consultant, an accounting professional, or a law professional

   An outside Director/Audit & Supervisory Board Member shall be judged not to be independent if any of the following cases apply to such person at present or have applied to such person during the past five years.

   (i) When it is recognized, objectively and reasonably, that the relevant outside Director/Audit & Supervisory Board Member (including candidates for such positions; the same shall apply hereinafter) cannot perform duties as an independent Director/Audit & Supervisory Board Member because they receive money or other assets from the TDK Group other than remuneration for Directors/Audit & Supervisory Board Members (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 Director/Audit & Supervisory Board Member because an organization to which such person belongs (hereinafter referred to as the “Relevant Organization”) receives money or other assets from the TDK Group other than remuneration for Directors/Audit & Supervisory Board Members (when this income is equivalent to 2% or more of total annual remuneration)

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

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

   (c) When it is recognized within the TDK Group that the relevant outside Director/Audit & Supervisory Board Member has a business relationship with the other party to such business relationship

   An outside Director/Audit & Supervisory Board Member shall be judged not to be independent in case of the following cases apply to such close relatives at present or have applied to them during the past five years.

   (i) A person to whom (1) or (2) above applies (except persons without material significance)

   (ii) A person who executes business for TDK or a subsidiary of TDK (except persons without material significance)
Corporate Governance

Supervisory Board Members, and Corporate Officers by nominating candidates after deliberating on the expected requirements regarding nomination of Directors, Audit & Supervisory Board Members, and Corporate Officers. The committee also deliberates on the independence of outside Directors.

Inside Directors

Takehiro Kamigama
After working as head of the HDD magnetic head business, Mr. Ishiguro has served as president and representative director since 2015. TDK has determined that, utilizing his extensive experience and strong insight, he can be expected to continue fully performing his role in deciding key matters and overseeing the execution of business by the Board of Directors.

Shigeo Ishiguro
Mr. Kamigama served as president and representative director since 2006, and demonstrated leadership in strengthening overall profitability and expanding business fields. As chairman and representative director since 2016, he oversees TDK’s management as a whole. TDK has determined that he can be expected to continue fully performing his role in deciding key matters and overseeing the execution of business by the Board of Directors.

Tetsuji Yamashita
Mr. Yamashita has experience in accounting and finance in domestic and overseas business, and currently serves as head of the Finance & Accounting HQ. He has demonstrated a high level of expertise and skill in the company's global financial and managerial administrative operations. TDK has determined that, utilizing his experience and strong insight, he can be expected to continue fully performing his role in deciding key matters and overseeing the execution of business by the Board of Directors.

Naoto Osaka
Mr. Osaka has global management experience as head of the Sales & Marketing Group, and currently serves as head of the group responsible for corporate planning, corporate communications and the Board of Directors Offices, in which capacity he works to draft and execute TDK’s business strategy. TDK has determined that, utilizing his experience and insights, he can be expected to continue fully performing his role in deciding key matters and overseeing the execution of business by the Board of Directors.

Nomination Advisory Committee Chairman’s Comments

Makoto Sumita
Outside Director
Chairman of the Board of Directors
Chairman of the Nomination Advisory Committee
Chairman & CEO of INNOTECH CORPORATION

Although Mr. Ishiguro just assumed the post of president in fiscal 2017, TDK has already begun to engage in vigorous discussion regarding the image of next-generation leadership corresponding to its strategic direction, and the building of a system for developing those leaders.

Through its M&A in recent years, TDK has progressed even further in its globalization, on both the structural and strategic sides. This is why management, led by Mr. Ishiguro, and we, the committee members, share a common recognition of the need to put in place a system that is highly transparent, even when regarded from outside the Company, for developing leaders and which goes beyond a system of automatic, escalator-style promotions. We also agree that, in terms of assessment measures, we need to evaluate whether these individuals have a global sensibility, and whether or not they are capable of executing long-term strategy. Under the leadership of Andreas Keller, general manager of Human Resources & Administration HQ and knowledgeable in global human resources, we are now considering specific systems for selecting candidates worldwide, not limited to Japanese individuals, and for establishing career paths. By 2038, we believe we will be able to announce a succession plan worthy of TDK as it takes on the challenge of transformation.

Remuneration for Directors and Audit & Supervisory Board Members

Compensation Determination Process

TDK has established the Compensation Advisory Committee to serve as an advisory body to the Board of Directors. The committee is chaired by an outside director and more than half of the members comprise outside Directors. It contributes to the securement of transparency in the remuneration decision-making process and the reasonableness of individual remuneration in light of corporate business performance, individual performance, and general industry standards by deliberating and reporting to the Board of Directors on the remuneration system and the level of remuneration pertaining to Directors and Corporate Officers.

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>Short-term results linkage system</td>
<td>Results-linked bonus</td>
<td>Incentives 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 100% of base salary depending on the degree of achievement of targets.</td>
</tr>
<tr>
<td>Medium- to long-term results linkage system</td>
<td>Stock-linked compensation (stock options)</td>
<td>A system 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 falling 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-linked compensation) is conditioned on achieving certain financial results with the objective of increasing the linkage of officer compensation to medium- to long-term financial results and corporate value. For the conditions, consolidated financial results (operating income, ROE) under the Medium-Term Plan are set as indicators, and the number of options that can be exercised ranging from 0% to 100% of the options granted depends on the degree of achievement of those 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>

Total Amount of Remuneration for Directors and Audit & Supervisory Board Members for the Business Year under Review (Fiscal 2017)

<table>
<thead>
<tr>
<th>Classification</th>
<th>Total number of payees</th>
<th>Total amount of remuneration (Yen millions)</th>
<th>Remuneration structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors (outside Directors)</td>
<td>9</td>
<td>482</td>
<td>9</td>
</tr>
<tr>
<td>Audit &amp; Supervisory Board Members (outside Audit &amp; Supervisory Board Members)</td>
<td>5</td>
<td>85</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>14</td>
<td>667</td>
<td>14</td>
</tr>
</tbody>
</table>

1) The number of Directors and Audit & Supervisory Board Members at the end of fiscal 2017 was lower than the previous year, with the reduction in the number of representatives of the board of directors. The number of Directors and Audit & Supervisory Board Members was 12 at the beginning of fiscal 2017, 11 at the end of fiscal 2017, and the amount of remuneration was 1064 (Yen millions) in fiscal 2016, 1006 (Yen millions) in fiscal 2017, and 961 (Yen millions) in fiscal 2018.

2) As for the amount of results-linked bonuses and stock-linked compensation stock options for Directors for fiscal 2017, it has been recorded as an expense.
As market conditions and customer needs drastically change, TDK has introduced a director compensation program centered on a strong linkage to financial results and on stock-linked compensation stock options, with the goals of further growth and a strengthening of its technology leadership. At the same time, between 2014 and 2015, TDK held repeated, vigorous discussions centered on its Compensation Advisory Committee, intended to spur active engagement in two areas: 1) Recommendation of compensation linked to medium- to long-term performance in accordance with the Corporate Governance Code; and 2) a management direction that will accelerate global business operations and achieve a higher level of growth. In 2015, TDK introduced a new system of stock-linked compensation stock options, with performance benchmarks, built around achievement of the Company’s Medium-Term Plan. Further, TDK set out a clear direction for its business operations in line with this Medium-Term Plan, adding to its existing core businesses with the April 2017 launch of Sensor Systems Business Company, which will serve as the engine for creating new value. TDK intends to vigorously engage in this shift to a business structure centered on these new initiatives, and in making further progress in the corresponding globalization of its management. To enable the Company’s top management and officers to work toward sustainable growth and even higher goals, the Compensation Advisory Committee will continue active discussions aimed at building the optimal director compensation program and achieving further growth.

Promoting 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, and structures that enable local human resources to exercise leadership are taking root as they become more effective. One initiative aimed at strengthening management through the promotion of diversity is the Global Management Meeting held once each month. Membership includes corporate officers at the senior vice president level and higher, business division heads, and regional managers from Europe, the Americas, and China, who gather together to discuss important issues including business strategies and corporate management. Amidst a rapidly changing business environment, discussions are held from a broad range of perspectives, and are a driving force in promoting further growth at TDK.

Compensation Advisory Committee Chairman’s Comments

Kazumasa Yoshida
Outside Director
Outside Director of Osakyō Corporation
Outside Director of CYBERDYNE, Inc.
Outside Director of Manaseon Holdings Co., Ltd.
Outside Director of FreeB Inc., Ltd.

Future-Oriented Governance

TDK, which first embarked on globalization in the 1960s and has successfully grown since then, remains constantly aware of global standards, and has worked to strengthen its corporate governance structure with an eye to the future. Backed by changes in its business structure, today TDK continues to consider measures needed to achieve long-term, sustainable improvement in corporate value.

Factors behind Strengthening of Corporate Governance

- Particularly in consumer components in the ICT field, performance will be affected by short-term market fluctuations. At the same time, it can take from several years to as much as a decade to see the results of investment in R&D expenses, and management decisions need to be based on a medium- to long-term perspective.
- As a global company, ensuring business moves forward smoothly requires a governance structure that is also compatible with the standards of countries in Europe and the Americas.
- With non-Japanese employees representing in excess of 90% of the workforce on a consolidated basis, TDK needs to consider further globalization at the director level.

History of Corporate Governance Reforms

- June 2002
  - Number of Directors reduced from 12 to 7
  - First outside Director invited to join the Board
  - Compensation Advisory Committee launched (chaired by an outside Director)
  - Funding of Directors’ retirement bonuses suspended
- June 2003
  - Directors’ term of office shortened from 2 years to 1 year
  - One outside Audit & Supervisory Board Member added, for a total of 3
- June 2004
  - First non-Japanese Corporate Officer appointed
- August 2008
  - Compensation Advisory Committee launched (chaired by an outside Director)
  - Funding of Audit & Supervisory Board Member retirement bonuses suspended
- June 2007
  - Compensation for outside Directors and Audit & Supervisory Board Members changed to basic remuneration alone
- May 2015
  - First analysis and evaluation conducted of Board of Directors’ effectiveness, and an outline of the results published
- June 2016
  - TDK Basic Policy on Corporate Governance established

Results of Fiscal 2017 Board of Directors’ Evaluation

Issues revealed through the Board of Directors’ evaluation

- Further advancement of management supervisory function
- Ongoing validation of TDK’s further strategic growth
- Group company governance
- Greater transparency in executive discussions (greater sharing of discussions at the management meeting regarding proposals put before it)

Matters already addressed

- Changed the composition of inside Directors to exclude those in charge of business divisions, and include only those with a big-picture perspective on the Group as a whole (the chairman, president, and those in charge of corporate strategy and finance)
- Management that balances the dynamism and governance of Group companies

Matters to be addressed on a continuing basis

- Ongoing validation of TDK’s medium-to-long term growth strategy
- Management that balances the dynamism and governance of Group companies

Important Medium- to Long-Term Issues

- Building of an effective hybrid governance structure that combines monitoring-type governance (separation of management execution and supervisory functions) and management-type governance (Directors also serve as executive officers)
- Formulation and administration of a global human resource strategic plan from a broad perspective that encompasses the TDK Group as a whole

Note 1: As of the end of June 2017
Note 2: Results of fiscal 2016.
Corporate Governance

Directors, Audit & Supervisory Board Members, and Corporate Officers

(As of the end of June 2017)

Directors

Daisuke Aoki
Representative Director Chairman

Shigenao Ishiguro
Representative Director President and CEO
General Manager of Manufacturing HQ
General Manager of Humidifier Countermeasures HQ

Tetsuji Yamanishi
Director General Manager of Corporate Strategy HQ
In charge of Human Resources

Seiji Osaka
Director General Manager of Corporate Strategy HQ

Makoto Sunita
Outside Director Chairman of the Board Chairman of Nomination Advisory Committee Member of Compensation Advisory Committee

Kazumasa Yoshida
Outside Director Chairman of Compensation Advisory Committee Member of Nomination Advisory Committee

Kazuhiko Ishimura
Outside Director Chairman of Compensation Advisory Committee Member of Nomination Advisory Committee

Kazunori Yagi
Outside Audit & Supervisory Board Member

Junji Yoneyama
Full-Time Audit & Supervisory Board Member

Osamu Yotsui
Full-Time Audit & Supervisory Board Member

Audit & Supervisory Board Members

Summary of career
Born on Apr. 1, 1949
Oct. 1975 Vice President of Mining and General Manager of Finance & Business Planning in charge of Corporate Marketing of said company
Apr. 2002 Executive Vice President and General Manager of Finance & Business Planning of said company
Jun. 2004 Director, Senior Vice President of said company
Jun. 2008 Vice President and General Manager of Finance & Business Planning of said company
Apr. 2010 Director, Executive Vice President and General Manager of Finance & Business Planning of said company
Jun. 2013 Director, Executive Vice President and General Manager of Management Administrative Headquarters of said company
Jan. 2014 Advisor to said company
Outsider Audit & Supervisory Board Member of Mitsubishi Bridge Holdings Corporation (present post)
Jan. 2012 Outside Director of KB Corporation
Jan. 2013 Outside Audit & Supervisory Board Member of Mitsubishi Corporation Financial Services (present post)
Mar. 2014 Outside Director of Mitsubishi Electric Corporation
Apr. 2010 Member of the Board, Executive Vice President of said company
Apr. 2009 Member of the Board, Executive Vice President of said company
Apr. 2008 Executive Vice President of said company
Apr. 2003 Senior Corporate Auditor of said company
Apr. 2001 Senior Vice President and CEO of said company
Apr. 1999 Vice President and CEO of said company
Apr. 1996 President and CEO of said company
Apr. 1989 President of said company
Apr. 1987 Senior President of said company
Apr. 1984 President of said company
Apr. 1983 Vice President of said company
Apr. 1982 Senior Vice President of said company
Dec. 1978 President of said company
Jan. 1978 Director of said company

Toru Ishiguro
Outside Audit & Supervisory Board Member

Corporate Officers

President and CEO
Shigenao Ishiguro

Senior Executive Vice President
Hiroyuki Cemura

Executive Vice Presidents
Atsuo Kobayashi
Seiji Osaka
Joachim Zichlarz

Senior Vice Presidents
Noboru Saito
Tetsuji Yamanishi

Corporate Officers
Takazaki Momozuka
Mitsuru Nagata
Joachim Thiele
Keishi Inamoto
Satoru Sueki
Norbert Hess
Michael Poesatsko
Hong Tian
Albert Ong
Dai Matsukawa
Osamu Hikita
Financial Information

Operating Results

Ten Years of Financial Trends

After demand for electronic devices slowed with the financial crisis that occurred in 2008, and supply chains were disrupted as a result of the Great East Japan Earthquake and extensive flooding in Thailand in 2011, challenging business conditions continued for a period. In fiscal 2012, TDK began a large-scale organizational restructuring to create a corporate structure less vulnerable to changes in the external environment. An important part of this undertaking was reform of the profit structure, which placed particular emphasis on the magnetic application products business centered on HDD magnetic heads. The focus was on increasing 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 the strengths of the EPCOS Group, achieved profitability, and passive components became a pillar of profits in conjunction with the widespread adoption of smartphones and tablets 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 the automotive and industrial and energy markets.

The operating profit 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 ¥1,178.3 billion in fiscal 2017.

Net Sales and Operating Income Ratio Trends

Fiscal 2017 Market Conditions and Operating Results

In the electronics market, production levels differed by region. 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 and Europe. Meanwhile, production of PCs declined compared with the previous fiscal year. Production of HDDs also declined compared with the previous fiscal year due to the decreased demand for PCs and the continued replacement of HDDs inside PCs by SSDs.

While net sales were affected by continued appreciation of the yen against the U.S. dollar and the euro, sales of HDD magnetic heads were strong, as were sales of rechargeable batteries for smartphones due to expansion of the customer base. As a result, net sales set a new record, rising 23%, to ¥1,178.3 billion. The cost of sales in fiscal 2017 increased 3.0% from fiscal 2016, to ¥855,948 million, due to an increase in net sales. While efforts were made to reduce costs through increased efficiency, improved yields, and discounts on raw materials, the impact of price discounts and a strengthening yen caused the results of the year to show a 0.5 percentage point year on year, to 72.4%. As a result, gross profit increased ¥177 million (0.4%) year on year, bringing the gross profit ratio to 27.6%.

Selling, general and administrative expenses in fiscal 2017 increased ¥12,261 million from fiscal 2016, to ¥239,446 million, while the ratio to net sales rose 0.6 percentage point year on year, to 20.3%. The main factor in the increase was an increase of about ¥9.0 billion in expenses associated with the consolidation of Micronas, which was acquired in March 2017, and ¥3.0 billion in expenses related to restructuring costs. In addition, the company recorded ¥144.4 billion in restructuring costs, primarily from impairment losses.

Other income (deductions) improved by ¥4,652 million year on year, due to a ¥2,702 million improvement in foreign exchange gains compared with the previous year.

TDK posted net income attributable to TDK of ¥145,099 million, resulting in diluted net income attributable to TDK per common share of ¥1,147.57. Return on equity (ROE) improved from 9.2% to 9.4%.

Effect of Foreign Exchange Fluctuations

Regarding average currency rates during fiscal 2017, the yen’s value appreciated by 9.5% versus the U.S. dollar and 10.4% versus the euro year on year. Exchange rate fluctuations had the effect of decreasing net sales by approximately ¥129.1 billion and operating income by approximately ¥26.7 billion in fiscal 2017. Additionally, TDK and certain overseas subsidiaries have entered into agreements for the likely forward foreign exchange contracts and currency swaps in order to mitigate foreign exchange fluctuation risk. The Company’s policy regarding said risks 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.

Net Sales by Segment: Comparing Fiscal 2017 and 2016

Breakdown of Operating Income Changes

"Net sales (left) Operating income ratio (right)"
Financial Condition

Analysis of Financial Position during Last 10 Fiscal Years
From the end of fiscal 2008 through the end of fiscal 2009, total assets increased due principally to the acquisition of the EPCOS Group. 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, and total assets are trending higher as a result. In conjunction with the acquisition of the EPCOS Group, the company’s stockholders’ equity ratio fell significantly between the end of fiscal 2008 and the end of fiscal 2009, but it has been on a gradual increase since fiscal 2010. The stockholders’ equity ratio fell 6.0 percentage points, to 46.6%, at the end of fiscal 2016 as a result of investment in new products and new business, as well as of active M&A, but rose by 1.1 percentage points year on year in fiscal 2017, to 47.7%, due to a significant increase in income with the transfer of business to Qualcomm.

Under its current Medium-Term Plan, TDK plans for Y430-¥480 billion in new facility investments aimed at driving acceleration of strategic growth product expansion, strengthening of its overseas R&D base, acceleration of existing core business expansion, and acceleration of Monozori Innovation. In fiscal 2017, Y167,631 million in capital expenditures were undertaken. While adhering closely to a policy of investing only upon consideration of the balance between market demand and supply, TDK will continue to engage in ongoing, active capital investment.

Financial Position in Fiscal 2017
Assets
Total assets amounted to Y1,664,333 million as of March 31, 2017, an increase of Y23,769 million from March 31, 2016. Liquidity (cash and cash equivalents, short-term investments) increased by Y78,087 million and net trade receivables increased by Y26,694 million, while property, plant and equipment fell by Y22,072 million.

Liabilities
Total liabilities amounted to Y862,215 million, a Y96,284 million increase from the end of the previous fiscal year. While short-term debt fell by Y88,003 million, long-term debt increased by Y73,309 million and trade payables increased by Y63,980 million.

Net Assets
Total TDK stockholders’ equity in net assets increased by Y168,253 million, to Y793,648 million. Other retained earnings increased by Y120,776 million due to a significant increase in income due primarily to the recording of capital gains with the transfer of business to Qualcomm.

Status of Capital Expenditures in Fiscal 2017
In the Passive Components segment, capital expenditures totaled Y68,605 million, primarily for the purpose of strengthening the business base and increasing the production capacity of inductive devices. Capital expenditures in the Magnetic Application Products segment totaled Y14,954 million, mainly for the development and production of next-generation HDD magnetic heads with high recording densities. Capital expenditures in the Film Application Products segment totaled Y5,884 million, mainly to boost production of lithium polymer batteries. Capital expenditures in Other totaled Y7,246 million. Capital expenditures for the R&D divisions at the headquarters totaled Y20,992 million, primarily for investments in building new plants and in internal IT infrastructure and fundamental research and development.
Cash Flow Status

Analysis of Cash Flows during Last 10 Fiscal Years

During fiscal 2009, TDK conducted a large-scale M&A (its acquisition of the EPCOS Group), and consequently its free cash flows fell significantly into negative territory. Most recently, the company acquired several companies in the sensor business, where market expansion is expected going forward, including Mikronas of Switzerland, Trionics of France, ICsense of Belgium, and Invensense of the United States. TDK has nevertheless maintained free cash flows in positive territory by steadily increasing cash flows through operating activities and by systematically conducting asset sales and business transfers.

TDK’s principle is to use cash and deposits (which includes cash, deposits, and short-term investments) as liquid capital, while using funds generated from day-to-day business activities to cover operating capital and capital expenditure funds, and endeavors to maintain liquidity at 2.0 months’ worth of monthly consolidated net sales or greater. Additionally, in order to improve its capital efficiency, TDK has introduced a Cash Management System (CMS) in Japan, the United States, Europe, and China. 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 elects to use funds within the TDK Group to the fullest extent possible. In addition, the Company has been managing cash on hand with a focus on safety and liquidity.

Free Cash Flows in Fiscal 2017

In order to accurately respond to rapid technological innovation in the electronics market and intensifying sales competition, and to push strongly ahead with expansion of its main businesses, TDK undertook ¥167,631 million in capital expenditures in fiscal 2017. At the same time, free cash flows significantly improved in the same period as a result of the transfer of business to Qualcomm. Funds obtained as compensation for the business under are being utilized in new M&A activity in accordance with the Company’s growth strategy; as TDK works to further bolster its financial and profit structure.

Major Business Risks and Risk Management System

The TDK Group is active in many markets and regions around the world; the 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>• Analyze and implement countermeasures to address risks in each country with a focus on global economic developments</td>
</tr>
<tr>
<td>Greater-than-expected decline in Group product prices and prolonged low prices</td>
<td>• Continuously implement cost-cutting measures and efforts to raise profitability</td>
</tr>
<tr>
<td>Failure of continuous technological reform and new product development</td>
<td>• Review research and development systems based on analysis of market trends on an ongoing basis</td>
</tr>
<tr>
<td>Occurrence of quality-related problems, such as recalls and product liability claims</td>
<td>• Monitor and manage development of counterfeit products and products of similar appearance</td>
</tr>
<tr>
<td>Occurrence of major disputes regarding intellectual property</td>
<td>• Use proprietary technology and previously accumulated quality data</td>
</tr>
<tr>
<td>Ability to recruit and develop human resources as planned</td>
<td>• Ensure proper management of intellectual property rights related to R&amp;D activities and product development</td>
</tr>
<tr>
<td>Occurrence of various supply-related problems, such as delivery delays and product delays</td>
<td>• Continuously implement cost-cutting measures and efforts to raise profitability</td>
</tr>
<tr>
<td>Suspension of supplies of raw materials, etc., or extreme increases in raw material prices</td>
<td>• Monitor and manage development of counterfeit products and products of similar appearance</td>
</tr>
<tr>
<td>Stricter regulatory restrictions by government agencies</td>
<td>• Continuously implement cost-cutting measures and efforts to raise profitability</td>
</tr>
<tr>
<td>Impacts on the value of financial assets and financial liabilities from fluctuations in interest rates</td>
<td>• Use interest rate swaps to fix amounts of interest paid</td>
</tr>
<tr>
<td>Substantial reduction or termination of business as a result of deterioration of a customer's financial performance or acquisition of a customer by a third party</td>
<td>• Maintain current assets at 2.0 months or more of consolidated monthly net sales</td>
</tr>
<tr>
<td>Occurrence of a natural disaster, interruption of power supply, or epidemic</td>
<td>• Use interest rate swaps to fix amounts of interest paid</td>
</tr>
<tr>
<td>Application of stricter environmental regulations</td>
<td>• Maintain current assets at 2.0 months or more of consolidated monthly net sales</td>
</tr>
<tr>
<td>Problems related to M&amp;As, including inability to recover invested funds and the occurrence of additional expenses</td>
<td>• Use interest rate swaps to fix amounts of interest paid</td>
</tr>
<tr>
<td>Data breaches concerning confidential information of customers and business partners</td>
<td>• Implement M&amp;A due diligence and risk assessment in advance</td>
</tr>
</tbody>
</table>

- TDK Corporation
- Annual Report 2017
### Consolidated Balance Sheets

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

**As of March 31, 2017 and 2016**

#### ASSETS

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yen millions</td>
<td>% Yen millions</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>740,994</td>
<td>51.1</td>
<td>7,733,357</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>285,468</td>
<td>19.7</td>
<td>2,949,893</td>
</tr>
<tr>
<td>Net trade receivables</td>
<td>21,964</td>
<td>1.5</td>
<td>227,973</td>
</tr>
<tr>
<td>Inventories</td>
<td>157,129</td>
<td>10.9</td>
<td>1,379,455</td>
</tr>
<tr>
<td>Other current assets</td>
<td>50,215</td>
<td>3.4</td>
<td>626,866</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td><strong>740,994</strong></td>
<td><strong>51.1</strong></td>
<td><strong>866,136</strong></td>
</tr>
<tr>
<td><strong>Noncurrent assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments in securities</td>
<td>35,335</td>
<td>2.4</td>
<td>1,484,866</td>
</tr>
<tr>
<td>Net property, plant and equipment</td>
<td>487,639</td>
<td>33.0</td>
<td>4,148,813</td>
</tr>
<tr>
<td>Other assets</td>
<td>186,596</td>
<td>12.6</td>
<td>1,533,080</td>
</tr>
<tr>
<td><strong>Total noncurrent assets</strong></td>
<td><strong>799,570</strong></td>
<td><strong>54.9</strong></td>
<td><strong>7,726,759</strong></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>1,450,564</strong></td>
<td><strong>100.0</strong></td>
<td><strong>1,664,333</strong></td>
</tr>
</tbody>
</table>

For convenience only, an exchange rate of U.S.$1 = ¥112 has been used.

#### LIABILITIES AND EQUITY

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yen millions</td>
<td>% Yen millions</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>158,683</td>
<td>10.1</td>
<td>77,680</td>
</tr>
<tr>
<td>Trade payables</td>
<td>112,664</td>
<td>7.4</td>
<td>148,609</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>19,767</td>
<td>1.3</td>
<td>32,144</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td><strong>314,697</strong></td>
<td><strong>21.7</strong></td>
<td><strong>384,621</strong></td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>765,931</strong></td>
<td><strong>52.8</strong></td>
<td><strong>862,215</strong></td>
</tr>
<tr>
<td><strong>Common stock</strong></td>
<td>32,641</td>
<td>2.1</td>
<td>32,641</td>
</tr>
<tr>
<td>Retirement and severance benefits</td>
<td>147,136</td>
<td>9.8</td>
<td>125,202</td>
</tr>
<tr>
<td>Other noncurrent liabilities</td>
<td>26,735</td>
<td>1.8</td>
<td>45,484</td>
</tr>
<tr>
<td><strong>Total stockholders' equity</strong></td>
<td><strong>675,361</strong></td>
<td><strong>46.6</strong></td>
<td><strong>793,614</strong></td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td><strong>684,633</strong></td>
<td><strong>47.2</strong></td>
<td><strong>802,118</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,450,564</strong></td>
<td><strong>100.0</strong></td>
<td><strong>1,664,333</strong></td>
</tr>
</tbody>
</table>

For convenience only, an exchange rate of U.S.$1 = ¥112 has been used.
CONSOLIDATED STATEMENTS OF INCOME (LOSS)

<table>
<thead>
<tr>
<th>Year</th>
<th>Yen millions</th>
<th>U.S. $ Thousands</th>
<th>Yen millions</th>
<th>U.S. $ Thousands</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>32,641</td>
<td>29,689</td>
<td>611,159</td>
<td>(5,882)</td>
<td>(18,497)</td>
</tr>
<tr>
<td>2016</td>
<td>26,002</td>
<td>21,083</td>
<td>590,687</td>
<td>162.4</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>32,641</td>
<td>29,689</td>
<td>611,159</td>
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<td>2016</td>
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<td>590,687</td>
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<tr>
<td>2017</td>
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</tr>
<tr>
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<td></td>
</tr>
</tbody>
</table>

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

<table>
<thead>
<tr>
<th>Year</th>
<th>Yen millions</th>
<th>U.S. $ Thousands</th>
<th>Yen millions</th>
<th>U.S. $ Thousands</th>
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<tbody>
<tr>
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<td></td>
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For convenience only, an exchange rate of U.S.$1 = ¥112 has been used.
Consolidated Statements of Cash Flows

TDK Corporation and Consolidated Subsidiaries (U.S. GAAP)
For the years ended March 31, 2017 and 2016

Net income 66,623

Cash flows from operating activities:

Cash and cash equivalents at end of period 285,468

Cash and cash equivalents at beginning of period 265,104

Effect of exchange rate changes on cash and cash equivalents (149,538)

Cash flows from investing activities:

Proceeds from sale of long-term investments 160,136

Proceeds from sale of short-term investments 38,697

Proceeds from sale of intangible assets 21,085

Proceeds from sale of trade receivables 21,605

Proceeds from sale of trade payables (16,460)

Proceeds from sale of inventories (7,262)

Proceeds from sale of assets and liabilities, net (10,591)

Proceeds from sale of shares, net of cash transferred 50,213

Proceeds from sale of treasury stock 15,165

Proceeds from sale of debt, net of cash transferred 1,668

Proceeds from sale of subsidiaries, net of cash acquired (1,310)

Net cash provided by operating activities 151,563

Cash flows from financing activities:

Payment of dividends (87,491)

Payment for purchase of treasury stock (837)

Proceeds from issue of debt 22,700

Proceeds from issue of shares 67,913

Proceeds from issue of short-term investments 30,348

Proceeds from issue of intangible assets 3,918

Net cash provided by financing activities 44,920

Net increase in cash and cash equivalents 20,364

Cash and cash equivalents at end of period 285,468

Cash and cash equivalents at beginning of period 265,104

Effect of exchange rate changes on cash and cash equivalents (6,352)

Net increase in cash and cash equivalents 20,364

For convenience only, an exchange rate of U.S.$1 = ¥112 has been used.

For the years ended March 31, 2017 and 2016