

## **2. Management Policies**

### **(1) Fundamental Management Policy**

TDK was established in 1935 as the world's first company to industrialize a magnetic material called ferrite. In the ensuing years, TDK has developed and commercialized passive components, magnetic application products and film application products, among other products. This drive has been based on the company's founding spirit: "Contribute to culture and industry through creativity."

To preserve its identity as a dynamic company, TDK believes that it must remain an organization that constantly provides even higher corporate value to all stakeholders, including shareholders, customers, suppliers, employees and society, by drawing on innovative thinking and a willingness to tackle new challenges.

### **(2) Targeted Management Indicators**

To realize this fundamental management policy, TDK conducts its business activities with reference to the following indicators.

#### **(Important Fundamental Management Indicator)**

\* TVA (TDK Value Added)

TVA measures the added value newly created by the company's business activities and is an important decision-making tool for management.

TVA is a TDK proprietary value-added yardstick that measures the extent of earnings commensurate with invested capital. This indicator compares earnings after taxes but without deducting interest expenses with the cost of capital (stockholders' equity + interest-bearing liabilities).

#### **(Indicator for Managing Environmental Performance)**

\* CO2 Emissions Reductions

As part of its environmental action plan to promote business activities in harmony with the natural environment, TDK has set a target for CO2 emissions reductions.

### **(3) Medium- and Long-Term Management Strategy**

TDK has formulated a three-year, medium-term management plan, with the fiscal year ending March 31, 2016 as the inaugural year, with the aim of further increasing corporate value by sustained growth. TDK's basic policy is to evolve inter-Group links to achieve further growth. On this basis, TDK is pursuing a zero-defect quality strategy based on advanced technological capabilities, along with working to truly globalize its operations by speedy management.

Turning to TDK's businesses, TDK is accelerating sales expansion by strengthening the sensor business, which offers significant prospects for market growth, as well as through the three existing

segments of passive components, magnetic application products, and film application products, thereby boosting profitability. In addition to investing in these core businesses, TDK aims to enhance the Group's overall profitability and capital efficiency, while efficiently investing in new product development and new businesses. At the same time, as regards shareholder returns, TDK's policy is to continue paying stable dividends by leveraging the impact of these investments to grow earnings per share.

In line with the Corporate Governance Code that was applied to listed companies in June 2015 with the aim of achieving sustained growth and improving medium- and long-term corporate value, TDK will endeavor to implement appropriate information disclosure and ensure transparency to further activate its constructive engagement with shareholders and investors and fulfill the role and obligations of the Board of Directors at the same time.

TDK celebrated the 80th anniversary of its founding in December 2015. Towards the company's centenary, TDK asks every individual employee in TDK to hearken back to its founding spirit, namely, its resolve to "contribute to culture and industry through creativity," while at the same time TDK is working to foster a corporate culture that continues to strive for growth.

#### **(4) Pressing Issues**

TDK is working to expand business with a focus on ICT, automotive, and industrial equipment and energy as its priority markets. In the ICT market, the Chinese market, the largest in this sector, continues to grow, primarily driven by smartphones. In parallel, this wave of growth is spreading to India and other emerging countries. Moreover, the number of components used in smartphones is also increasing with the development of even more sophisticated smartphones. In the automotive market, the U.S. and European markets are trending firmly. Demand is growing for various electronic components, including growth in Advanced Driving Assistance Systems (ADAS) and sensors, in step with the emergence of full-scale demand for xEV vehicles and the spread of autonomous driving systems in the future. In the industrial equipment and energy market, although the market for large motors contracted from the previous fiscal year, the renewable energy market, including wind and solar power, is expected to grow. In these and other ways, demand for electronic components is projected to continue growing, primarily in the core markets targeted by TDK.

In fiscal 2017, the second fiscal year of the three-year Medium-Term Plan, TDK and Qualcomm Incorporated ("Qualcomm") of the U.S. formed a joint venture under the name of RF360 Holdings Singapore PTE. Ltd. in the high-frequency components business, which has been experiencing sustained, high growth. In fiscal 2018, the final fiscal year of the Medium-Term Plan, TDK will accelerate new product development by further advancing TDK's materials and component technologies in growth markets such as IoT, leveraging technical cooperation with Qualcomm pertaining to a wide range of cutting-edge technologies, including passive components, rechargeable batteries, wireless power transfer, and sensors. Concurrently, TDK will appropriately

address growing needs for the modularization of components. In the sensor business, which is expected to see significant market expansion, in fiscal 2017 TDK acquired sensor-related companies such as Tronics Microsystems SA of France and ICsense NV of Belgium, in addition to Micronas Semiconductor Holding AG of Switzerland. Looking ahead, TDK also plans to undertake business integration with InvenSense, Inc. of the U.S. In addition to TDK's existing sensor businesses, TDK will integrate the acquired sensor-related companies at the organizational level, thereby establishing cross-organizational marketing and R&D structures. By doing so, TDK will propose high-performance, high value-added sensing solutions.

In the energy business, the business expertise established by the rechargeable battery business in the smartphone market will be put to good use in developing new applications. TDK will also provide solutions as systems by integrating TDK's superior materials technology and components technologies such as DC-DC converters and wireless power transfer. Moreover, TDK will work on the crucial priority of ensuring the long-term profitability of the HDD Head-related business, one of TDK's core businesses.

In July 2016, TDK underwent an on-site inspection by the Japan Fair Trade Commission based on the Act on Prohibition of Private Monopolization and Maintenance of Free Trade (Anti-Monopoly Act) in connection with the HDD Suspension Assemblies business. TDK is offering its fullest cooperation with the inspection by the Japan Fair Trade Commission. In addition, TDK takes this situation very seriously and is responding with the utmost integrity, working to further strengthen its compliance system.

### **3. Basic Rationale for Selection of Accounting Standards**

TDK started to prepare its consolidated financial statements using U.S. GAAP when it issued an American Depositary Receipt ("ADR") in July 1974. In April 2009, TDK delisted its shares on the New York Stock Exchange but maintained its ADR program in the U.S., and continues to use U.S. GAAP when it prepares consolidated financial statements. This was done from the viewpoint of protecting shareholders or investors and enabling them to make comparisons with past disclosures of information.

As for the application of International Financial Reporting Standards ("IFRS"), TDK's policy is to respond appropriately after taking into consideration the circumstances unfolding both in Japan and overseas.