

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 new three-year medium-term plan starting in the fiscal 2019, the year ending March 31, 2019. Under the plan, TDK aims to achieve sustainable growth and increase corporate value by refining the components and process technologies it has cultivated and strengthening provision of solutions that respond to market needs. TDK will pursue a zero-defect quality strategy based on advanced technological capabilities, along with working to truly globalize its operations by speed-focused management.

Turning to TDK's business, it will create a new Energy Application Products segment to integrate

the rechargeable battery, industrial equipment power supply, and automotive power supply businesses, and strengthen its business by generating synergies among its energy-related businesses. Four reorganized segments will form the main businesses: Passive Components, Sensor Application Products, Magnetic Application Products, and Energy Application Products through which TDK will expand its sales. 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.

TDK has established the "TDK Basic Policy on Corporate Governance," and will endeavor to implement appropriate information disclosure and ensure transparency to further activate its constructive engagement (dialogue) with shareholders and investors and fulfill the role and obligations of the Board of Directors appropriately. Furthermore, TDK has established important CSR issues and themes based on both its own perspective and that of its stakeholders and will work to solve social issues through these activities.

(4) Pressing Issues

The electronics market is experiencing solid demand for electrical components due to increasing sophistication and multifunction of electronic equipment. At the same time, product safety standards are increasingly high, and customers are demanding higher levels of performance and quality for automotive electrical components in particular.

In this situation, TDK recognizes the importance of quickly implementing a zero-defect quality strategy, and is pushing forward with further strengthening its production process with a management that unifies all stages from raw materials to manufacturing. On the other hand, TDK will implement measures to stably procure raw materials expected to be affected by tight supply-demand balance, and to develop new processing methods that reduce the use of rare metals.

In the previous fiscal year and the fiscal year under review, TDK positioned the sensor business as a core business for the Group and conducted M&As focused on sensor companies. TDK has steadily proceeded with the post-merger integration process, and the early creation of targeted synergies has become a priority. One such measure is to organize a global personnel system and enhance appropriate evaluation and training schemes to utilize acquired human resources in management.

In July 2016, TDK had an on-site inspection by Japan Fair Trade Commission regarding its HDD suspension business under the Anti-Monopoly Act in Japan. In February 2018, Japan Fair Trade Commission officially announced that they issued the cease-and-desist order and the surcharge payment order against the manufacturer of HDD suspensions. TDK and its subsidiaries are exempted from any surcharges and also have received no cease-and-desist order pursuant to an application for leniency.

TDK has appointed a Chief Compliance Officer to oversee the entire Group and has worked to develop a compliance structure with the aim of further reinforcing its compliance with laws and regulations. Going forward, TDK will pursue these efforts with increased vigor and speed and will strive to restore the trust of its stakeholders.

In this way, TDK will strengthen its compliance structure, while the governance structure will also be strengthened by the establishment of a Corporate Governance Committee as an advisory body to the Board of Directors.

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.