

## **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, sensor application products, magnetic application products and energy 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 formulated and is implementing the three-year medium-term plan that began in fiscal 2019. Under the plan, TDK aims to achieve sustainable growth and increase corporate value by refining the materials 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.

The business environment revolving around electronics is moving toward a period of substantial

change. Reformation is taking place, with an energy transformation with the shift from fossil fuels to renewable energy and a digital transformation with the permeation of digital technologies such as IoT and AI in society. With these significant trends, the demand for electronic components will rapidly increase, and TDK will strive to increase sales by providing sought-after solutions in the market through its four main businesses: Passive Components, Sensor Application Products, Magnetic Application Products, and Energy Application Products. In addition to investing in the main businesses, TDK aims to enhance the Group's overall profitability and capital efficiency, while effectively investing in new product development and new businesses.

Furthermore, TDK's medium-term plan positions the improvement of the Group's social value as one of its high-priority issues, in addition to targets to expand sales and profit. Through sustainable corporate activities, TDK seeks to realize growth and improve its social value by contributing to the resolution of various social issues on a global scale.

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

TDK anticipates an increase in demand for electrical components in the electronics market for the medium to long term. However, the market cannot avoid the short-term impacts on macroeconomics caused by U.S.-China trade friction, the slowdown of China's economy, and political risks in Europe such as Brexit that are intensifying a downward trend. In this business environment, TDK will strengthen the nature of its overall profitability by implementing measures to improve earnings that will not fluctuate with economic conditions, while planning for stable growth in core businesses through expansion of its customer and applications bases. TDK will also constantly conduct capital investment, striving to strengthen the competitiveness of its core businesses with a focus on medium- to long-term growth.

As the medium-term plan positions improving the Group's social value as one of its high-priority issues, TDK has newly established the Sustainability Promotion HQ to bolster initiatives toward this goal. TDK aims to be a company that realizes further growth by bolstering its business initiatives using the SDGs—the 17 targets for sustainable development adopted at 2015 UN summit—as a framework, and contributes to society through sustainable business activities.

In its compliance structure, TDK appointed a Chief Compliance Officer to oversee the entire Group and has worked to develop a structure with the aim of further reinforcing compliance with laws and regulations in line with the Group's globalization. TDK is also working on strengthening its governance structure with 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.