Attracting Tomorrow TDK

Fiscal Year March 2023

Full Year Performance Briefing

TDK Corporation
IR&SR Group
April 28, 2023

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Hello, I am Tetsuji Yamanishi, Executive Vice President of TDK. Thank you for taking the time to attend TDK's full year performance briefing for the fiscal year ended March 2023. I will be presenting an overview of our consolidated results.

Fiscal 2023 key points

- Amid sluggish demand in the ICT market, both net sales and operating profit reached new record highs on the back of automobile- and industrial equipment-related demand*.

Net sales (JPY bn)	Operating profit (JPY bn)
2,180.8	**168.8**
(Up **14.7**% YoY)	(Up **1.2**% YoY)

- While production of smartphones, PCs, and tablets was significantly below the initial forecast, sales of rechargeable batteries and sensors for new models expanded.
- Sales of HDD heads and HDD suspension assemblies decreased due to a rapid decline in the HDD market.
- Component demand remained brisk on the back of the increasing number of components installed per vehicle as a result of the spread of xEVs and ADAS. Sales of passive components and sensors increased.
- Sales of medium capacity rechargeable batteries and power supplies for industrial equipment increased as demand related to renewable energy and energy-saving equipment.
- Restructuring costs were recorded for 3Q and 4Q as a result of the deteriorating operating environment.

*Operating profit is compared on the basis excluding a gain on sale of business recorded in fiscal 2017.

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First, let me explain the key points concerning the earnings for the fiscal year ended March 2023. While socio-economic and production activities despite the resurgence of COVID-19 in some areas remained on a recovery trend, the global economy slowed due to the continued inflation associated with the protraction of the war in Ukraine, as well as policy rate hikes in the United States and Europe, among other factors. Since the beginning of the fourth quarter, financial instability triggered by the collapse of U.S. banks and concerns over the management failure of a European financial institution have further intensified uncertainty surrounding the global economy. In addition, the gap in interest rates between Japan and other countries significantly affected the foreign exchange market and the yen depreciated sharply against other currencies.

Under such an operating environment, in the electronics market, which has a large bearing on the consolidated performance of TDK, demand remained sluggish in the ICT market in particular, while EX demand related to xEVs and industrial equipment remained robust. As a result of steadily incorporating this demand, net sales surged 14.7% year on year and operating profit increased 1.2% year on year, both setting new record highs. In the ICT market, while demand for PCs and tablets, which had been brisk amid the COVID-19 pandemic, fell significantly below initial forecasts, sales of rechargeable batteries and sensors for new smartphone models expanded. On the other hand, as investment in data centers slowed rapidly, sales of HDD heads and HDD suspension assemblies decreased considerably.

In the automotive market, there were signs of a moderate recovery on the whole, despite ongoing constraints in supply chains such as the shortage of semiconductors. In particular, sales of passive components and sensors expanded on the back of solid component demand reflecting the increasing number of components installed per vehicle as a result of an increase in the ratio of xEVs and the spread of ADAS.

Sales of medium capacity rechargeable batteries and power supplies for industrial equipment increased as demand related to renewable energy, energy-saving equipment and residential energy storage systems (RESS) continued to expand due to concerns over global energy supply and the impact of soaring energy prices reflecting growing geopolitical risks.

At the time of the announcement of our earnings for the first nine months of the fiscal year ended March 2023, we explained that TDK was expected to post about 20.0 billion yen as restructuring costs in the fourth quarter given increasing downward pressure on final demand. However, as a result of the review of future changes in demand and projections mainly for businesses facing challenges in improving profitability, TDK posted about 46.7 billion yen in impairment losses and restructuring costs for the fourth quarter, which was partly offset by 12.0 billion yen in income from decrease in retirement benefit liabilities due to extension of the retirement age. As a result, TDK recorded one-time expenses of 34.7 billion yen for the fourth quarter.

Next, I would like to present an overview of our results.

Fiscal 2023 results

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- Net sales and Operating profit increased year on year.
- One-time expenses: -47.7 bn JPY in restructuring costs, +12.0 bn JPY in related retirement benefits

(JPY bn)	FY2022	FY2023	Change JPY bn	Change %
Net sales	1,902.1	**2,180.8**	+278.7	+14.7%
Operating profit	166.8	**168.8**	+2.1	+1.2%
Operating profit margin	8.8%	**7.7%**	(1.1)pts	-
Profit before tax	172.5	**167.2**	(5.3)	(3.1)%
Net profit	131.3	**114.2**	(17.1)	(13.0)%
Earnings per share (JPY)	346.44	**301.19**	-	-
USD (JPY)	112.33	**135.46**	20.6% JPY depreciation	
EUR (JPY)	130.53	**140.89**	7.9% JPY depreciation	

Ex-rate impact to net sales, operating profit (OP) (JPY bn)

Net sales	Approx. +292.2
OP	Approx. +68.9

Forex sensitivity (impact by one JPY change)

USD (JPY bn)

Net sales	11.0
OP	2.0

EUR (JPY bn)

Net sales	3.0
OP	0.6

(Note) TDK has voluntary adopted International Financial Reporting Standards (IFRS) on its consolidated financial statements in the Securities Reports from fiscal 2022 in place of the U.S. GAAP.
The figures for the previous fiscal year shown in this document are also presented in accordance with IFRS.

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Next, I would like to present an overview of our results.

There was an increase of about 292.2 billion yen in net sales and an increase of about 68.9 billion yen in operating profit due to exchange rate fluctuations against the U.S. dollar and other currencies. Including this impact, net sales were 2,180.8 billion yen, an increase of 278.7 billion yen, or 14.7%, year on year. Operating profit was 168.8 billion yen, an increase of 2.1 billion yen, or 1.2%, year on year. Profit before tax was 167.2 billion yen, and net profit was 114.2 billion yen. Earnings per share were 301.19 yen. One-time expenses of 35.7 billion yen were included in operating profit. As most of the losses pertaining to one-time expenses are not effective in reducing tax costs, net profit decreased year on year.

With regard to the exchange rate sensitivity of operating profit, we maintain our estimate that a change of 1 yen against the U.S. dollar will affect operating profit by about 2.0 billion yen a year, while a 1 yen change against the euro will have an impact of about 0.6 billion yen a year.

Passive Components segment

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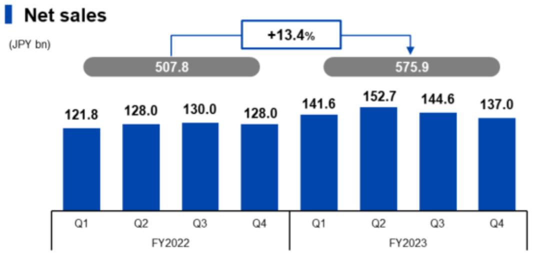
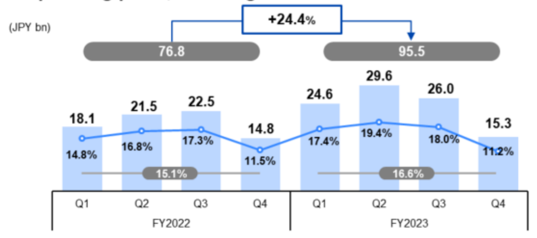
- Both net sales and profit significantly increased year on year as sales to the automotive market remained brisk, especially those related to xEVs.

Net sales



Operating profit, OP margin



Ceramic capacitors	• Sales and profit increased year on year. • Sales increased to the automotive market and distributors.
Aluminum electrolytic capacitors and film capacitors	• Sales and profit increased year on year. • Sales increased to the industrial equipment and the automotive markets.
Inductive devices	• Sales and profit increased year on year. • Sales increased to the automotive and the industrial equipment markets.
High-frequency components	• Sales and profit decreased year on year. • Sales decreased to the ICT market.
Piezoelectric material products and circuit protection components	• Sales increased while profit decreased year on year. • Sales increased to the automotive and the industrial equipment markets.

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Next, I would like to explain our business segment performance for the full year.

Net sales in the Passive Components segment were 575.9 billion yen, an increase of 13.4% year on year. Operating profit was 95.5 billion yen, an increase of 24.4% year on year. Both net sales and profit significantly increased year on year as sales to the automotive market remained brisk, especially those related to xEVs.

Sales and profit of ceramic capacitors, aluminum electrolytic capacitors and film capacitors, and inductive devices, which have a high ratio of sales to the automotive and industrial equipment markets, increased year on year.

On the other hand, as a result of a decline in demand related to smartphones, sales and profit of high-frequency components, which have a high ratio of sales for smartphone applications, decreased year on year. Restructuring costs of about 0.3 billion yen were recorded for the adjustment of production capacity in light of the future demand outlook.

While sales of piezoelectric material products and circuit protection components increased year on year, profit decreased year on year reflecting a decline in sales volume.

Sensor Application Products segment

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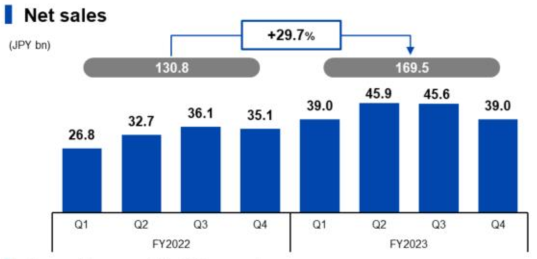
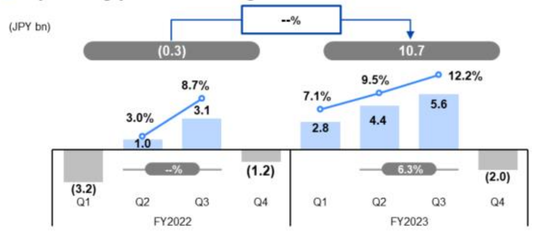
- Sales and profit increased year on year due to brisk sales mainly to the ICT market and a significant improvement in profitability.

Net sales



Operating profit, OP margin



Temperature and pressure sensors	• Sales increased to the automotive market and for home appliances. • profit decreased due to the recording of restructuring costs.
Magnetic sensors	• Sales and profit increased year on year. • Sales of Hall sensors to the automobile market expanded. • Sales of TMR sensors to the ICT market increased considerably.
MEMS sensors	• Profit improved significantly as sales for game machine, wearable and automobile applications expanded, despite a decline in sales for smartphone applications.

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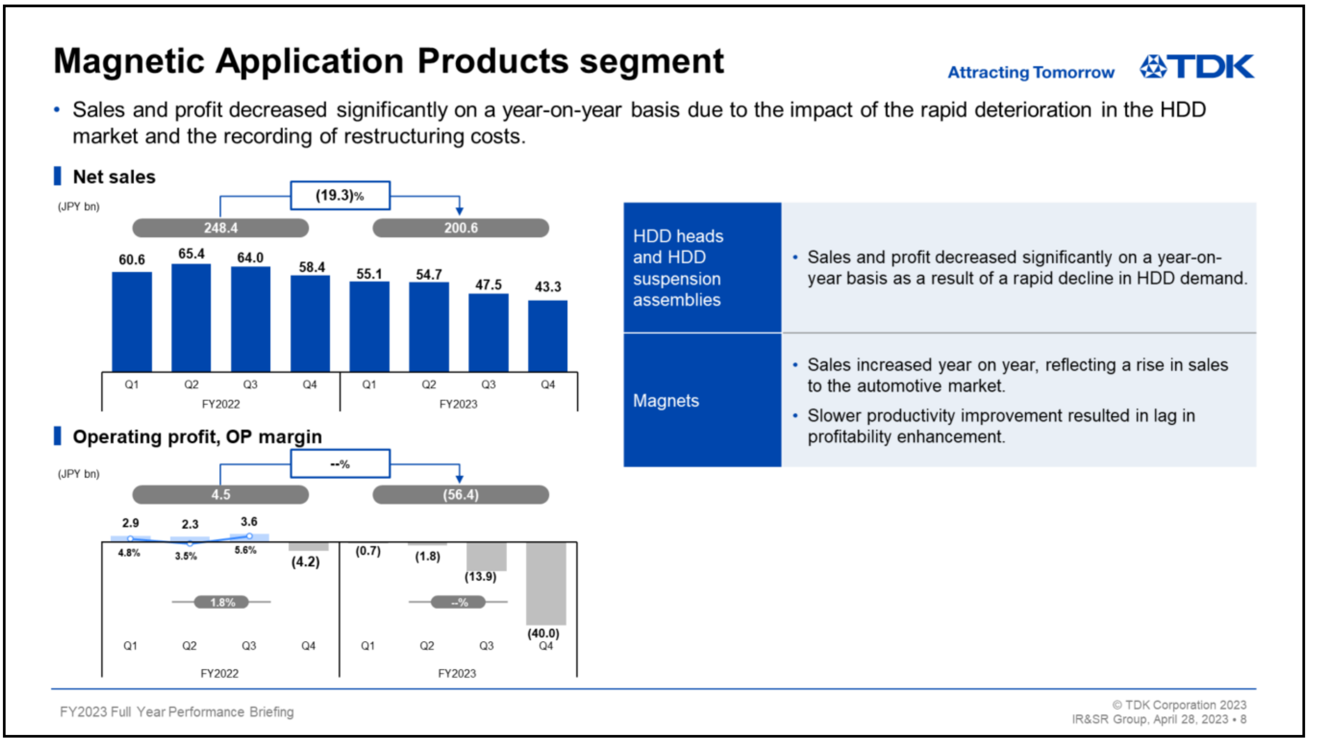
Net sales in the Sensor Application Products segment amounted to 169.5 billion yen, a significant increase of 29.7% on a year-on-year basis. Operating profit was 10.7 billion yen, a year-on-year increase of 11.0 billion yen, on the back of a significant improvement in profitability reflecting increased sales, despite the recording of one-time expenses of 2.5 billion yen.

Sales of temperature and pressure sensors decreased year on year reflecting a decline in the sales volume to the automotive market and for home appliances as well as the recording of restructuring costs of 1.3 billion yen for the consolidation of business bases, among others.

In magnetic sensors, sales of Hall sensors to the automotive market and for new smartphone models expanded. Sales of TMR sensors expanded on the back of their adoption for smartphone applications on top of robust sales to the automotive market. Sales and profit of magnetic sensors on the whole increased considerably on a year-on-year basis, resulting in improved profitability.

Sales of MEMS sensors increased year on year on the back of a steady increase in sales for automobile, wearable and game machine applications, despite a drop in sales to the ICT market due to sluggish demand. The profitability of MEMS sensors on the whole has been improving, although one-time expenses of 1.2 billion yen were recorded for the disposal of inventories among other factors.



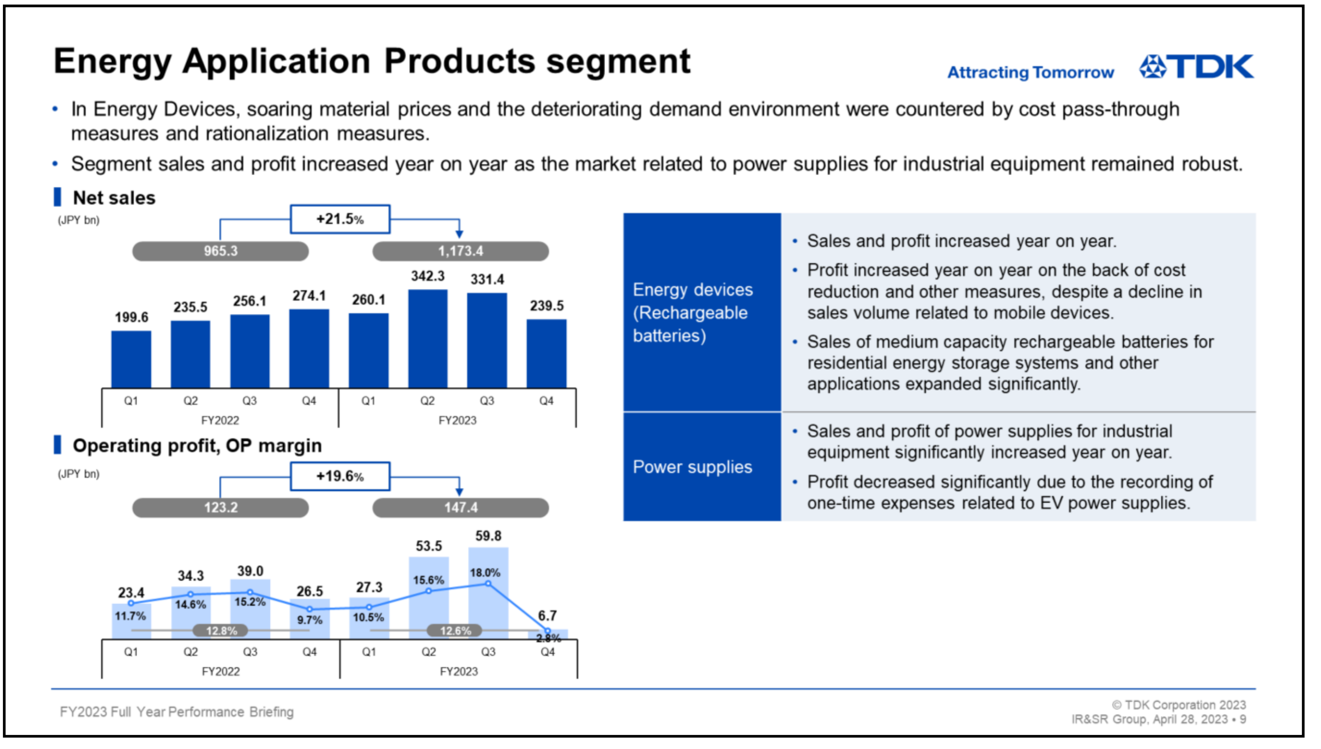
In the Magnetic Application Products segment, net sales decreased 19.3% year on year to 200.6 billion yen, and a significant operating loss of 56.4 billion yen, which included one-time expenses of 27.9 billion yen, was posted.

In HDD heads and HDD suspension assemblies, HDD demand for PCs declined. In terms of demand related to nearline HDD heads, investment in data centers decreased due to the effect of economic slowdown among other factors. As a result of HDD inventory adjustment, total demand for HDDs decreased by slightly less than 40% from the previous fiscal year.

Consequently, the sales volume of HDD heads and HDD suspension assemblies decreased substantially from the previous fiscal year, resulting in a significant year-on-year decline in sales and the posting of a loss.

Based on the assumption that demand for HDDs will take some time to recover, one-time expenses related to impairment loss and restructuring costs of 25.7 billion yen were posted on a full-year basis, including 1.0 billion yen recorded for the third quarter, for the HDD heads-related businesses as a whole including HDD heads, HDD suspension assemblies, and HDD suspension application products.

While sales of magnets increased year on year reflecting a rise in sales related to xEVs, profit decreased year on year due to slower productivity improvement. An impairment loss of 2.2 billion yen was recorded owing to the lag in profitability enhancement.



In the Energy Application Products segment, net sales increased 21.5% year on year to 1,173.4 billion yen and operating profit rose 19.6% year on year to 147.4 billion yen, despite the recording of one-time expenses of 17.0 billion yen.

Sales of rechargeable batteries increased year on year. While the sales volume for mobile applications, such as Chinese smartphones, tablets, and notebook PCs, decreased, sales related to new smartphone models increased. In addition, expansion of sales of medium capacity batteries, mainly for RESS, more than offset the decline in sales volume for mobile applications. Operating profit increased year on year as a result of the improvement in the product mix as well as our efforts to reduce overall costs including SG&A expenses and to increase the profitability of medium capacity batteries, despite the negative impact on profit from the decline in sales volume of small capacity batteries. Meanwhile, a loss on retirement of fixed assets of 5.2 billion yen was recorded in relation to the equipment dedicated to old smartphone models.

In power supplies for industrial equipment, demand related to industrial equipment, such as semiconductor manufacturing equipment, as well as medical equipment applications remained robust, resulting in year-on-year increases in both sales and profit. Profitability also improved considerably. While sales of EV power supplies have grown steadily, an impairment loss of 11.8 billion yen was posted due to slower cost improvement and a decline in order prospects reflecting changing demand trends.

Quarterly results by segment

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	(JPY bn)	FY2022 Q4(A)	FY2023 Q3(B)	FY2023 Q4(C)	YoY (C)-(A) JPY bn	YoY (C)-(A) %	QoQ (C)-(B) JPY bn	QoQ (C)-(B) %
Net sales	Capacitors	50.4	61.5	**57.8**	+7.3	+14.5%	(3.7)	(6.1)%
	Inductive Devices	45.8	50.1	**46.3**	+0.5	+1.0%	(3.8)	(7.6)%
	Other Passive Components	31.8	33.1	**33.0**	+1.2	+3.7%	(0.1)	(0.4)%
	Passive Components	128.0	144.6	**137.0**	+9.0	+7.0%	(7.7)	(5.3)%
	Sensor Application Products	35.1	45.6	**39.0**	+3.9	+11.0%	(6.7)	(14.6)%
	Magnetic Application Products	58.4	47.5	**43.3**	(15.2)	(25.9)%	(4.2)	(8.8)%
	Energy Application Products	274.1	331.4	**239.5**	(34.6)	(12.6)%	(91.9)	(27.7)%
	Other	12.6	17.8	**13.1**	+0.5	+3.8%	(4.7)	(26.5)%
	Total	508.3	587.0	**471.9**	(36.4)	(7.2)%	(115.1)	(19.6)%
Operating profit	Passive Components	14.8	26.0	**15.3**	+0.6	+4.0%	(10.7)	(41.0)%
	Sensor Application Products	(1.2)	5.6	**(2.0)**	(0.8)	-	(7.5)	-
	Magnetic Application Products	(4.2)	(13.9)	**(40.0)**	(35.8)	-	(26.1)	-
	Energy Application Products	26.5	59.8	**6.7**	(19.8)	(74.6)%	(53.1)	(88.7)%
	Other	(0.1)	0.9	**(1.5)**	(1.4)	-	(2.4)	-
	Subtotal	35.7	78.3	**(21.4)**	(57.1)	-	(99.7)	-
	Adjustment	(10.3)	(10.0)	**1.5**	+11.8	-	+11.5	-
	Total	25.5	68.4	**(19.9)**	(45.3)	-	(88.2)	-
Operating profit margin		5.0%	11.6%	**(4.2)%**	(9.2)pts	-	(15.8)pts	-
USD (JPY)		116.14	141.75	132.40				
EUR (JPY)		130.35	144.26	141.95				

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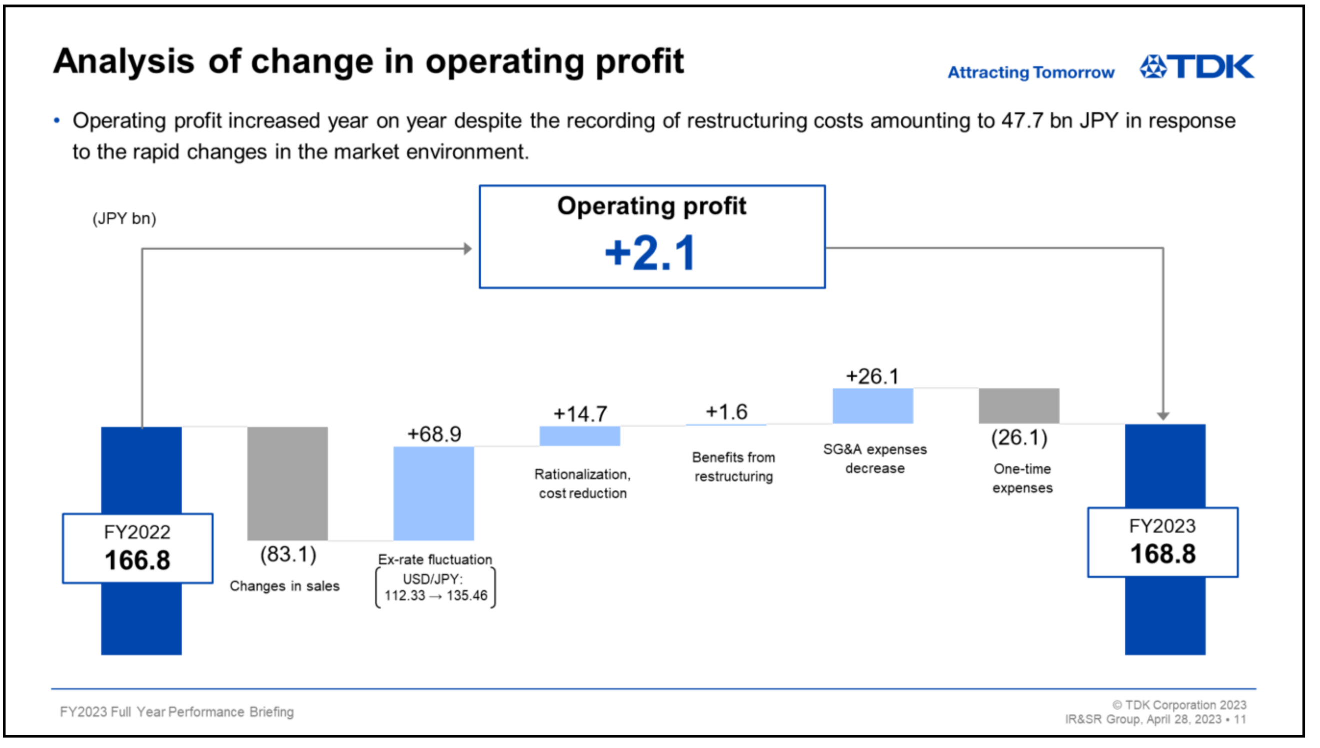
Now, I will explain some of the factors behind the changes in segment net sales and operating profit from the third quarter to the fourth quarter of the fiscal year ended March 2023.

First, in the Passive Components segment, net sales decreased by 7.7 billion yen, or 5.3%, from the third quarter to the fourth quarter, and operating profit dropped by 10.7 billion yen, or 41.0%, from the third quarter to the fourth quarter. Segment sales decreased on the whole from the third quarter as a result of a decline in sales to the industrial equipment market, for home appliance applications, and to distributors, on top of the decrease in sales to the ICT market, mainly for smartphone applications. While profit of piezoelectric material products and circuit protection components increased from the third quarter thanks to increased sales, both sales and profit of capacitors and inductive devices decreased from the third quarter due partly to the effect of a decline in the sales volume and seasonal factors in the fourth quarter.

In the Sensor Application Products segment, net sales decreased by 6.7 billion yen, or 14.6%, from the third quarter, and operating profit dropped by 7.5 billion yen from the third quarter. However, when excluding the effect of one-time expenses of 2.5 billion yen recorded during the fourth quarter, the segment maintained profitability in the fourth quarter. Sales of temperature and pressure sensors remained virtually flat from the third quarter, and operating profit also remained virtually unchanged from the third quarter, excluding one-time expenses of 1.3 billion yen. In magnetic sensors, sales and profit of both TMR sensors and Hall sensors decreased from the third quarter due to seasonal factors in sales to TDK's major customers among other factors. In MEMS Sensors, while sales of motion sensors to the automotive market remained robust, sales for smartphone applications in China dropped and sales of microphones saw a decline. As a result, sales decreased from the third quarter, resulting in a quarter-on-quarter decline in profit, including the effect of one-time expenses of 1.2 billion yen.

In the Magnetic Application Products segment, net sales decreased by 4.2 billion yen, or 8.8%, from the third quarter, and operating profit decreased by 26.1 billion yen from the third quarter, posting a greater loss. Net sales dropped from the third quarter as the sales volume of HDD heads further decreased by 7% from the third quarter due mainly to a further decline in total demand for nearline HDD heads. There has been a significant impact from a loss from operating activities. The segment posted a loss reflecting the significant decline in profit including the effect of one-time expenses. Both sales and profit of magnets decreased from the third quarter due to slower productivity improvement, posting a greater loss reflecting the recording of one-time expenses, among other factors.

In the Energy Application Products segment, net sales decreased by 91.9 billion yen, or 27.7%, from the third quarter, and operating profit declined sharply by 53.1 billion yen from the third quarter. The sales volume of rechargeable batteries for the ICT market decreased due partly to seasonal factors, resulting in a decline in sales from the third quarter. Profit also decreased from the third quarter, including the effect of one-time expenses of 5.2 billion yen. While both sales and profit of power supplies for industrial equipment increased from the third quarter, sales and profit of EV power supplies decreased from the third quarter, posting a significant loss, including the effect of one-time expenses of 11.8 billion yen.



Next is an analysis of changes in operating profit. Let's take a look at the main factors behind the 2.1 billion yen increase in operating profit year on year. First, operating profit decreased sharply by 83.1 billion yen due to changes in sales, reflecting a decline in the sales volume of HDD heads, HDD suspension assemblies and rechargeable batteries which were significantly affected by a drop in demand from the ICT market.

On the other hand, operating profit was boosted by about 28.2 billion yen on an actual basis from the previous fiscal year as a result of the promotion of rationalization and cost reduction efforts mainly for rechargeable batteries and passive components, as well as the benefits from restructuring during the previous fiscal year and streamlining of SG&A expenses, in addition to the positive effect of the yen's depreciation amounting to 68.9 billion yen, which offset the negative impact on profit to a certain extent.

Meanwhile, in light of the changing demand environment surrounding HDD Heads, restructuring was carried out during the fourth quarter as well as the third quarter. One-time expenses amounted to 35.7 billion yen on a full-year basis, an increase of 26.1 billion yen from the previous fiscal year.

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Fiscal 2024 Projections

Noboru Saito

President & CEO

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Hello, I am Noboru Saito, President and CEO of TDK. Thank you for joining us today. I would like to go over our full year projections for the fiscal year ending March 2024 and report the progress of our Medium-Term Plan.

Fiscal 2024 Projections

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(JPY bn)	FY2023 Actual	FY2024 Projections	Change	
			JPY bn	%
Net sales	2,180.8	**2,020.0**	(160.8)	(7.4)%
Operating profit	168.8	**190.0**	+21.2	+12.5%
Operating profit margin	7.7%	**9.4%**	+1.7pts	-
Profit before tax	167.2	**188.0**	+20.8	+12.4%
Net profit	114.2	**147.0**	+32.8	+28.7%
Earnings per share (JPY)	301.19	**387.57**	-	-
Dividends (JPY)	106.00	**116.00**	-	-
USD (JPY)	135.46	**130.00**	-	-
EUR (JPY)	140.89	**142.00**	-	-

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First, I would like to discuss our projections for consolidated financial results for the fiscal year ending March 2024 and the underlying market conditions.

The global economic growth rate in 2022 was 3.1% due to monetary tightening around the world, the conflict between Russia and Ukraine, and the impact of lockdowns resulting from the resurgence of COVID-19 in some regions. While the economic growth forecast for 2023 announced in January was 1.7%, it was revised upward to 2.0% in April reflecting the recovery trend in China's economic activities following the relaxation of COVID-19 restrictions. However, the outlook for the global economy will likely remain uncertain due to the protraction of the war in Ukraine, interest rate hikes, and other factors.

Against this backdrop, TDK predicts the production volume of its mainstay products as follows: production volume related to automobiles to increase year on year, related to smartphones to decrease year on year, and related to PCs to remain virtually flat year on year. In addition, TDK expects that the impact of soaring energy prices will continue for some time. Our full-year projections in light of production volume and order status for our major markets are as follows: net sales of 2,200.0 billion yen; operating profit of 190.0 billion yen; profit before tax of 188.0 billion yen; and net profit of 147.0 billion yen. Our exchange rate assumptions are 130 yen against the U.S. dollar and 142 yen against the euro.

Forecast production trend in key markets

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- The ICT market is on the way to recovery while the xEV market is expected to expand.

(Unit mn)	FY2023 Actual	FY2024 Forecast	YoY
Automobile*	84	**88**	+5%
xEV	17.2	**21.9**	+27%
Smartphone	1,143	**1,118**	(2)%
5G Smartphone	593	**607**	+2%
HDD	153	**146**	(5)%
Nearline	55	**60**	+9%
Notebook PC	179	**182**	+2%
Tablet	153	**149**	(3)%

*:The number of Automobile includes commercial vehicles.

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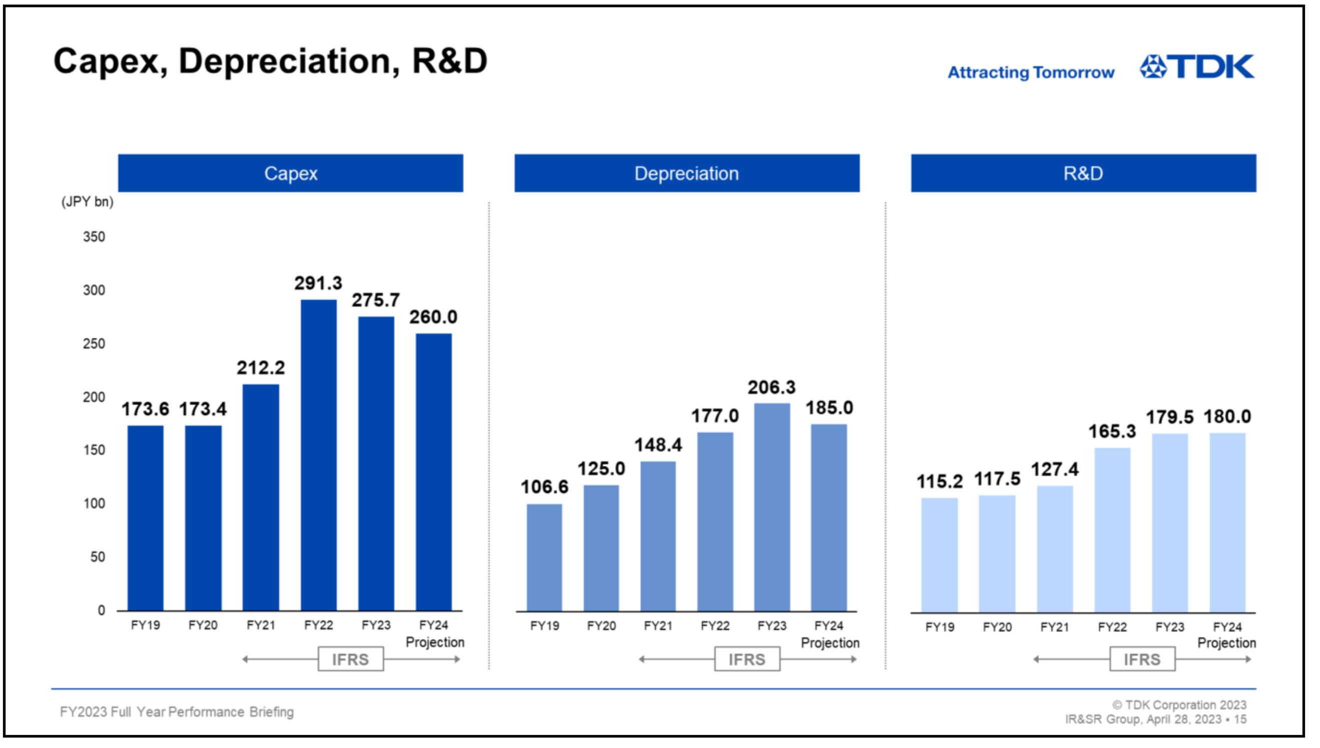
Next, I will explain our forecast production trend in key markets.

We have assumed that automobile production volume, including commercial vehicles, for the fiscal year ending March 2024 will be 88 million units, an increase of 5% year on year. Production of EVs and eco-friendly vehicles, which have a significant impact on TDK’s earnings, has been expanding. Therefore, we have assumed that xEV production volume will increase by 27% year on year to 21.9 million units.

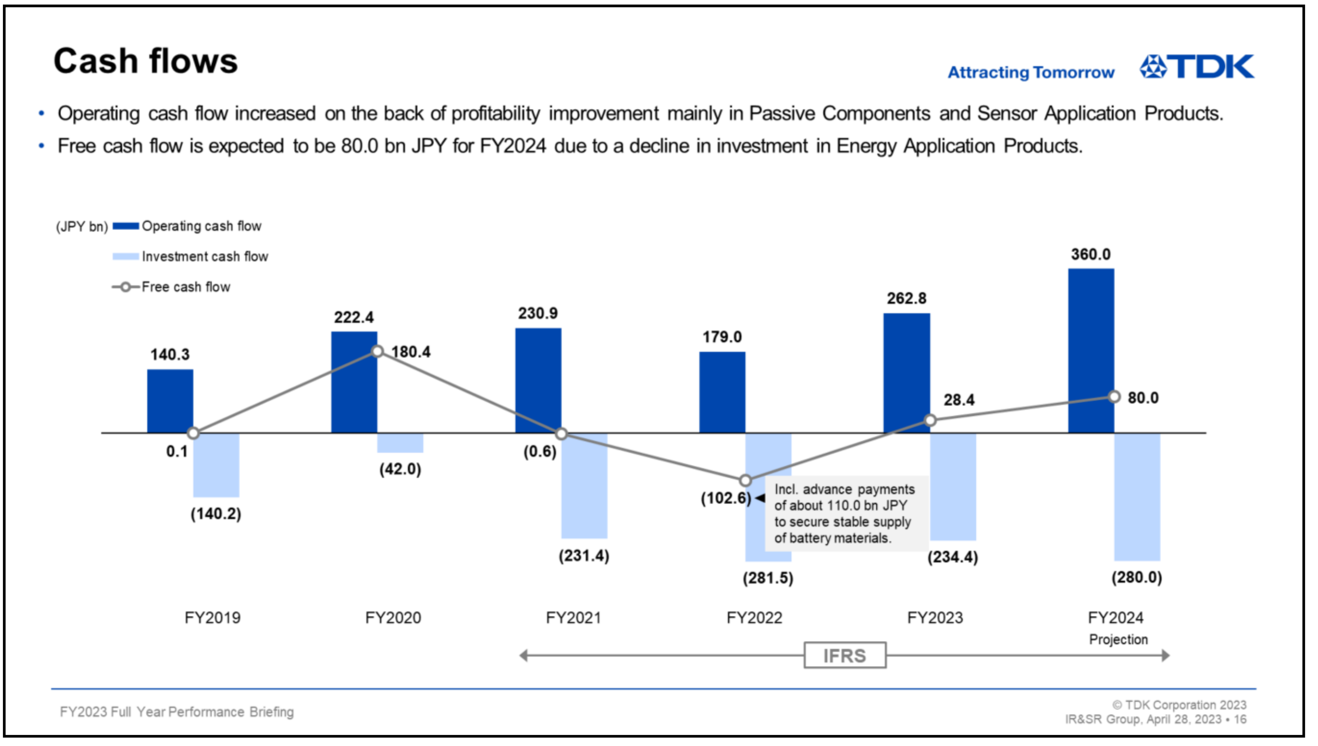
Meanwhile, the production volume of smartphones, which represent the ICT market, is assumed to decrease from the previous fiscal year to 1,118 million units. Of which, the production volume of 5G smartphones is expected to increase slightly year on year to 607 million units.

The production volume in the overall HDD market is expected to shrink by about 5% on a year-on-year basis. The production volume for nearline HDDs for data centers is assumed to increase slightly from the previous fiscal year to 60 million units, as the recovery in production volume will likely fall behind the initial forecast. While the production volume for notebook PCs is expected to increase slightly on a year-on-year basis, that for tablets will likely decrease from the previous year. We predict that the production volume for true wireless stereo (TWS) will increase slightly on a year-on-year basis.

As the macroeconomic environment remains extremely uncertain, we think that it is necessary to carefully monitor the trends for component demand.



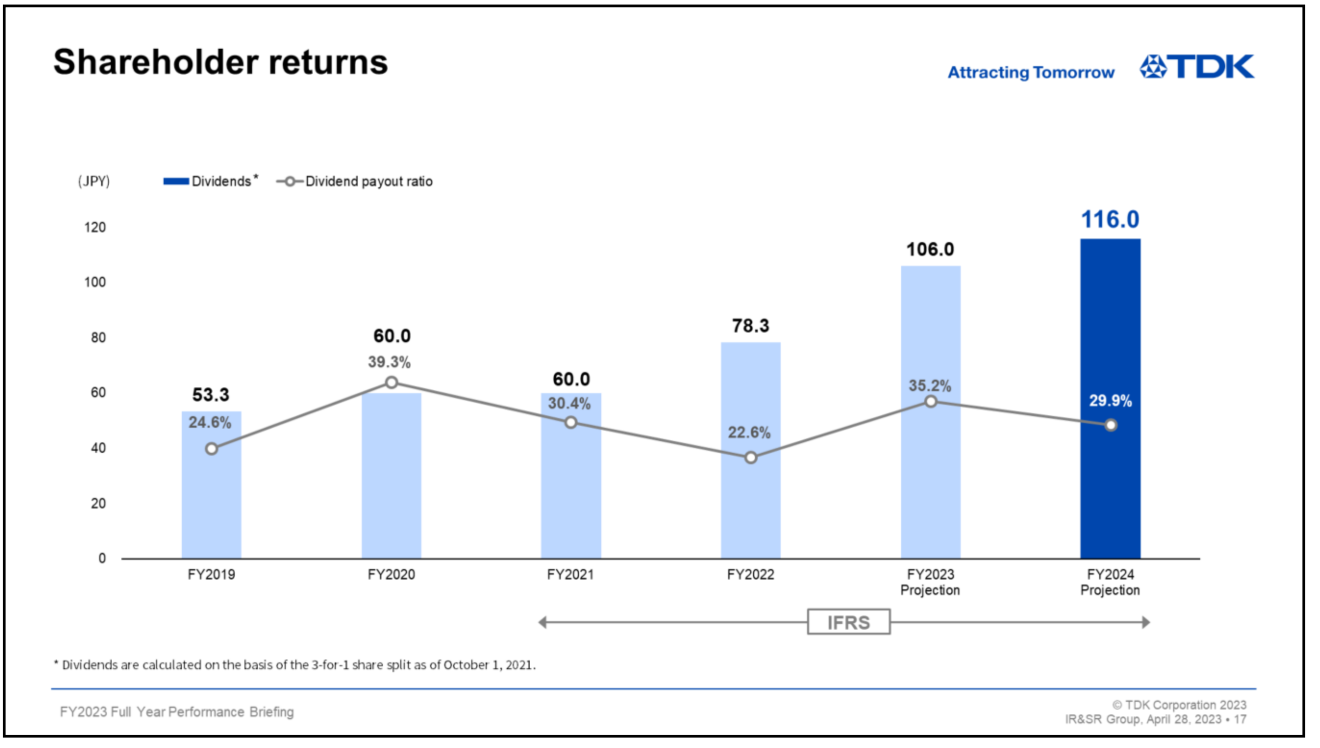
Now, let me explain the outlook for capex, depreciation and R&D expenses. We predict that capex will be 260.0 billion yen, depreciation will be 185.0 billion yen, and R&D expenses will be 180.0 billion yen.



Next, I would like to talk about the outlook for cash flows.

Operating cash flow has been increasing on the back of the enhancement of operating capital on top of profitability improvement mainly in Passive Components, such as multi-layer ceramic capacitors (MLCC), and Sensor Application Products, such as TMR sensors.

Free cash flow for the fiscal year ended March 2023 increased 28.4 billion yen, which is expected to grow to 80.0 billion yen for the fiscal year ending March 2024 due to a decline in investment in Energy Application Products.



Next, I would like to talk about shareholder returns.

The dividend payout ratio under our Medium-Term Plan has been set as 30%, taking into account factors including changes in the operating environment, investment in growth businesses and ROE. For the fiscal year ending March 2024, we plan to pay 116 yen as annual dividends, with the aim of achieving the dividend payout ratio of 30%.

Projections by segment

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- Sales are expected to increase year on year in three segments excluding Energy Application Products.

(JPY bn)	FY2023 Actual	FY2024 Projections (YoY)	Factors
Passive Components	578.7	+9 ~ +12%	• Sales of ceramic capacitors and film capacitors, which are for automobile applications, are expected to increase. • Sales of inductive devices to the automotive and the industrial equipment markets are expected to increase.
Sensor Application Products	169.5	+7 ~ +10%	• Sales of magnetic sensors and MEMS microphones for ICT applications are expected to increase. • Sales of magnetic sensors and temperature and pressure sensors, which are for automobile applications, are expected to increase.
Magnetic Application Products	200.6	+2 ~ +5%	• The HDD production volume is expected to decline by 5%. • Lag in recovery of the HDD market related to data centers.
Energy Application Products	1,173.4	(22) ~ (19)%	• Production of ICT-related devices is expected to remain sluggish. • Sales price decrease for rechargeable batteries is expected in line with a decline in raw material prices. • Sales of medium capacity rechargeable batteries are expected to decrease as a result of the transfer to a JV.
Other	58.7	-	
Total	**2,180.8**	**2,020.0**	

(Note) In accordance with the reorganization for 1Q of FY2024, certain products of Other are reclassified into capacitors of Passive Components. Thus, the FY2023 figures are also reclassified to conform to the new segmentation.

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Now, I would like to explain the image of changes in sales by segment for the fiscal year ending March 2024.

Sales of the Passive Components segment are expected to grow by 9-12% overall on a year-on-year basis. In addition to a rise in vehicle production volume and an increase in sales as a result of the spread of xEVs, sales to the industrial equipment market are also projected to increase.

Sales of the Sensor Application Products segment are expected to grow by 7-10% year on year. We expect an increase in sales of magnetic sensors, such as TMR sensors and hall sensors, whose demand has been brisk for ICT and automobile applications, as well a temperature and pressure sensors whose demand will likely grow on the back of demand related to xEVs.

Sales of the Magnetic Application Products segment are expected to grow by 2-5% year on year. Production volume for HDDs is expected to decrease by 5% year on year. We also predict that the recovery in production volume for nearline HDDs for data centers will remain below the initial forecast.

Sales of the Energy Application Products segment are expected to decrease by 22-19% year on year. Demand related to smartphones, notebook PCs and tablets will likely remain sluggish. Selling prices of rechargeable batteries are expected to fall to a certain extent in line with a decline in raw material prices. In addition, sales are assumed to decrease as a result of the transfer of the medium capacity rechargeable battery business, including energy storage system (ESS) and electric motorcycles, to the JVs.

Attracting Tomorrow TDK

Progress Report on Medium-Term Plan

- Value Creation 2023 -

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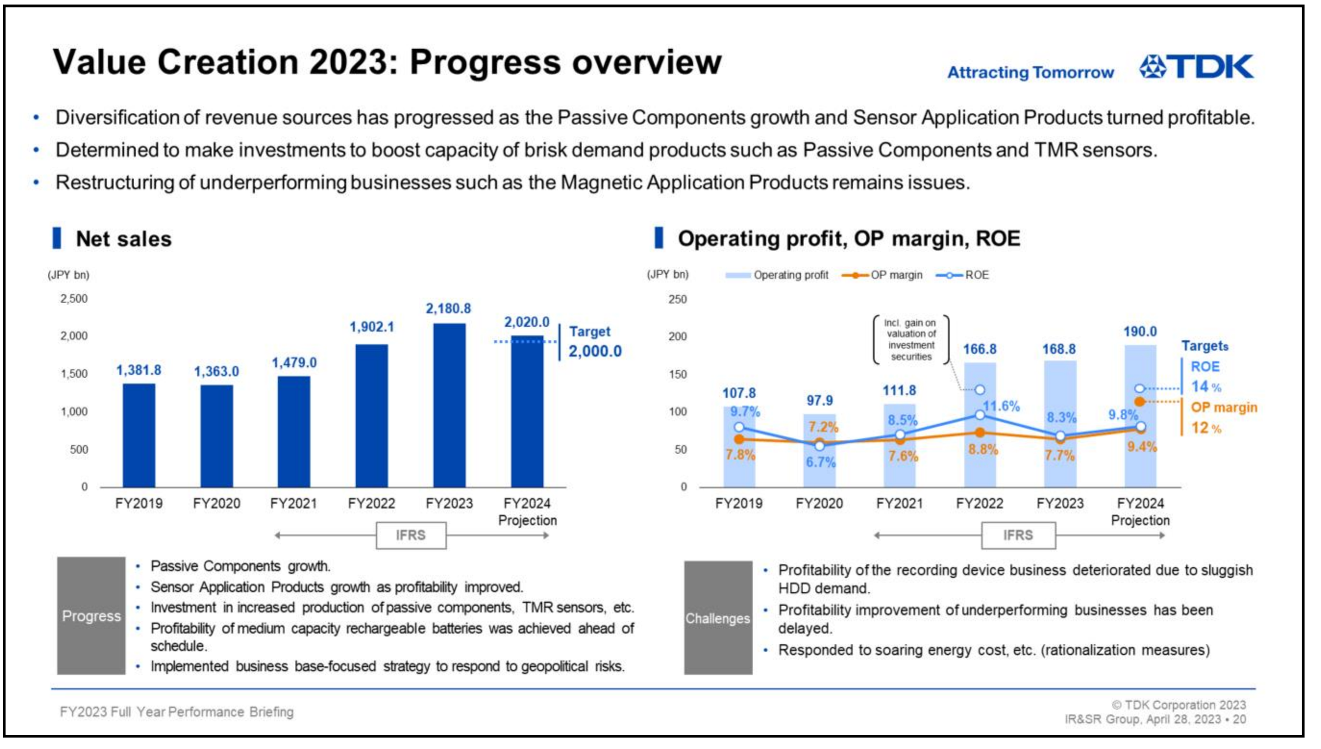
Next, I would like to talk about the progress of our Medium-Term Plan, "Value Creation 2023," which ends in the current fiscal year.



In formulating the current Medium-Term Plan, we positioned the development of businesses other than small capacity rechargeable batteries, which had driven TDK's growth for the past decade, and the diversification of revenue sources as significant themes, while implementing various initiatives amid rapid changes in our operating environment.

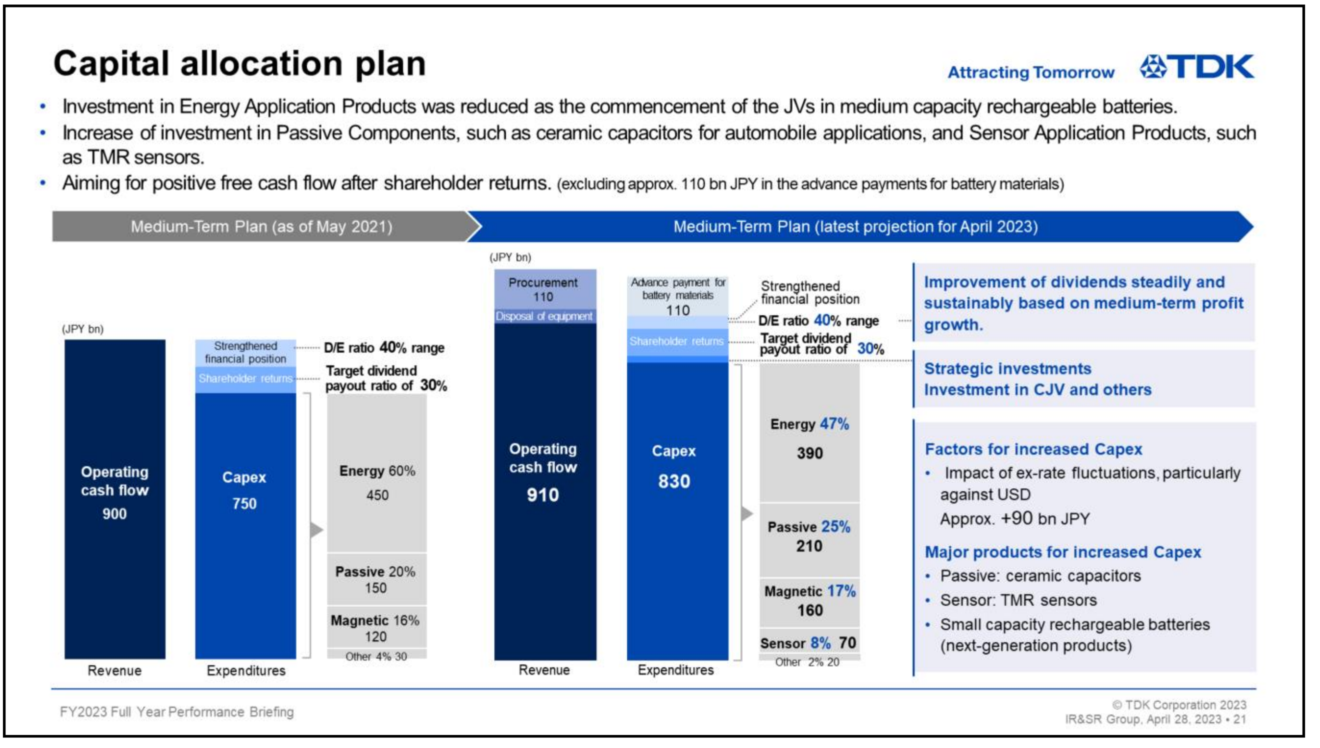
Specifically, we have been promoting growth strategies with a focus on Passive Components mainly for automobile and industrial equipment applications, Sensor Application Products mainly for the ICT market, such as those for smartphone applications, and medium capacity rechargeable batteries mainly for RESS and electric motorcycles.

By regarding the global trend toward realizing a decarbonized society as a growth opportunity, our passive components business, mainly for xEV applications, has grown significantly, becoming another revenue source following rechargeable batteries. In the medium capacity battery business, mainly for RESS, sales expanded steady, enabling us to achieve profitability ahead of schedule.

In terms of the Sensor Application Products segment, which had not been contributing to earnings in the past, TMR sensors and MEMS motion sensors have become growth drivers and realized sales growth with profitability improvement, enabling the segment to contribute to earnings.

In particular, we have determined to make investments to boost production of ceramic capacitors and TMR sensors in order to meet the brisk demand expected in the next couple of years. We are also considering investments looking further ahead. In order to respond to geopolitical risks, we have been making investments in India for rechargeable batteries and the Philippines for passive components.

On the other hand, we recognize the restructuring of underperforming businesses such as HDD heads, HDD suspension assemblies, and HDD suspension application products, whose profitability deteriorated considerably due to a sharp drop in HDD related demand, as a significant challenge. We would like to realize profitability improvement as early as possible through our restructuring and other efforts. In addition, in order to respond to soaring energy prices, we will implement rationalization efforts and enhance our earnings position.



Now, I would like to explain the changes from our initial capital allocation plan.

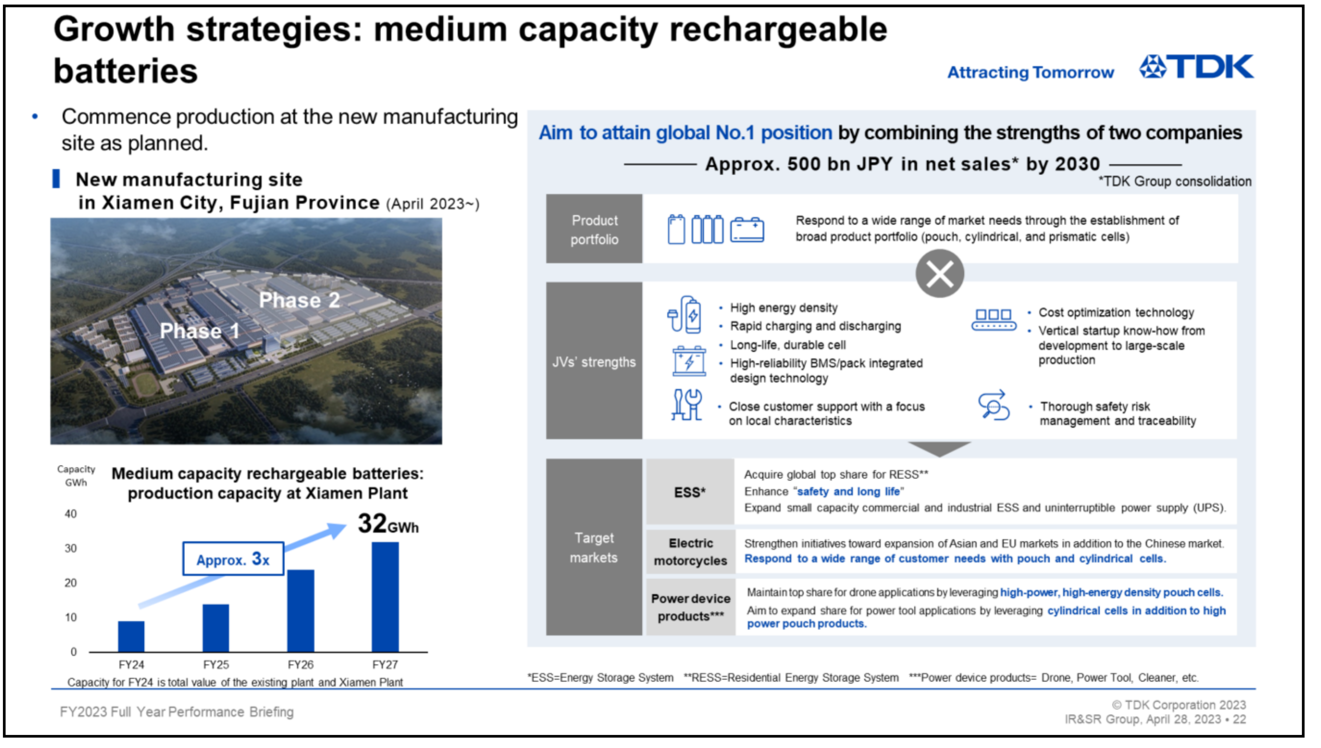
Under the current Medium-Term Plan, we initially planned for capex of 750.0 billion yen in total for three years. Currently, we are planning to increase capex to 830.0 billion yen in total for three years, including about 90.0 billion yen as a result of an increase due to foreign exchange fluctuations, in order to make upfront investment in businesses which are expected to grow in the future.

Specifically, the amount of investment in the Energy Application Products segment, for which 450.0 billion yen had been allocated initially, will be reduced significantly to 390.0 billion yen, taking into account a decrease in investment burden due to the commencement of the JVs in medium capacity rechargeable batteries and the current operating environment surrounding small capacity rechargeable batteries.

On the other hand, we are planning to significantly increase the amount of investment in MLCCs, film capacitors, and inductive devices, for which demand is expected to grow substantially for xEVs and renewable energy applications, from 150.0 billion yen initially to 210.0 billion yen.

In addition, we are planning to make a 70.0 billion yen investment in TMR sensors, for which demand is expected to increase for smartphone, automobile, and industrial equipment applications, by significantly increasing the investment amount from the initial plan.

Given the improvement in operating capital and an increase in cash inflow as a result of the disposal of equipment to the JVs in medium capacity rechargeable batteries, we are aiming for positive free cash flow after shareholder returns excluding about 110.0 billion yen in the advance payments for ensuring long-term stable procurement of battery materials.



Now, I would like to talk about the progress of the growth strategies for TDK's mainstay businesses.

In medium capacity rechargeable batteries, we commenced operations at the manufacturing site of our JV in Xiamen City, Fujian Province in China. We are planning to expand production capacity from almost 10GWh currently to 32GWh by the fiscal year ending March 2027.

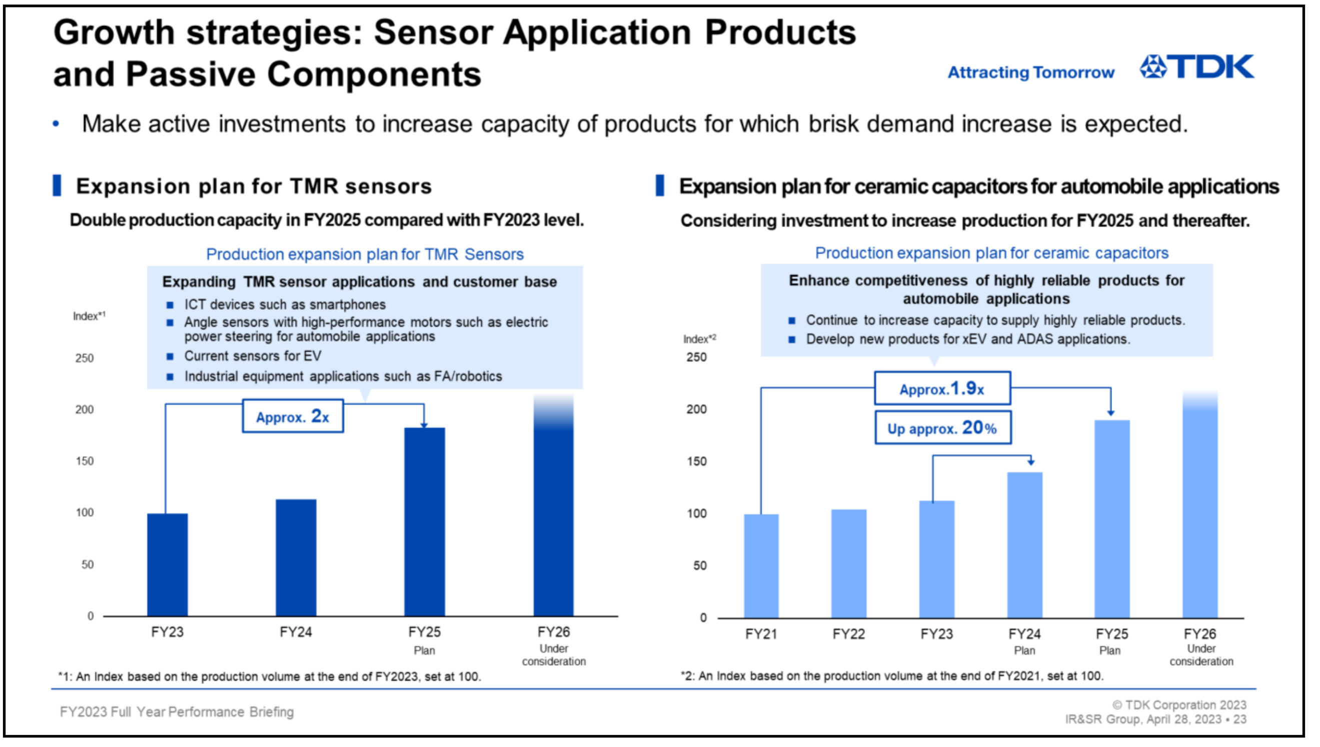
As for the product portfolio, we will offer a wide range of products including pouch cells, in which TDK has strengths, and cylindrical and prismatic cells, in which CATL has strengths, with the aim of expanding our share in the target markets by maximizing the strengths of two companies.

In the ESS market, we have already acquired the top global share in RESS market with our long-life, durable cells and pack integrated design technology. However, by further enhancing safety and long life, we will also expand our share in small capacity commercial and industrial ESS and uninterruptible power supplies (UPS).

In the electric motorcycle market, in order to capitalize on the expansion of demand in the Asian and European markets, which are expected to grow in the future, we will respond to a wide range of customer needs with pouch and cylindrical cells by leveraging our close after-sales services in accordance with regional characteristics and thorough safety risk management capabilities.

In the power device market, we will maintain our top share for drone applications by leveraging high-power, high-energy density pouch cells and aim to expand our share for power tool applications by leveraging cylindrical cells in addition to pouch products.

By combining the two companies' strengths in manufacturing, technologies, products and services, we aim to attain the global No.1 position and deliver about 500.0 billion yen in sales on a consolidated basis by 2030.

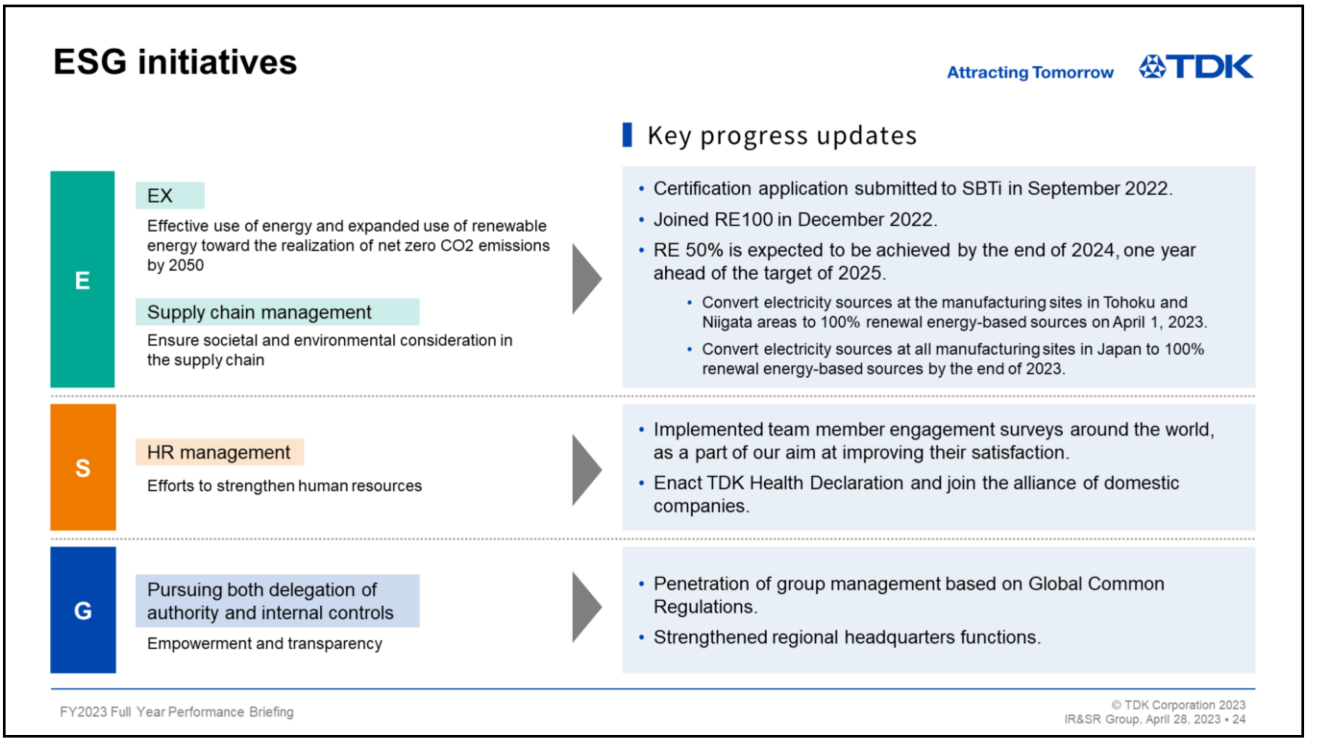


Now, let me talk about our investments to increase the production capacity of products such as Sensor Application Products and Passive Components.

First, in TMR sensors, we have determined to invest in Asama Techno Plant located in Saku City, Nagano Prefecture in order to double production capacity in the fiscal year ending March 2025 compared with the level of the fiscal year ended March 2023. Demand is expected to increase in the future for ICT devices such as smartphones, angle sensors with high-performance motors such as electric power steering for automobile applications, current sensors for EVs and industrial equipment applications such as FA/robots. Therefore, we are also considering to make investments to increase production capacity for the fiscal year ending March 2025 and thereafter.

As for the investment to increase MLCC production capacity announced in May 2022, we are planning to commence mass production around April 2024, about five months ahead of the initial plan. As demand continues to steadily grow mainly for high-performance and highly reliable products for automobile applications such as xEVs and ADAS, we are also considering to make investments to increase production capacity for the fiscal year ending March 2025 and thereafter.

Along with these investments for capacity expansion, we will further strengthen our capabilities to develop sensors and passive components.



Lastly, I would like to talk about our ESG initiatives.

First, in terms of “E (Environment),” a certification application was submitted to SBTi in September 2022 and TDK joined RE100 in December 2022. Renewable Energy (RE) 50% is expected to be achieved by the end of 2024, one year ahead of the target of 2025. As a specific initiative for this, we converted electricity sources at our manufacturing sites in the Tohoku and Niigata areas to 100% renewal energy-based sources on April 1, 2023. We are planning to convert electricity sources at all of our manufacturing sites in Japan to 100% renewal energy-based sources by the end of 2023. We will continue to make efforts for effective use of energy and expanded use of renewable energy toward the realization of net zero CO2 emissions by 2050.

Second, in terms of “S (Social),” with the notion that “people” are the most important assets of the company, we have been making active efforts to strengthen human resources. During the current fiscal year, we implemented team member engagement surveys around the world, as a part of our aim of improving team member(employee) satisfaction. Based on the survey results, we will implement various measures aimed at strengthening human resources in the future. In addition, at TDK, all of our employees are making daily efforts to improve quality in every aspect including products, safety and workstyles. In particular, we recognize the mental and physical health of every team member as one of the most important management issues. For this purpose, we have enacted the TDK Health Declaration. We would like to contribute to realizing a sustainable society by joining the Health & Productivity Management Alliance, an alliance of domestic companies to design a model for health and productivity management and co-create solutions to make it work and by enhancing the quality of life as well as work.

Lastly, in terms of “G (Governance),” under the governance policy of empowerment and transparency (delegation of authority and enhancement of transparency), we have been making active efforts to promote delegation of authority to our core subsidiaries and other operating subsidiaries.

By setting basic rules to adhere to on a global basis as the Global Common Regulations, the head office and regional headquarters in Japan, Europe, the U.S. and China have established complementary relationships with each other. As for headquarters functions, we have established a system in which cross-functional functions such as technology development, marketing, legal affairs and finance support the management of business units and regional subsidiaries. The regional headquarters, which have traditionally been primarily responsible for business management functions, have also begun to take on the role of planning growth strategies unique to the region, creating a structure that enables effective, efficient and dynamic decision-making at the forefront.

In the short term, the global macroeconomic environment is expected to remain highly volatile, but we will steadily implement each of these growth strategy measures and continue and strengthen our non-financial initiatives, including those related to ESG, to increase our corporate value over the medium to long term.

That concludes my presentation. Thank you very much for your attention.

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Attracting Tomorrow TDK

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