





Integrated Report 2024

≡ Contents

### **About TDK**

- 02 About Integrated Report 2024
- 03 TDK at a Glance
- 04 Founding Story
- 05 Changes in TDK's Business

# Message from the President & CEO



06 As we head into a new growth stage, we will transform ourselves, enhancing our own capabilities in order to contribute to Social Transformation exemplified by GX and DX

### Chapter 1

# TDK's Long-term Vision



13 Long-term Vision 17 Key Issues (Materiality)

Chapter 2

# TDK's Growth Strategies



- 22 Review of the Previous Medium-term Plan
- 23 New Medium-term Plan
- 30 Message from the CFO
- 34 TDK's Current Businesses
- 35 Strategy by Segment (Passive Components, Sensor Application Products, Magnetic Application Products and **Energy Application Products**)
- 43 Pre-financial Capital That Backs TDK's Value Creation
- 44 Message from the CTO
- 47 IP Strategy
- 48 Development of New Business and New Products
- 49 Design and Production (Monozukuri)
- 50 Quality Assurance
- 51 Marketing
- 52 Message from the CPSO and General Manager, Human Resources HQ
- 56 People Strategy
- 58 Sustainability (Response to Climate Change, Response to TCFD. Other Environmental Initiatives, Respect for Human Rights)
- 67 DX Promotion
- 68 Advance Group Governance
- 69 Risk Management

#### Chapter 3

# TDK's Governance



- 71 Changes in TDK's Governance/ TDK's Board Culture
- 72 A Talk by Outside Directors
- 76 Corporate Governance Structure
- 77 Strengthening of the Board of Directors' Monitoring Function
- 78 Operational Policy and Yearly Agenda for Board of Directors Meetings
- 79 Activities of Advisory Committees and Other Similar Meetings
- 80 Succession Plan
- Skills Matrix
- Remuneration for Executives
- Effectiveness Evaluation of the Board of Directors
- 86 Directors, Audit & Supervisory Board Members, and Corporate Officers

# **Data Section**

- 87 Key Financial Data for the Past 10 Years
- 88 Consolidated Business Results Highlights
- IR Activities
- 90 Corporate Information

# About the cover design



The motif of the cover design are the words "TDK United." TDK United is intended to represent the organizational culture toward which TDK aspires, namely: A fusion of abundant individual characteristics. which promotes mutual understanding while developing the strengths and capacities of individual team members and companies and creates value through teamwork.

# **About Integrated Report 2024**

#### **Editorial Policy**

Starting with the 2021 edition, TDK changed the title of its Annual Report to Integrated Report as a dialogue tool to convey a more accurate understanding of our comprehensive growth story including financial and pre-financial aspects on the part of stakeholders and enhance stakeholder engagement.



Starting with the 2024 edition, the structure of each page has been organized by making reference to the Guidance for Collaborative Value Creation formulated by the Ministry of Economy, Trade and Industry of Japan.

#### **Key Points of Integrated Report 2024**

The report conveys our stance on how highly diverse TDK United team members (employees) are accelerating the transformation of TDK itself and enhance corporate value so that we can continue to contributing to the transformation of society through our business.

- Long-term Vision TDK Transformation
- Key issues (materiality) and KPIs which should be addressed toward the realization of Long-term Vision
- Medium-term Plan and implementation strategies back-cast from the Long-term Vision
- Strengthen management focusing on cash flows
- Enhance business portfolio management(Emphasizing ROIC)
- Evolve the Ferrite Tree (Pre-financial capital)
- Capital allocation : medium-term policy and strategies

As a follow-up to the 2023 edition, we maintained the format whereby division heads discuss in their own words the initiatives that will lead to enhance corporate value.

#### Reporting Scope

Coverage period: FY March 2024 (April 1, 2023-March 31, 2024)

(Information on some activities in and after April 2024 is also included.)

Organizations covered: TDK Corporation and the TDK Group

Accounting standard: Unless otherwise noted, US-GAAP until FY March 2020 and IFRS from FY March 2021.

#### Cautionary statements with respect to forward-looking statements

TDK's plans, strategies, and future business prospects set forth in this Integrated Report are judged to be reasonable by TDK at the present point in time based on information available at present. They are subject to risks and uncertainties. Please be aware of the possibility that depending on various factors, actual business results may differ from the contents of this Integrated Report.

#### **Positioning of the Integrated Report**



Since FY March 2025, the Integrated Report has also been positioned as the highest-level disclosure document within our information disclosure structure. We reviewed production systems, and following deliberation by the Disclosure Committee, our internal organization, we made the integrated report subject to reporting at Executive Committee meetings and Board of Directors meetings.

Highly comprehensive information that could not be included in this Integrated Report is reported in various disclosure documents and posted on the TDK website as indicated in the positioning diagram above.

### A global electronics technology company and a world leader in electronic solutions for the smart society

TDK has over 250 locations across more than 30 countries and regions. We lead the world in magnetic technology and operate in the four business segments of Passive Components, Sensor Application Products, Magnetic Application Products, and Energy Application Products, as well as Other business. We focus on three markets: automotive, ICT, and industrial equipment.



**Established** 



Percentage of overseas employees



**Number of employees** 

Approx. 100,000



Female manager ratio \*TDK Group



**Net sales** 



Overseas sales ratio



Operating profit



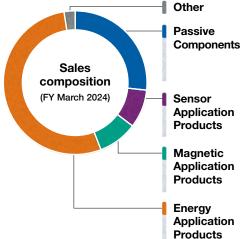


Operating profit margin



Research and development expenses (% to net sales)

## **Business Overview**



2.5% / ¥51.8 billion

26.9% / ¥565.6 billion

≡ Contents

- · Capacitors (Ceramic, Aluminum electrolytic and film capacitors)
- Inductive devices
   Other passive components

8.6% / ¥180.5 billion

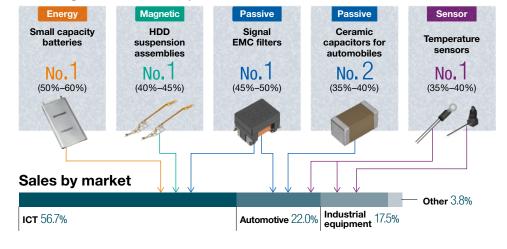
Temperature and pressure sensors / Magnetic sensors / MEMS sensors

8.7% / ¥184.2 billion

- HDD magnetic heads
- HDD suspension assemblies
   Magnets

- Energy devices (rechargeable batteries)
- Power supplies

# Main high market share products



About TDK

# **Founding Story**

The origins of TDK's founding story go back to 1930, when founder Kenzo Saito encountered ferrite, the world's first oxide magnetic material, invented by Dr. Yogoro Kato and Dr. Takeshi Takei of the Tokyo Institute of Technology. Saito was born in an isolated village where people survived mainly by farming rice and fishing during the winters, and he had an ambition to create a new industry in his impoverished hometown and enrich people's lives. However, he faced a series of challenges and failures, and later when looking back on his life, he said he had "two successes and 98 failures."

An Angora fur business was one of Saito's many early endeavors. However, this business did not go smoothly and he was unable to find any customers.

Saito asked Shingo Tsuda, president of Kanegafuchi Boseki, Japan's largest company at the time, whom he had met through the Angora rabbit wool business, one of his 98 failures, to provide the startup capital. Tsuda was unable to

use company capital for a purpose outside Kanegafuchi Boseki's business, so he provided his personal funds to Saito.

In the midst of these repeated failures, Saito had a fortuitous encounter with Dr. Kato and Dr. Takei through a connection. Dr. Kato showed him ferrite, a previously unknown magnetic material. Dr Kato's statement that "innovative work is the source of true industry," inspired Kenzo Saito to found TDK Corporation (originally known as Tokyo Denki Kagaku Kogyo K.K.) on December 7, 1935, with the purpose of marketing this original material invented in Japan.

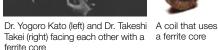
At the time, as it was yet unclear whether "ferrite" would have a future or not, this act demanded "courage" and the will to pursue a "vision." As a result of joint research by the Tokyo Institute of Technology and TDK, a product called ferrite core was produced and applied for the first time worldwide in 1937 in a number of Japanese wireless communication units and radios. By the end of the World

War II, as many as 5 million units had been shipped by TDK, thereby creating a foundation of trust in the company. The two major wins that Saito staked his career on were the founding of TDK and the creation of the Science and Technology Agency. Saito's spirit of creativity from the time of TDK's founding, expressed as "creating values that do not yet exist in the world from the level of materials," was adopted as the Corporate Motto in 1967.

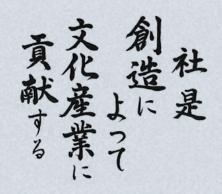


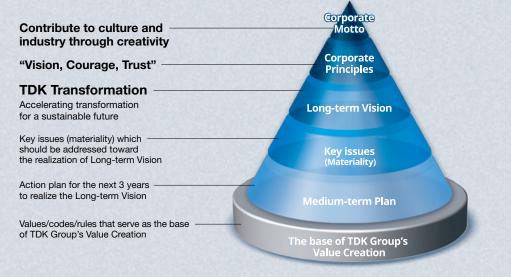
Founder Kenzo Saito





# **TDK Value Structure** "Contribute to culture and industry through creativity" is TDK's Corporate Motto, and "Vision, Courage, Trust" are the Corporate Principles. Based on this unchanging spirit, we revised the existing TDK Value Structure in FY March 2025 and formulated a new Long-term Vision, key issues (materiality), and Medium-term Plan.





≡ Contents

Increased

TDK has grown by evolving its electronic materials technologies, which began with ferrite, while also changing its business portfolio. To supply products that meet the needs of society, we have been promoting technological innovations which we achieve through the application of our core technologies, including materials rooted in ferrite as well as process technology, while also actively transitioning our main business portfolio while maintaining our view of the changing times.

#### performance of AI Accelerated electrification of automobiles What we have changed What we will not change Diffusion of cloud computing Product and business portfolio Our unique corporate culture Global expansion and TDK's founding spirit Diffusion of smartphones and continued upgrading of functions global market share · Open corporate culture Venture spirit **Expansion of the Ferrite Tree** Human resources-oriented Diversity in management (Net sales) management Governance structure Materials × process technology **Quality First** Diffusion of personal computers and continued expansion of memory capacity Diffusion of cassette tapes Others **Batteries** RF components Diffusion of electric products HDD heads Sensors & actuators **Ferrites** Power Inductors modules Capacitors Magnets Magnetic tapes 1935 2 1970 1980 1990 2000 2003 2010 2020 2023



## The past two years have reinforced a sense of unlimited potential

It has been exactly two years since I became president. Looking back at those two years has really reinforced my sense that TDK is a company with unlimited potential. One major reason I feel this way lies in our embracement of diversity, in all its many forms.

Today, the TDK Group has over 250 locations operating in more than 30 countries and regions worldwide. We have in excess of 100,000 employees, about 90% of whom are non-Japanese. This global company has many team members (employees) working all over the world who have outstanding abilities and unique personalities, and new value is generated every day as each of these individuals fully demonstrates their capabilities.

I personally spent more than 20 years of my 30 years with TDK working overseas, and have experienced for myself the power of diversity in multiple countries. Particularly significant were the approximately five years I spent, just



before becoming president, in charge of the sensor application products business (as business company CEO).

The sensor business is composed of seven Group companies, and is a global business with operations in 13 countries and regions - something of a "mini TDK." Intending to rebuild the business, which was struggling at the time, I moved its business division to the United States and relocated there myself, spending about four years engaged in a series of trial-and-error efforts with different local team members. Eventually, we succeeded in bringing the business into the black, a result I think we accomplished thanks to our bringing together the collective abilities of our diverse members. That experience has given me a great deal of confidence as I undertake my duties today as leader of the Group.

The strength of diversity lies not simply in having a lot of individuals with different personalities and abilities. It requires a connection, harmony, a fusion. In that sense, I believe TDK's true strength as an enterprise is an organizational culture that allows our diverse human resources to maximize their individuality, motivation, and abilities. Having people from different backgrounds and cultures understand one another through close communication, freely exchanging their individual ideas and sharing technology and information—that is what enables us to discover new technologies, business ideas, and even solutions to intractable issues.

Since becoming president, I have visited a wide range of our business sites, both in and outside of Japan, and have engaged in dialogue with team members at each of those locations. This has also allowed me to reaffirm that, no matter where I go, a strong culture is being nurtured that allows those team members to exert their individuality. Those visits have also convinced me that if we can manifest the power latent in TDK, we can continue to generate new value for society.

### A product portfolio essential to transformation in the era of GX and DX

≡ Contents

Another reason I sense such enormous potential in TDK is the long-term growth prospects for the business. Looking back over the past two years, while we have seen an economic recovery associated with a normalization following the COVID-19 pandemic, we also saw conditions surrounding our business change dramatically, from increased geopolitical risks raised by Russia's invasion of Ukraine, soaring energy prices driven by that invasion, and a sudden, progressive drop in the value of the yen. Many of these factors also represented headwinds for the company.

That said, seen from a more expansive, long-term view, we believe the world has continued to transform in line with two major trends. One is the green transformation (GX), a fundamental reevaluation of the role of energy as part of efforts to realize a decarbonized society. The other is the digital transformation (DX), in which information and communication technologies and Al will greatly alter the nature of our society, industries, and daily lives.

TDK has a firm grip on core fields in GX, such as our rechargeable battery business. We have established the largest share of the global small capacity battery market, and through our joint ventures with CATL, aim to expand our share of the medium capacity battery market as well.

Meanwhile, taking the sensor business I mentioned earlier as an example, sensors are among the most important devices in the advancement of DX. This is because to analyze and explicate various physical phenomena in the real world using computers, it is necessary to first convert those phenomena into digital data through the use of sensors. Focusing on this field, with its presumed long-term growth potential, we began several years ago to make aggressive investments, including M&A, that today have resulted in our sensor business growing to become one of TDK's pillar businesses.

Going forward, we can look forward to an even greater expansion of the areas in which sensors play a role. Edge computing, in which data is processed at the applications closer to data sources, is expanding across a variety of fields in order to reduce the processing burden on data centers, and TDK is moving to launch a new business in response to this trend.

These two trends will, without a doubt, accelerate even further going forward. In response, TDK can continue to contribute by providing a diverse range of technologies, products, and solutions built on its accumulated technology. While there is no end to the TDK products we might list as assisting in the advancement of GX and DX, in addition to existing products, we continue to research and develop new products and technologies in response to the new needs of society, and I believe that going forward, TDK can continue to maintain and expand its competitive advantage in each of these markets.

## Summary of Value Creation 2023, the previous Medium-term Plan

In FY March 2022, the TDK Group began advancing Value Creation 2023, the previous Medium-term Plan, which reached its final fiscal year in FY March 2024.

When I first assumed the post of president in April 2022, the company was highly reliant on profit from small capacity batteries. For TDK to achieve a new growth stage (a "second chapter" of growth), I believed we needed to try to diversify our revenue sources, and we have thus focused on growth in three priority businesses: Strengthening our business in medium capacity batteries; growth of the sensor business; and regrowth of the passive components business. In my assessment, we have made a certain amount of progress in all three of these areas over the three years of the previous Medium-term Plan.

In the medium capacity battery business, the joint

ventures we launched two years ago with CATL has now begun full-scale operations, and has begun solidifying the foundations for dramatic growth in the near future. Similarly, the passive components business has seen growth in multilayer ceramic chip capacitors (MLCCs) and inductors as new revenue sources. In the sensor business, TMR and MEMS sensors are beginning to take shape as contributors to overall profit.

With efforts to diversify revenue source progressing, we were also able to more flexibly allocate capital in response to changing conditions in each business. In terms of cash flow, we were able to achieve one of our financial targets positive free cash flow (FCF) after shareholder returns for the cumulative three-year period—despite a ¥110.0 billion advance payment to ensure the long-term stable supply of cobalt and other battery materials in the first fiscal year of the previous Medium-term Plan. This was in part due to an improvement in working capital and increased cash inflow from the sale of equipment to our joint ventures in mediumcapacity batteries. With regards to capital investment, we ended up slightly above our cumulative three-year plan of ¥750.0 billion, at ¥785.6 billion, but in my estimation, this

#### Targets and results in KPIs of the previous Medium-term Plan

	Targets for FY3/24	Results for FY3/24
Net sales	¥2,000.0 billion	¥2,103.9 billion
Operating profit margin	12.0%	8.2%
ROE	14.0%	7.9%
FCF after shareholder returns	Positive	¥52.9 billion
Capex (cumulative 3 year)	¥750.0 billion	¥785.6 billion

allowed us to make solid advance investments in businesses where growth can be expected.

≡ Contents

While we have thus been able to advance restructuring in our business structure and continue to invest for the future, a number of issues (challenges) remain to be overcome if TDK is to become a more resilient enterprise. I think the most significant issues is improving profitability. Unfortunately, we failed to reach either of the two targets set out in the previous Medium-term Plan—operating profit of 12% and ROE of 14%. This was in part due to the rapid stagnation of the HDD market resulting in a decline in profitability for related businesses, but another major factor was that, over the three years of the plan, we did not make as much progress as expected in transforming magnets and other turnaround businesses. This is something we have reflected on in our new Medium-term Plan started in FY March 2025, under which our policy will be to focus on executing proactive business portfolio management.

### **Defining a Long-term Vision for what** we want to be 10 years from now

Before describing the new Medium-term Plan, I would like to talk about the background and intent behind our Long-term Vision, which was announced at the same time. In a word, our objective in formulating this Long-term Vision was to present to those both in and outside the company a concrete image of our vision for TDK over the next 10 years.

Over the past two years, the social and economic environment in which TDK does business has undergone dizzying changes that might best be described as an upheaval. These changes in conditions, taking place over short-term cycles, are likely to arise in the future as well, across a variety of fields. For TDK as a global company to target sustained growth in the midst of those changes, it is of course crucial that we work to develop and implement detailed, three-year Medium-term Plan. I have come to

strongly believe that doing so is premised on taking a longterm view to determine what sort of future we should aim to achieve for ourselves, which in turn will require thinking about a roadmap for getting there for the company as a whole.

This is an issue that we have frequently discussed at our monthly Board of Directors meetings. Naturally, verifying and closely examining quarterly progress with our Medium-term Plan is an important management responsibility. Encouraged by our outside directors, however, who insisted the board should also spend time discussing how the entire Group will move ahead going forward, and set goals from a longer-term perspective, myself and the rest of management worked together through numerous discussions to clarify a vision for TDK. That became the Long-term Vision presented here.

Transformation, the word that forms the core of that vision, incorporates two meanings. One represents our desire to continue contributing to society as society itself continues to transform into the future. The other represents our commitment to continuing to transform ourselves to maintain those contributions. In the sense that we will continue to

transform ourselves in order to contribute to society over the long term, this Long-term Vision might be seen as a resetting of our founder's aspiration to "contribute to culture and industry through creativity," as presented in our Corporate Motto, as a goal for the future.

#### Overview of the new Medium-term Plan

The new Medium-term Plan, launched this spring, was formulated based on the question of what we need to accomplish now, backcasting from "TDK Transformation," the Long-term Vision. The period of the new Medium-term Plan, as part of a ten-year span going forward, is positioned as a time to strengthen our business foundations as we move toward our envisioned future. I believe the new Medium-term Plan can be divided broadly into three key points.

The first is strengthening management focusing on cash flows. This is based on increasing operating cash flow captured from business activities, or "earning capability." To date, the Group has responded to changes in business

environment by making use of M&A opportunities while also flexibly rearranging its business portfolio to increase the earning capability of the Group as a whole. Our operating cash flow, which maintained a level of ¥100.0 billion on a moving average basis over the past three years, has improved to a current level of about ¥200.0 billion. Our goal under the new Medium-term Plan is to raise this level further, to ¥340.0 billion.

The second key point is to enhance business portfolio management (emphasizing ROIC). For about the past 20 years, TDK has engaged in financial management with an emphasis on cost of capital, using a proprietary index we call TDK Value Added (TVA). In FY March 2022, we introduced the matrix for inclined allocation of capex, and have worked to optimize investment allocations by stratifying our approximately 80 cash-flow business units (CBUs) along two axes: BizROA (ROIC) and business potential. Further, starting with the term of the new Medium-term Plan, we will apply this two-axis map of investment allocation to our business portfolio management as well. For businesses falling below

#### Long-term Vision TDK Transformation

#### **TDK Transformation** Contribute to Accelerating transformation for a sustainable future Social Transformation Contribute to the transition towards a sustainable future by accelerating the transformation of society and advancements in technology enabled by electronic devices developed through leveraging cutting-edge innovation in materials, processes, Accelerate and software technology. TDK's • Become the No.1 partner growing alongside our Transformation worldwide customers by pursuing continuous "transformation".

the minimum hurdle rate of 10%, we will move to guickly conduct appropriate monitoring, and swiftly execute measures aimed at a turnaround. At the same time, we plan to strengthen investment allocation in growth areas.

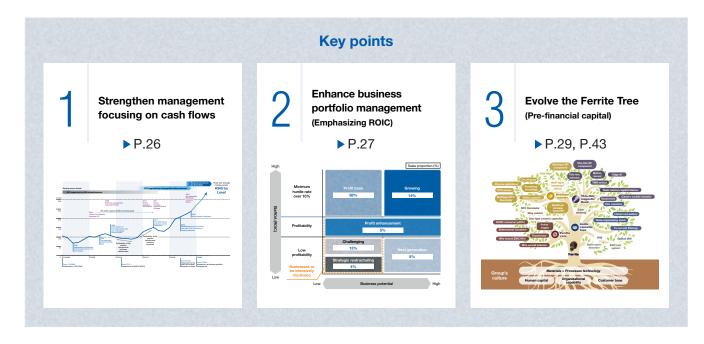
These measures are based on our reflecting on the fact that improvements to turnaround businesses did not progress as expected during the period of the previous Medium-term Plan, and I refer to them collectively as proactive business portfolio management. By engaging in proactive business portfolio management, including the

transfer of individual business units to the best owner, we aim to achieve a company-wide ROIC of 8% or more and operating profit of 11% or more in FY March 2027, the final fiscal year of the new Medium-term Plan.

### **Greater focus on strengthening** pre-financial capital

The third theme of the new Medium-term Plan is strengthening "pre-financial capital." Pre-financial capital is

New Medium-term Plan: Key points



TDK's unique name for what is called non-financial capital. We view all initiatives related to technological capability, human capital, our customer base, organizational capability and so on as leading to the creation of financial value in the future, and thus I decided to refer to these as "pre-financial" rather than "non-financial."

TDK's founding began with ferrite, and thus we call the expanded range of products and technologies that have grown from that single element the Ferrite Tree (see page 29). In that sense, the pre-financial activities as noted earlier can be said as equivalent to the roots of this tree. With these roots planted firmly in the ground, the tree can spread its branches and grow to even greater heights. To achieve the Long-term Vision we have established, we intend to further strengthen sharing within the company of an awareness of the importance of pre-financial capital, which forms the roots of our business activity, connecting that in turn to a new value creation process.

Of the various types of pre-financial capital, I place the greatest emphasis on people, because people are the root of value creation that supports sustained corporate growth. As I noted at the beginning, TDK's strength lies not only in the diversity of its human resources, but in an organizational culture that allows us to maximize the hidden power of that diversity. Of our current workforce of approximately 100,000 team members, about 80% have joined us through M&A, and even in the case of an acquired company, we respect the culture they have developed. Our approach of proactively learning whatever we can from the other party now permeates our entire Group.

Underlying this approach is a culture of "functional equality" that has been handed down at TDK over the years. Based on the belief that there are no hierarchies among the functions and roles of the individual divisions, everyone, regardless of position, can respect one another on an equal footing, and can say what needs to be said. TDK has long valued this kind of organizational culture. We believe that the fusion that grows out of the meeting of different cultures and

personalities is, in fact, what drives the creation of innovative technologies and products.

We have worked rigorously to create systems for taking full advantage of diversity in terms of Group governance as well. As of June 2024, half of our corporate officers consist of non-Japanese nationals. In addition, viewing Empowerment and Transparency as a basic policy, we have established Global Common Regulations as rules that every team member of the Group must follow and apply them to effective governance. At the same time, we have actively promoted empowerment to regional headquarters and core subsidiaries to ensure individuals can maximize their own personalities and abilities. By giving regional headquarters not only management functions but also marketing and R&D capabilities, we are working to evolve into an autonomous, decentralized organization capable of developing more dynamic strategies.

Among our initiatives aimed at further strengthening corporate governance, beginning in June 2024 our directors will be structured with a majority of outside directors. To ensure management has an even stronger understanding of the importance of pre-financial capital, we have added pre-financial indices, including CO<sub>2</sub> emissions reductions and Team Member Engagement Survey scores to the indices linked to corporate officer remuneration.

One other factor I emphasize in pre-financial capital is "quality." This is one reason why, since becoming president, I have continued to call on the entire group to put "Quality First."

Quality in this case refers not only to product quality, but quality in a much broader sense, encompassing, for example, streamlining production or improving yield rates, strengthening marketing, or improving working environments and enhancing employee motivation. Since this "quality" is something that can be improved and enhanced through our own individual efforts, regardless of changes in external conditions, we can refer to it as our own capabilities. I treat these own capabilities as one more area of potential for growth.

For example, in FY March 2024, the energy application products business saw net sales decline 4.4% year on year due to lower smartphone production and intensifying price competition, yet also saw a significant improvement in operating profit, which was up 32.7% year on year. This was due the automation of production at each site and the result of improved yield rates through the use of DX (an improvement in quality costs)—in short, achievements based on these own capabilities. Going forward, I think that if all of our business around the world were to reassess their own positions, they might discover any number of things they can or should do to improve their own capabilities.

To respond to the global rise in geopolitical risks, the Group is moving quickly to optimize its manufacturing sites and reform its supply chain, but those efforts come with a dilemma in the form of rising costs. I hope that by seeking to strengthen our own capabilities, we will be better able to absorb those cost increase, and maintain and improve our global cost competitiveness.

#### To our stakeholders

TDK, born about 90 years ago as a venture company, continues to hand down its legacy spirit of taking on challenges without fear of failure or risk, a spirit that is shared throughout the entire company. In that sense, my understanding of TDK is as a giant venture company with over ¥2 trillion in sales and 100,000 employees.

As I noted in the previous Integrated Report, if we were to liken ourselves to a group of musicians, I think a big jazz band, and not an orchestra, would be a better metaphor for TDK, which brings together players with diverse and varied skills, technologies, and personalities. As the CEO of TDK United, I am not the conductor of this big band, but its leader and manager. Each team member must be personally invested in doing what they can and should do as their own business, which we call "Jibungoto" in Japanese, while my

job is to work to ensure they can demonstrate their creativity, motivation, and aspirations in the best way possible.

Business environment will continue to change going forward, including unpredictable upheavals such as the COVID-19 pandemic. We will continue moving forward steadily even as we respond flexibly to such changes, stepby-step in accordance with our current Medium-term Plan, while keeping our eyes firmly on what we want to be in the future as set out in our Long-term Vision. To repeat, I believe that TDK has unlimited potential.

Finally. I would like to say one more thing to our shareholders and investors: I feel the enormous potential I sense in TDK has not yet been adequately shared with each of you. I think a reason for this is also a lack of communication between ourselves and all of you.

Therefore, going forward we will expand the range of and opportunities for dialogue with our shareholders and investors, which I hope will ensure that as many of you as possible can come to understand the unlimited potential of TDK that I myself sense. We look forward to your continued warm support. Thank you.





TDK's

13 Long-term Vision 17 Key Issues (Materiality)

# **Long-term Vision**

#### "TDK Transformation," Our Long-term Vision

TDK formulated the Long-term Vision "TDK Transformation," based on the Corporate Motto "Contribute to culture and industry through creativity" and Corporate Principles "Vision, Courage, Trust," as an expression of our aspirations for the next 10 years. This Long-term Vision incorporates transformation in the sense of contributing to the transformation of society as well as the sense of internal transformation, that is, the continuous transformation of TDK itself. TDK Transformation incorporates our desire to accelerate these two cycles and contribute to the realization of a sustainable future.

Until now, TDK has contributed to social transformation by providing products that are essential to the applications that drive industry in each era including audio and video devices, PCs, and smartphones.

The transformation of society, including green transformation (GX) and digital transformation (DX), is expected to accelerate even more in the future. In conjunction with this, TDK will continue to expand the areas in which it is able to make contributions.

In accordance with this Long-term Vision, we will accelerate the transformation of society and advancements in technology enabled by electronic devices developed through leveraging cutting-edge innovation in materials, processes, and software technology, contributing to the transition toward a sustainable future. We will also continue our own transformation to become the No. 1 partner growing alongside our worldwide customers.



# **Long-term Vision**

# **Social Transformation**



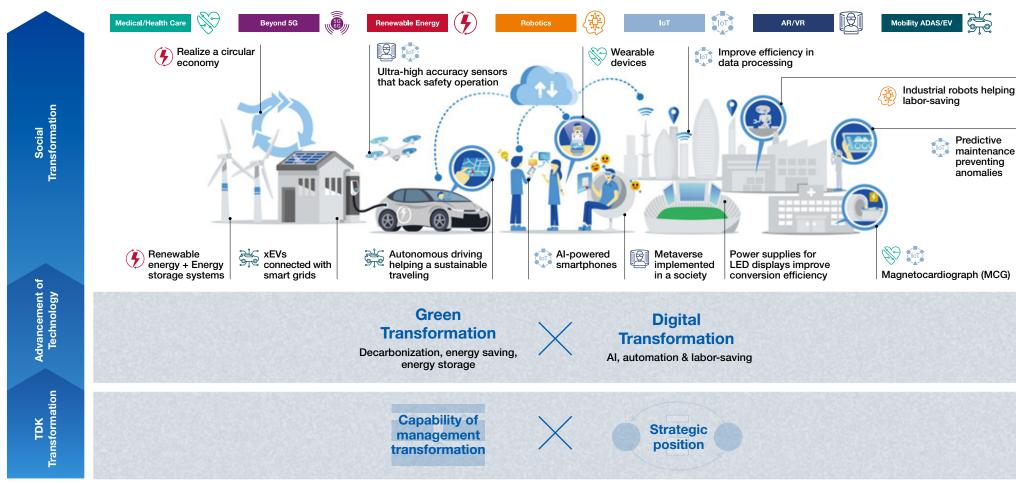
TDK has focused on applications that can impact on social transformation as the "Seven Seas."\*

Moving forward, in a society equipped with 6G networks, the Metaverse, smart cities, clean energy, electrified vehicles, and various devices will become terminals that are connected to networks. This means that data transmission volume will increase dramatically. In such a society, the global electricity supply will be outpaced by the power consumption of data centers, creating demand for the improved energy efficiency of various electronic

components. We expect we will see the continued growth of domains that can benefit from high-value-added electronic components and materials that contribute to increased energy efficiency by achieving low power consumption, size reductions, and low CO2 emissions.

≡ Contents

#### Image of social transformation TDK projects



\*Seven Seas The focal areas where TDK's applications are dominantly present. Please see the website for more information. https://www.tdk.com/en/about tdk/seven-seas/index.html

# **TDK's Transformation**



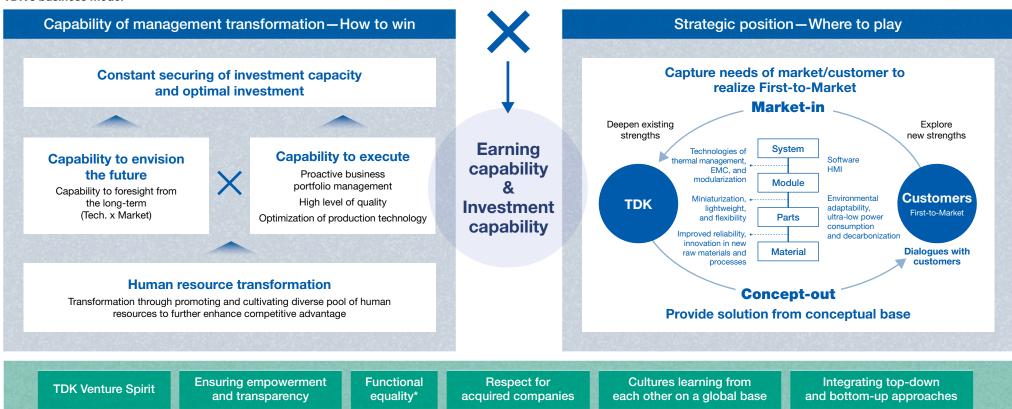
We believe that it is important to accelerate transformation for TDK as a whole for continuous contributing to social transformation. Over the years, we have used both organic growth and M&A to refresh our business portfolio and achieve business growth. We will contribute to the transition towards a sustainable society as the No.1 partner based on establishing leading position by electronic devices developed through leveraging cutting-edge innovation in materials, processes and software technology in organic growth and M&A. This shows

our Company's business model, which consists of two key drivers: The capability of management transformation—how to win, shown on the left, and the strategic position—where to play, shown on the right. With strengthening both the capability to envision the future to identify long-term trends of society and technology, and the capability to execute our vision, on the foundation of transforming human capability by diversity, we will constantly secure investment capacity and implement optimal investment, which enable us to enhance

capability of management transformation. We will contribute to the realization of a sustainable society to elevate our positioning. We will accomplish this by evolving and accelerating the cycle of rapidly identifying customer needs and providing broad-based solutions, from unique materials to systems. We believe that TDK's unique values and corporate culture, which we have developed for a long time, will support the growth of "capability of management transformation" and "strategic position."

≡ Contents

#### TDK's business model

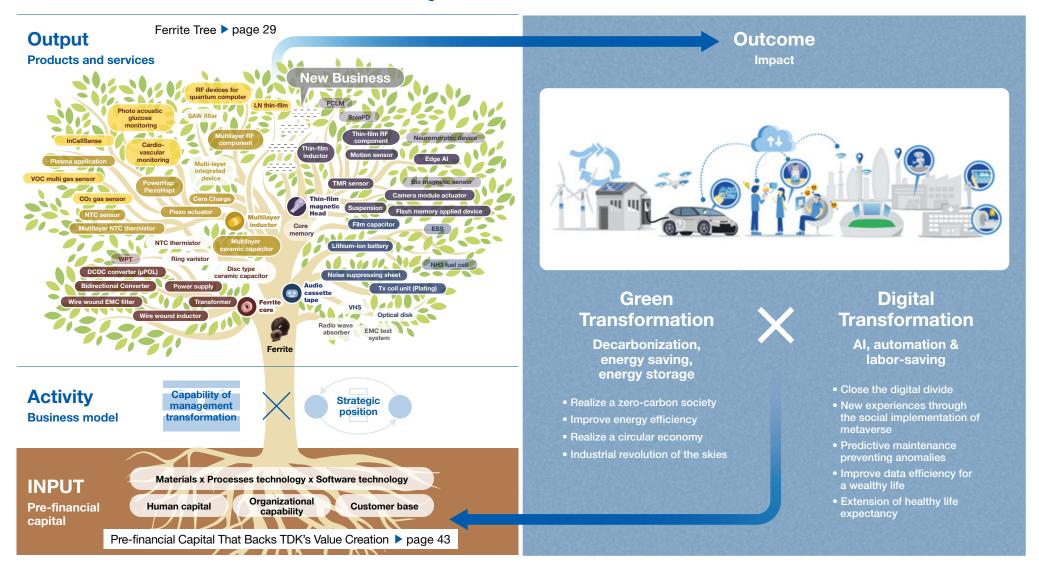


\*Functional equality - is one of our values to encourage discussions in an open and equal atmosphere, based on functions (roles) rather than hierarchy.

# **Value Creation Process to Realize the Long-term Vision**

# **TDK Transformation**

Accelerating transformation for a sustainable future



# **Key Issues (Materiality)**

#### Key issues (materiality) of TDK

From the perspective of achieving our long-term vision based on our Corporate Motto and Corporate Principles, we took into consideration our long-term strategies as well as risks and opportunities and reviewed the key issues (materiality) that have a real impact on the value creation

capability of the TDK Group.

In the past, materiality was positioned and selected as CSR key issues, but the new materiality was extracted from our long-term strategy for enhancing corporate value, and the action strategy is reflected in our new Medium-term Plan, which started in FY March 2025.

The materiality of the TDK Group is premised on the long-term creation of value for not only investors, but all stakeholders including customers, suppliers, and team members (employees) and focuses on issues that help maximize TDK's corporate value.

#### Kev issues (materiality) of TDK

# Value creation and establishment of competitive advantage through business activities

#### Create customer value and build strong relationships

- Build, maintain and deepen trust with customers
- · Access in-depth sources of customer needs

#### Contribute to social **Transformation through R&D**

- · Continue commercialization of advanced technology
- Realize intellectual property investment and utilization that contributes to business

#### Stabilize supply of high-quality products and increase production efficiency

- Maintain the capability to introduce products into market quickly and to ramp up mass production
- Improve predictability by sharing know-how
- Pursue zero defect and promote in-house production
- Maintain diversity in products, technologies and involved markets

# Strengthening of the management foundation that envisions and realizes the future

#### Transformation through promoting and cultivating diverse pool of human resources to further enhance competitive advantage

- Promote diversity, equity and inclusion driven by inclusive leadership practices
- Develop organizational capability to enhance innovation and efficiency
- Improve team member (employee) health and engagement

#### Advance group governance

- Improve the business portfolio continuously
- Empowerment & Transparency

#### Address environmental and social issues

- Respect human rights
- · Address climate change

Summaries of previous materiality are posted on the sustainability website.

# **Key Issues (Materiality) List**

The following have been set as KPIs for materiality.

	Area	Theme	Background of materiality setting and vision	Main KGls/KPls*for long/mid- term	Target* for mid-term KPI
Human Resources	Transformation through promoting and cultivating diverse pool of human resources to further enhance competitive advantage (P.56)	Promote diversity, equity and inclusion driven by inclusive leadership practices	Ensure the diversity of the TDK Group's human resources and promote leadership practices that enable each individual to fully develop their abilities and strengths.	I Improve diversity in management team  M Female ratio of participants in Global Management Development Programs	30%
		Develop organizational capability to enhance innovation and efficiency	Develop business entrepreneurs who can identify market needs and propose value to our customers to maximize the use of the TDK Group's assets and enhance the organization's ability to create new businesses.	No. of business entrepreneurs developed **  M Number of overall participants in Global Management Development Programs	500 participants or more
		Improve team member (employee) health and engagement	Promote an environment in which team members (employees) can work enthusiastically to ensure the diversity of the TDK Group's human resources by enhancing team members (employees) engagement and health so that each individual can fully demonstrate their abilities.	Improve Engagement survey score  1) Engagement survey measurement (communication) 2) Participant rate of engagement survey	1) 75pts. or more 2) 80% or more
Governance	Advance group governance (▶P.27, P.68)	Improve the business portfolio continuously	Optimize the corporate-wide business portfolio by identifying areas that need to be put in place.	Weighted average score of business portfolio  M Amount of loss reduction in businesses with operating losses	Target achieved: 100%
		Empowerment & Transparency	Strengthen risk management by strengthening group governance and introducing a new ERM system, which TDK's governance is based on a policy of Empowerment & Transparency.	No. of significant Global Common Rule (GCR) violations  M No. of follow-ups for significant GCR violation	100%
Environmental and Social Issues	Address environmental and social issues (> P.58, P.65)	Respect human rights	Respect the human rights of our stakeholders based on the values of the Code of Conduct, recognize the potential impact of all corporate activities on human rights, and promote activities to mitigate such impact.	■ Mitigated/corrected significant risks from supplier audits ■ Ratio of progress in planning annual onsite audits	100%
		Address climate change	Strengthen our activities to reduce greenhouse gas emissions and promote measures to address climate change in order to realize a net-zero CO <sub>2</sub> emissions society by 2050.	CO2 net emissions  1) Scope 1+2 emissions reduction 2) Basic unit for energy reduction	1) 42% (Term FY March 2031 goal compared to FY March 2022)     2) 15.7% (Term FY March 2027 goal compared to FY March 2021)
Customer	Create customer value and build	Build, maintain and deepen trust with customers	Aim to increase customer satisfaction and expand our market share by building, maintaining, and deepening relationships of trust with our customers, taking advantage of our extensive track record of business with industry-leading customers.	Customer satisfaction survey score**  M Resolved and feedbacked rate for issues identified from the survey**	100%
	strong relationships (>P.51)	Access in-depth sources of customer needs	Through strengthening our ability to envision the future, enhance our ability to create businesses from both technology and market perspectives, and expand sales in new applications.	No. of future pillar businesses to be created through collaboration with related divisions  M Launch of new business divisions	Target achieved: 100%
R&D	Contribute to social	Continue commercialization of advanced technology	Create future core businesses through collaboration with related divisions to search for technological seeds that will create new markets and cultivate new customers for the realization of social transformation.	■ No. of themes transferred for the creation of future pillar businesses by promoting collaboration with related divisions  M No. of theme selected and started	4
	Transformation through R&D (▶ P.44)	Realize intellectual property investment and utilization that contributes to business	Create value by linking our intellectual property investment strategy to the goals of our business and R&D strategies: business success and R&D strategy success.	■ Percentage of intellectual assets (patents) tied to IP strategy for business and R&D themes ■ Elaborating IP strategy	Target achieved: 100%
Design Production	Stabilize supply of high-quality products and increase production efficiency (▶ P.49, P.50)	Maintain the capability to introduce products into market quickly and to ramp up mass production	Maintain and improve the ability to bring products to market quickly and increase our competitive advantage by creating innovative ideas and ramping up mass production system based on an aggressive culture.	■ Success rate for new product introduction**  M Completion rate of quality improvement activities of new product samples**	100%
		Improve predictability by sharing know-how	Continuously improve predictability up to mass production to enhance manufacturing capabilities for launching new products and improve the new product launch rate.	Percentage of new products launches achieved**  M Progress on new product development plan**	Plan progress rate: 100%
		Pursue zero defect and promote in-house production	Improve our competitive advantage by making it difficult for other companies to enter the market and imitate us, through improvement activities aimed at achieving a zero defect rate and thorough in-house production of production tools and jigs, as well as in-house production of product components.	<ul> <li>■ Total failure cost ratio</li> <li>M No. of completed various types of quality compliance training</li> </ul>	3 per fiscal year
		Maintain diversity in products, technologies and involved markets	Aim to expand the range of our proposals by maintaining a wide variety of markets and product lineups, as well as the diversity of process technologies. Further promotes collaboration strategically and proactively.	Market share of specific business**  M Score of customer satisfaction survey**	Target achieved: 100%

<sup>\*</sup> KGIs for U=Long-term, KPIs for M=Mid-term, Unless otherwise specified, long-term is assumed to for approx. 10 years and mid-term approx. 3 years. \*\* A certain business company only

# **Identification Process/Comments of the Experts**

#### **Materiality identification process**

TDK's key issues (materiality), which plot the enhancement of corporate value and adopt the concept of synchronizing the sustainability of both society and company, comprise financial materiality (important items for TDK) and impact materiality (important items for stakeholders). After deriving financial materiality and impact materiality, we closely examined the two and selected our materiality.

#### Process of identifying financial materiality

Financial materiality was derived using a backcasting perspective based on our Long-term Vision by taking into consideration the sources of long-term competitiveness that were discussed and identified by top management, corporate officers, and next-generation candidates for director positions as well as the items derived from indicators that were recognized as being significant with PBR through model analysis of the quantitative relationship between general ESG indicators and PBR, and management risks that should be emphasized in enterprise risk management (ERM).

#### Process of identifying impact materiality

Impact materiality was derived by creating a long list based on the European Sustainability Reporting Standard (ESRS) and narrowing down the items.

### Comments of the experts

To confirm the appropriateness of and any shortages in the new materiality from the perspective of stakeholders. we conducted dialogues with three experts in February

and March 2024 to obtain their wide-ranging opinions of the materiality draft under consideration by TDK.





The three experts engaged in dialogue with Shuichi Hashiyama. TDK Corporate Officer and General Manager of the Corporate Strategy HQ.

#### Excellent framework takes shape but also important to review flexibly in the light of practice

Previously TDK's materiality was set from a perspective emphasizing CSR. Through the latest revision, aimed at enhancing corporate value in the medium to long term, TDK has made its materiality easier to understand for stakeholders by positioning materiality as an important domain toward the realization of its Long-term Vision embodying its Corporate Motto and Corporate Principles. In the process of compilation, TDK has narrowed down its salient points to reflect the views of stakeholders both inside and outside the company. Going forward, it may perhaps be necessary to add materiality if there are shortages, prioritize issues, and change and respond. In practice on the ground, it is the job of management to clarify what "to do" and what "not to do" in efforts to address materiality and sort out what is feasible. In the sense that TDK has begun its evolution toward corporate value management, the latest systemic uplift deserves positive evaluation. I hope that it yields results and rises to the level of being a model for other companies.



Koji Nitto Nitto Koji Office (Former Director, Senior Managing Executive Officer, CFO, and Senior General Manager of

Global Strategy HQ of

OMRON Corporation)

#### Hoping for the capability to link KPIs and sustained earning power and to realize long-term strategy

Regarding the composition of TDK's newly set materiality, it is well arranged and easy to understand. At the top they place "Establishment of value creation and competitive advantage through business activities," and at the bottom they have "Strengthening of the management base to envision and realize the future." Investors no doubt will be watching closely how future cash flow will be created through materiality. While incorporating the TDK style, it will be important to clarify the relationship between overall strategy and KPIs. In addition, if the KPIs do not function as expected, TDK will be required to verify what has caused the bottleneck and utilize the results in the next plan. Furthermore, to bridge the gap between corporate executives and the capital markets, it will be necessary to engage in appropriate communication while cleverly explaining impact materiality in an integrated manner.



Minoru Matsubara Executive Officer in charge of the Responsible Investment Division. Resona Asset Management

Co., Ltd.

#### Looking forward to steady efforts based on strong commitment and specific indicators and management techniques

TDK's newly set materiality were derived by integrating financial and impact factors, and as a result, I feel that they were carefully analyzed and well arranged. I have no objection to a company setting materiality by focusing on the long-term maintenance of competitiveness. However, the viewpoint that creating a positive impact on the environment and society, which is the foundation of economic activity, is important too. It would be even better if TDK showed its commitment to the issues of climate change and human rights as well. To incorporate DE&I into materiality, it is important to consider what indicators should be set and by what methods they should be managed. On the business side, the supply of products capable of contributing to the reduction of CO<sub>2</sub> is considered to be the source of TDK's competitiveness, and there is a possibility of entry into such fields as green transformation (GX). I look forward to seeing TDK make appeals socially by putting forth qualitative stories and also take active steps to tackle such challenges as human rights issues in the supply chain.



Takeshi Mizuquchi President, Takasaki Citv University of Economics

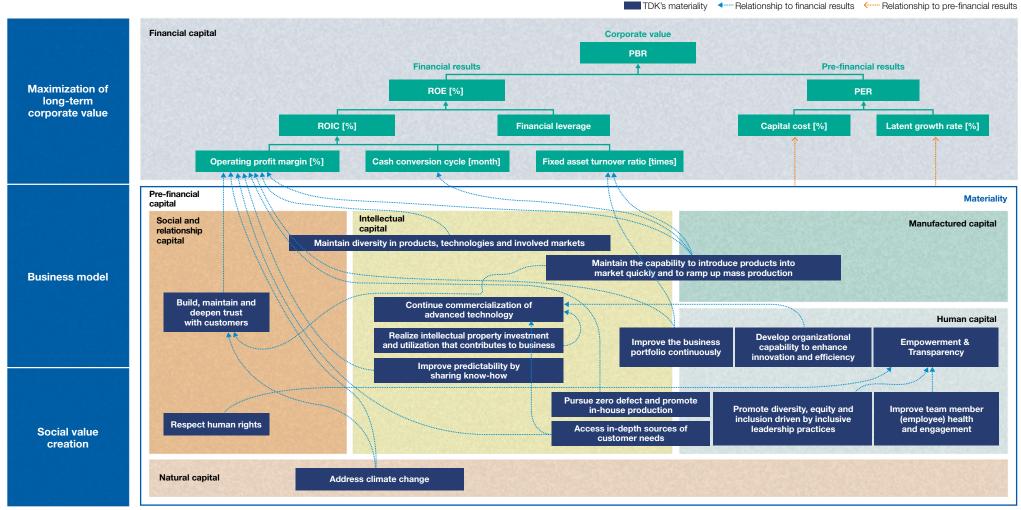
#### **Key Issues (Materiality)**

# Relationship between Materiality and Corporate Value

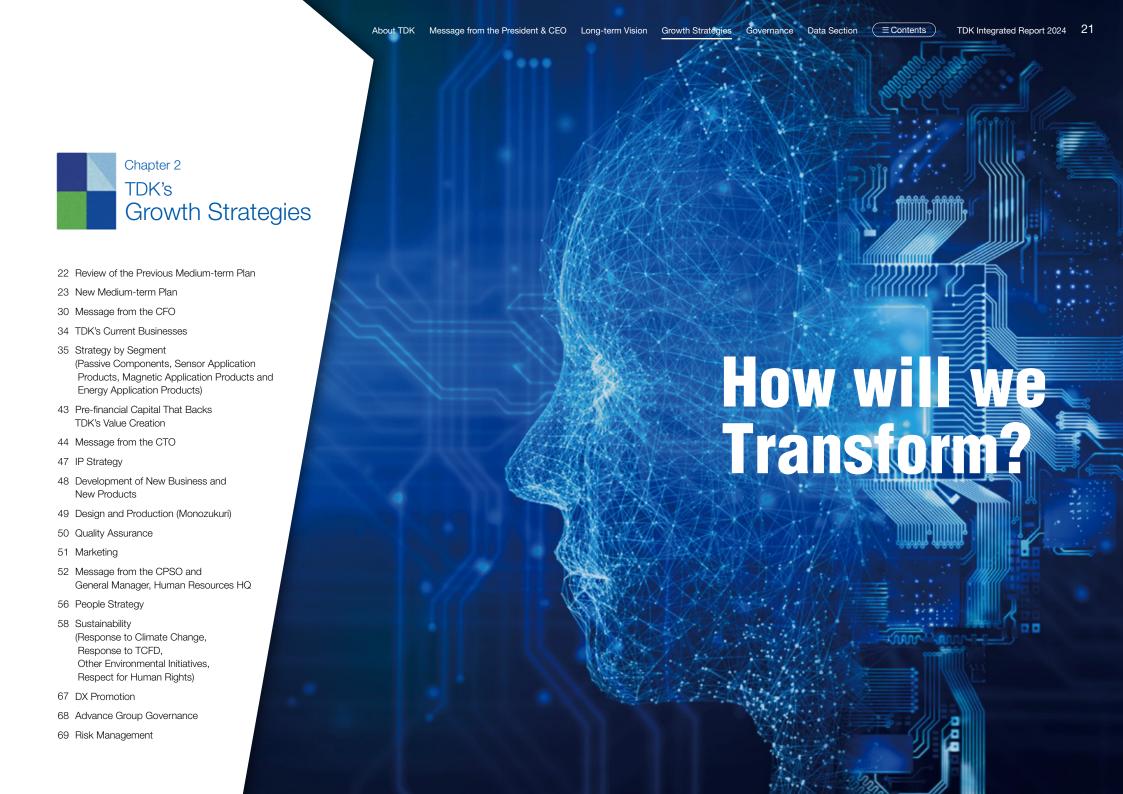
In endeavoring to maximize long-term corporate value, TDK emphasizes PBR as an indicator of corporate value. Following this approach, we studied and formulated a tree showing how activities linked to each materiality theme impact corporate value. The tree also indicates which of the

six capitals defined by the International Integrated Reporting Council (IIRC) corporate activities linked to each theme contribute to. (These six types of capital are financial, manufactured, intellectual, human, social and relationship, and natural.) In addition, we monitor the degree of

achievement of KPIs set for each materiality theme by contrasting planned figures and achieved figures with a tool called a management dashboard that analyzes and visualizes data.



<sup>\*</sup> The relationship to financial results is set for the short and medium-term (for approx. 3 years), and the relationship to pre-financial results is set for the long-term (for over 3 years).



# Review of the Previous Medium-term Plan – Value Creation 2023

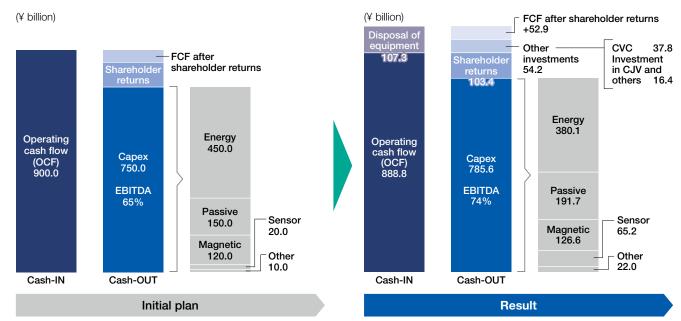
When drafting the previous Medium-term Plan, from FY March 2022 to 2024, TDK was promoting growth strategy focused on the diversification of revenue sources to follow small capacity batteries as a profit contributor. In other words, the plan focused on propelling the Company towards a new growth stage. As a result, the Company diversified its revenue sources, made progress in cash management, and was successful in recording positive free cash flow after shareholder returns for the cumulative three-year period.

On the other hand, issues remained as operating profit margin and ROE fell short of targets. This was due to the rapid stagnation of the HDD market resulting in a decline in profitability for related businesses, and efforts to improve the profitability of other turnaround businesses did not proceed as planned.

#### Targets and results in KPIs of the previous Medium-term Plan

	Targets for FY3/24	Results for FY3/24
Net sales	¥2,000.0 billion	¥2,103.9 billion
Operating profit margin	12.0%	8.2%
ROE	14.0%	7.9%
FCF after shareholder returns	Positive	¥52.9 billion
Capex (cumulative 3 year)	¥750.0 billion	¥785.6 billion

#### Capital allocation in the previous Medium-term Plan



### Achievement and issues by segment

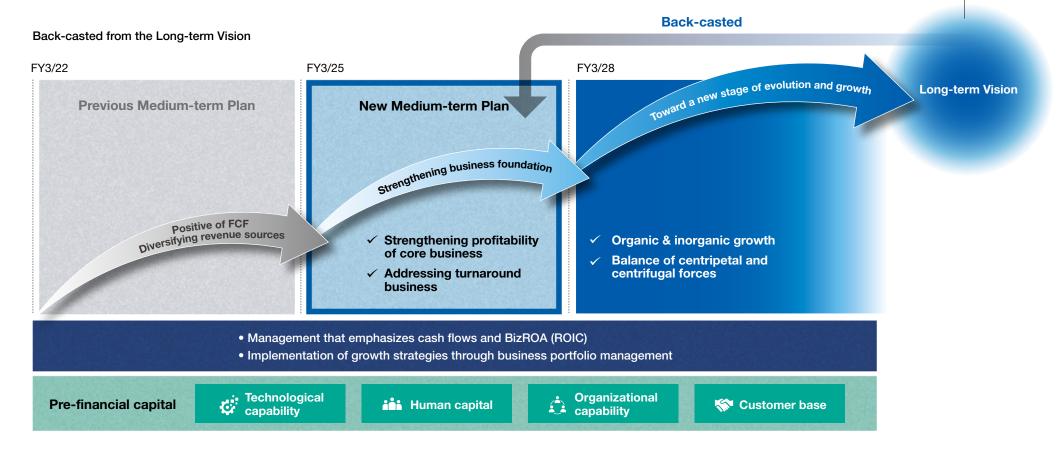
	Achievement	Issues
Passive Components	Significantly increased production capacity of products for automobiles, such as MLCCs     Continuous developing high-value-added products     Productivity improved	Accelerate developing new products     Optimization of manufacturing sites
Sensor Application Products	Improved profitability, established positive profit     Profit of TMR sensors improved due to expansion of usage and investment in increased production has been decided to expand more	Profitability improvement of the MEMS microphone business has been delayed
Magnetic Application Products	Commenced mass production of next-generation technology MAMR     Developing HAMR has progressed     Withdrawal from the suspension application products business has been decided	Profitability of the HDD-related business deteriorated     Profitability improvement of the magnet business has been delayed
Energy Application Products	Market share of small capacity batteries increased, and profitability improved     Manufacturing sites in India commenced cell productions     JVs in medium capacity batteries commenced full-scale operations and achieved positive profit	Accelerate developing new products     Optimization of manufacturing sites

# Positioning of the New Medium-term Plan

This new Medium-term Plan from the FY March 2025 was formulated by outlining what we want to be and future vision in light of the long-term social transformation ahead, and bask-casting from that point.

As we work towards achieving our Long-term Vision, we view the period of this Medium-term Plan as a time to strengthen our business foundation. We believe that issues that need to be addressed during this period include strengthening profitability of core businesses and addressing turnaround businesses.

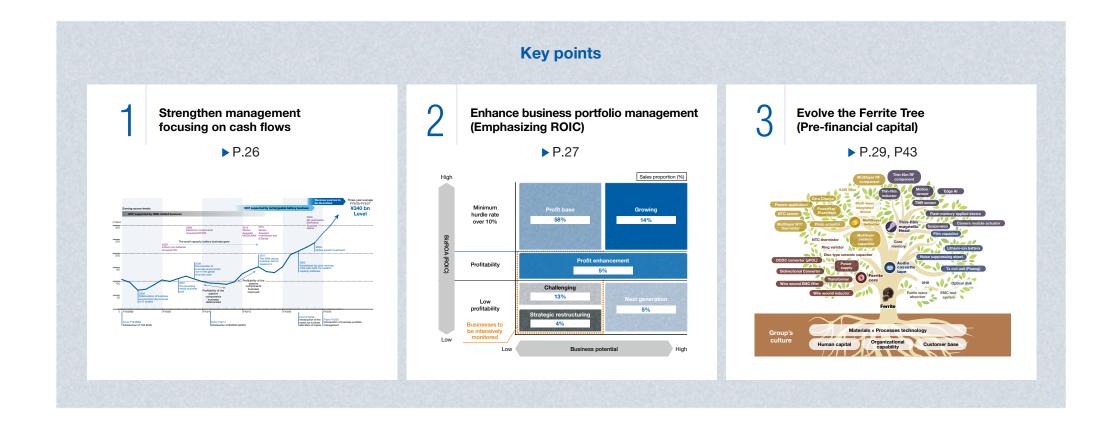




It is vital for enhancing our corporate value to maximize free cash flow (FCF) generation, reduce the cost of capital, and increase the expected growth rate.

Based on this thinking, the new Medium-term Plan, which is positioned as a period for strengthen business foundations, has three pillars.

- 1. Strengthen management focusing on cash flows
- 2. Enhance business portfolio management (Emphasizing ROIC)
- 3. Evolve the Ferrite Tree (Pre-financial capital)



How we went to be in

# Financial/Pre-financial KPIs

The new Medium-term Plan has set the pre-financial KPIs in addition to the conventional financial KPIs; it is based on the ways of thinking to enhance our corporate value through pursuing not only the financial value but the pre-financial value, the source of future financial value, and balancing between the achievement of the short to medium-term target and the activities to continuously generate value in the long-term.

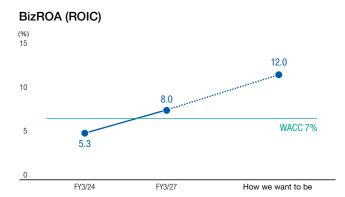
We aim to achieve beyond these KPIs by strengthening the business portfolio transformation, including addressing turnaround businesses, and the pre-financial capital, in addition to ensuring the growth strategies of core businesses.

Our company-wide performance indicators will be operating profit margin and ROE, unchanged from before, and ROIC with the aim of improving profitability.

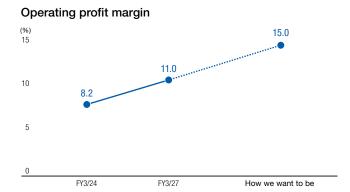
To achieve these targets, we will continue to invest aggressively in priority growth businesses to improve our earning capability and accelerate the implementation of appropriate measures for turnaround businesses, thereby improving capital efficiency further and engaging in proactive business portfolio management with a heightened awareness of the cost of capital.

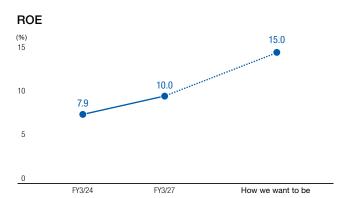
		Exchange rate assumptions	¥144/US\$	¥135/US\$	¥135/US\$
	<sup>il</sup> KPIs	CO <sub>2</sub> emission reductions* (SBTi Scope1+2, vs. FY3/22)	42.9%	23.3%	42.0%
indicator		Response rate	80%	80% or more	
Pre-financial		Communication score	67 pts.	75 pts. or more	
		Team member engagement survey			
	Financial soundness	D/E ratio	0.4x	0.3-0.4x	
		Shareholders' equity ratio	50%	50% level	
Financial indicator	Efficiency	Operating profit margin	8.2%	11% or more	15% or more
		BizROA (ROIC) (>WACC)	5.3% (<7.0%)	8% or more	12% or more
		ROE	7.9%	10% or more	15% or more
	Growth	Net sales [¥ billion] (CAGR)	2,103.9	2,500.0 (approx. 5%)	(10% or more)
			FY3/24	FY3/27	How we want to be in the medium-to long-terr

<sup>\*</sup> SBTi is an initiative that supports companies in setting scientifically based environmental goals. In order to achieve the goal stated in the Paris Agreement of limiting the rise in global average temperature to within 1.5°C compared to pre-industrial levels, SBTi provides companies with criteria that can be used in goal setting. We have set the gradually required CO<sub>2</sub> emission reduction rate calculated based on these criteria as the target for FY March 2027 Plan. However, it is expected that this target will be achieved ahead of schedule in FY March 2024. This is because of the proactive introduction and promotion of renewable energy (Scope 2). We are currently planning significant production increases and expansion of sites in our Medium-term Plan, and at this point, we consider the target to be reasonable. Please note that FY March 2024 Result is estimate amount. Furthermore, TDK has submitted a commitment letter to SBTi and is currently working towards obtaining certification for our reduction targets



≡ Contents





#### **New Medium-term Plan**

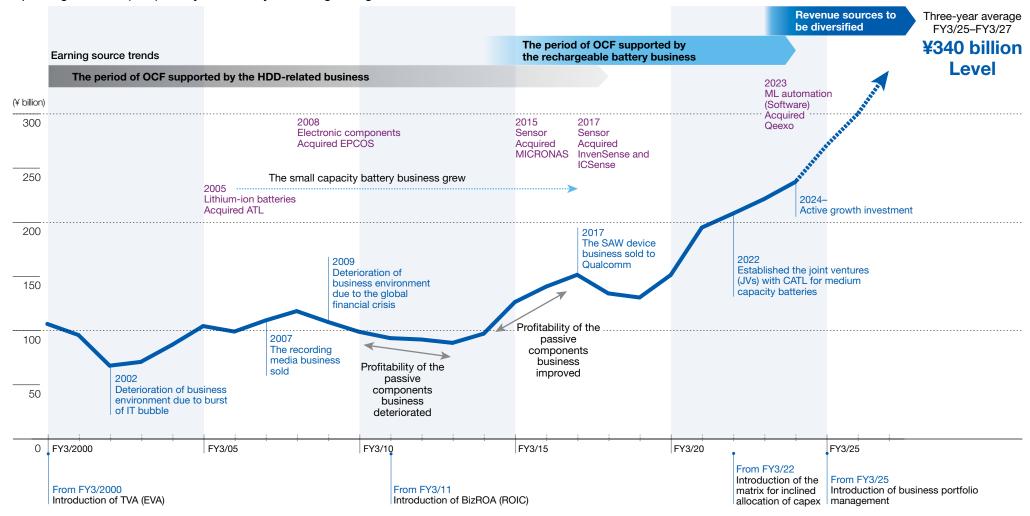
# **Strengthen Management focusing on Cash Flows**

#### Three-year average operating cash flow target level of ¥340 billion

Thus far, we have transformed our business portfolio and increased our earning capability by utilizing organic growth and M&A.

This graph shows our three-year moving average operating cash flow. In the past, this was around ¥100 billion, improved to around ¥200 billion, and will aim for roughly ¥340 billion during the term of the new Medium-term Plan.

#### Operating cash flow (OCF) history on a three-year moving average



# **Enhancing Business Portfolio Management**

#### Implementing proactive business portfolio management

Starting in FY March 2022, TDK has stratified approximately 80 cash-flow business units (CBUs) in four segments into six levels based on two axes-BizROA (ROIC) and business potential—and has clarified the strengths of investment allocation to transform and optimize the business portfolio. With respect to BizROA (ROIC), we set a minimum hurdle rate of 10%, and we invest with priority businesses that clear this hurdle and have high future potential.

Starting with the period of the new Medium-term Plan

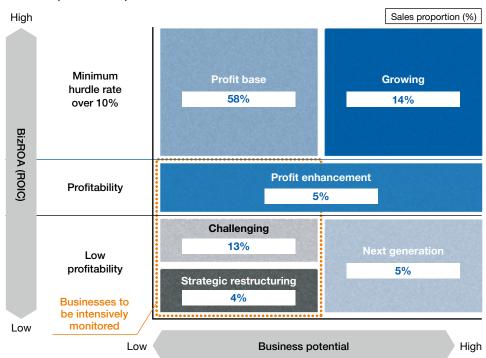
(from FY March 2025), we evolved from a two-axis map of investment allocation to a two-axis map of our business portfolio. We will invest management resources with a focus on businesses that clear the minimum hurdle rate and are expected to grow in the future while appropriately monitoring businesses that fall below the minimum hurdle rate and regarding which there are concerns about future growth ("Businesses to be intensively monitored" in the business portfolio map below) and implement prompt measures to achieve a turnaround. We will also investigate the competitive advantages and sustainability of businesses from a best

owner perspective and reinforce proactive portfolio management, even for those businesses with operating profit margins in the black.

≡ Contents

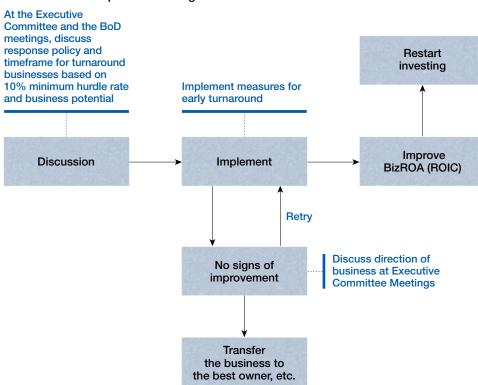
By implementing these measures, we will improve the corporate BizROA (ROIC), secure permanent surplus capacity for investment in order to allocate management resources to growth areas, and improve opportunities for optimal investment in growth businesses, thereby reinforcing the balance of the business portfolio throughout the company.

#### Business portfolio map



#### · BizROA (ROIC) = Business OP after tax and before distribution of corporate expenses / business assets.

### Proactive business portfolio management



<sup>•</sup> The 10% minimum hurdle rate is calculated, considering the 7% corporate WACC and corporate expenses.

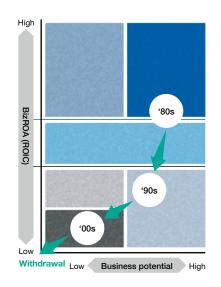
## **Enhancing Business Portfolio Management**

#### Past example

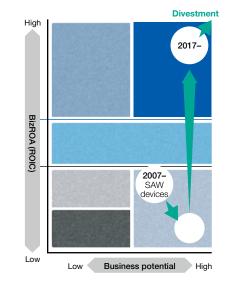
Until now, we have been working to transform and strengthen our business portfolio through M&A and divestment, taking into consideration the competitive advantages of our management resources and industry lifecycles.

For example, we divested our audio tape business in the 2000s. We also achieved a turnaround for SAW devices by introducing TDK process technologies into EPCOS and increasing added value. Later, we sold the business to Qualcomm for about ¥300.0 billion in 2017 from the perspective of the best owner. We then used the proceeds from that sale to acquire InvenSense with the aim of reinforcing the sensor business, and we have expanded and enhanced our sensor product portfolio.

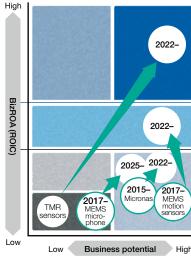
#### Audio tape business



#### Passive components (SAW devices) business



#### Sensor application products business



O Strengthen business portfolio

### **Emphasis on asset profitability**

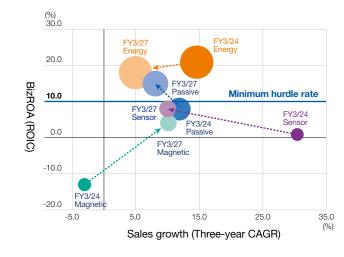
Going forward, we will strive to promote and reinforce business portfolio management in each of the 80 CBUs with the objective of improving ROIC in each segment as indicated in the diagram. Starting in the new Medium-term Plan period, we will place greater emphasis on asset profitability by disclosing ROIC target and actual values in each segment, and in our dialogue with investors, we plan to engage in more specific discussions based on the asset profitability of each business.

Over the medium to long term, we will implement measures to enhance profitability relating to magnetic application products and sensor application products with the objective of clearing the minimum hurdle rates.

#### BizROA (ROIC) by segment

	FY3/21	FY3/24	FY3/27 (target)
Company-wide	5.2%	5.3%	8.0%
Passive Components	_	7.7%	15.0%
Sensor Application Products	_	1.2%	8.0%
Magnetic Application Products	_	-12.2%	4.0%
Energy Application Products	_	21.5%	18.0%

#### Chart for growth and capital efficiency by segment



The Ferrite Tree is a concept that expresses the history and transitions that TDK's business has continuously undergone since its establishment with ferrite as its founding business, in other words, the Ferrite Tree represents TDK's growth trajectory. TDK's generations of products are shown linked by the technology connections of its four major innovations - ferrite, audio cassette tapes, fine multilayering technology, and thin-film head technology. Since the commercialization of ferrite, TDK's founding business, the Ferrite Tree has grown technology branches and leaves through the development of materials, processes, and derivative technologies and the expansion of TDK's business portfolio through M&A.

we will grow the Ferrite Tree even larger.

#### What is the Ferrite Tree?

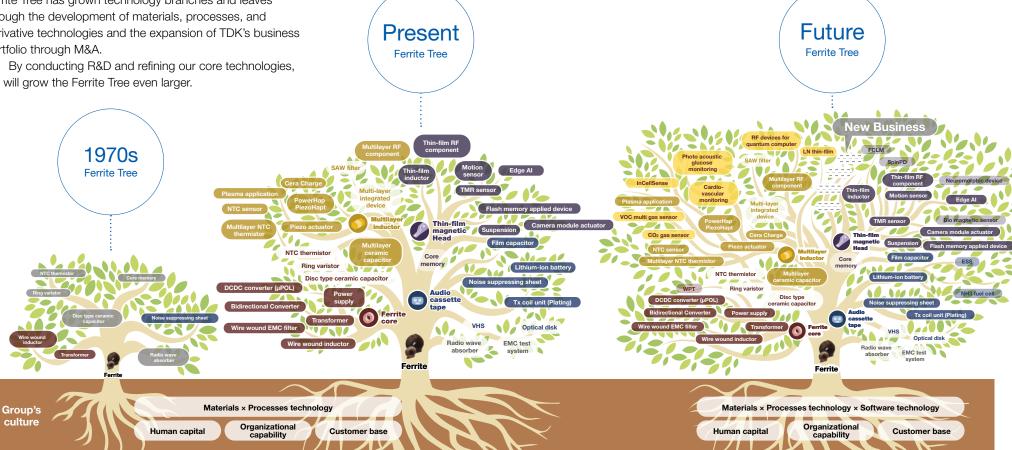
- We have gained competitive advantage through the materials and processes technology we have cultivated since our founding.
- In addition to R&D, we have strengthened our technologies in sensors and software through M&A.
- Even if we divest or withdraw from businesses, the technologies are accumulated at TDK and applied to current products.





Fine multilayering technology

Thin-film head technology





#### Review of the previous Medium-term Plan

#### Achieved positive free cash flow after shareholder returns for the cumulative three-year period

Among the financial targets advocated in the previous Medium-term Plan, Value Creation 2023, I placed special importance on achieving a positive free cash flow (FCF) after shareholder returns for the cumulative three-year period. Although the achievement of this target looked in danger for a while due to some unplanned expenditures, such as an advance payment of ¥110.0 billion to ensure the long-term stable supply of cobalt and other battery materials, we aimed to maximize the free cash flow through the rigorous selection

of investments and improvement of working capital. As a result, our cumulative free cash flow after shareholder returns substantially exceeded ¥50.0 billion, and we were able to meet the target. The Finance & Accounting HQ greatly contributed to this serial process of improvement too. In the battery business especially, the accounting department took the lead in tackling restructuring, including reduction of inventory and other assets. These efforts are contributing to the maintenance and strengthening of stable earning capability and competitive advantage not impacted by changes in the business environment. By sharing these success stories globally with accounting managers at our

sites, I intend to strengthen the capability of the entire TDK Group to create cash flow.

#### Failure to achieve ROE target due to such factors as unexpected macro-environmental changes and lagging improvement of turnaround businesses

On the flipside, issues remained on the side of profit levels and capital efficiency. In particular, ROE reached only around 8%, against a target of 14%. I see this outcome as a major issue. To explain the causes in terms of external factors and internal factors, the biggest external factor was the sharp change in the market environment. Because of the COVID-19 pandemic, the supply-demand environment for each business changed considerably. In particular, the HDD head market entered an adjustment phase that was way beyond our anticipation. Demand in the market as a whole fell a lot, and income deteriorated so much that the HDD head business had to record a deficit.

As for internal factors, it must be said that our capability to forecast future demand was far from adequate. Regarding the passive components business in particular, there was a considerable downturn compared with initial demand forecasts, and downward revisions were unavoidable right from the first guarter of the FY March 2024. Furthermore, the failure of the improvement of turnaround businesses to advance according to plan was also a major factor. In the previous Medium-term Plan, we managed investment allocation by mapping around 80 cash-flow business units (CBUs) in six categories along the two axes of BizROA (ROIC) and business potential. As a result, among the CBUs identified as turnaround businesses, we were able to decide on our speedy withdrawal from deficit businesses, such as the suspension application products business. Regarding such deficit businesses as magnets and MEMS microphones, however, investment in the update of equipment and so on was necessary to an extent to meet the quality requirements of customers, so we were unable to

### Message from the CFO

achieve an improvement in profitability.

#### Capital allocation in response to environmental changes and implementation of shareholder returns as planned

In these circumstances, regarding capital allocation, I think we were able to implement investment appropriately in response to changes in the business environment. For example, actual capital expenditure (capex) amounted to ¥785.6 billion, only slightly higher than the initial plan of ¥750.0 billion. If the increased portion due to the weak yen is excluded, it was efficient capex made in response to the supply-demand environment.

Regarding shareholder returns, the target for cumulative dividend payout ratio over the three-year period was 30%. Although profits did not reach the goals set out in the Medium-term Plan, in view of the fact that the target for free

cash flow was achieved, we implemented dividend payout according to schedule.

#### Financial policy in the new Medium-term Plan

#### Setting a new target for ROIC and promoting improvements in capital efficiency

The new Medium-term Plan, which got off to a start in FY March 2025, uses BizROA (ROIC) as a key financial indicator; the policy is to disclose it for each business segment. TDK has been using this indicator previously to manage investment allocation to each CBU, but we judged that using ROIC also as an indicator to measure the profitability of businesses and the results of efforts to enhance corporate value was more consistent.

We have set an ROIC target of 8% or more for the final fiscal year of the three-year Medium-term Plan and 12% or more as our medium- to long-term aim. The corresponding ROE will be 10% or more in the final fiscal year of the plan and 15% or more as our medium- to long-term aim. To achieve these targets, we will promote the following two measures. First, we will actively invest in growth businesses and grow the top line. Second, we will exit from deficit businesses and endeavor to turn around businesses whose BizROA (ROIC) falls below the minimum hurdle rate even though they are yielding a profit.

≡ Contents

#### Maintaining a D/E ratio of 0.3-0.4 times and securing surplus capability for flexible funding

In the new Medium-term Plan we assume that the debt-toequity (D/E) ratio will continue to be 0.3-0.4 times. If we assume that the ratio of equity attributable to owners of the parent company is 50% or more and liquidity on hand needs for 2.5–3 months, I think this level of interest-bearing debts is reasonable. However, if funding becomes necessary for large-scale M&A or growth investment, in the future we may need to raise the level of interest-bearing debts. Accordingly, in the sense also of adequately securing funding capability, I think it is necessary to maintain a level of 0.3-0.4 times.

#### Promoting proactive business portfolio management based on two-axis map of ROIC and business growth potential

One major point of regret about the previous Medium-term Plan is the fact that improvement of the profitability of turnaround businesses did not proceed as we would have liked. Among them, there were also not a few cases in which effective steps toward improvement were not taken because of delayed response. In the light of this reflection, our policy in the new Medium-term Plan is to promote proactive business portfolio management aimed at taking the necessary steps and achieving a quick turnaround in the case of not only deficit businesses, obviously, but also businesses that, even if they are profitable, do not meet the rules in terms of capital efficiency and business potential.

#### Financial KPIs for the new Medium-term Plan

#### Strengthen business portfolio management Free cash flow before shareholder returns for the cumulative three-year period BizROA (ROIC) New Medium-term Results for the cumulative FY3/27 target How we want to be in period from FY3/22 to Plan target the medium to long term FY3/24 $\rightarrow$ **¥260.0** billion 8% or more ¥156.0 billion Basis for setting KPIs: Calculated at cost of shareholders' equity Shareholder returns 8% and WACC 7%. **Balance sheet structure** Dividend payout ratio $\rightarrow$ 35% (5% up) 30% D/E ratio Shareholders' equity ratio Maintain 0.3-0.4 times\*1 Share buyback Consideration and implementation of flexible utilization of surplus funds \*1 If a demand for funds arises due to large-scale investment and lending, etc., the utilization of loans exceeding this scope will be considered too.

The minimum hurdle rate for capital efficiency, which incorporates corporate expenses into TDK's WACC (7%), has been set at 10%. CBUs that do not meet these rules of 10% ROIC and business potential will be positioned as businesses to be intensively monitored. Among them, we will hold discussions with the responsible personnel in especially high-priority CBUs and business groups (BGs) and business companies (BCs) and have them submit improvement plans. Countermeasures will be implemented after gaining the approval of the Executive Committee Meetings (ECMs). Time limits will be set. If improvement targets are not met within the time limit, we will consider an exit strategy, including transferring best owner. As the CFO, my important mission is to navigate this process of business portfolio management, in other words, the series of initiatives from discussions with CBUs to the careful examination and approval of their improvement plans,

monitoring of the state of implementation, and evaluation, in a responsible manner.

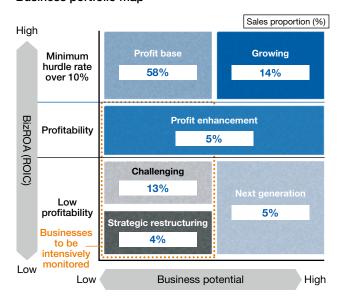
### Focusing on the creation of new growth businesses and the development of future executives

The improvement of turnaround business alone will lead only to diminished equilibrium. It is also important to strengthen the earning capability of current main businesses, create new growth businesses through backcasting from our Long-term Vision of "TDK Transformation," and optimize our business portfolio. In the new Medium-term Plan we estimate free cash flow after shareholder returns for the cumulative threeyear period to be about ¥110.0 billion, which is more than double the amount actually achieved in the period of the previous Medium-term Plan. Our policy is to give priority to the allocation of these funds to growth investment. At the present point in time, M&A is not included in the new plan.

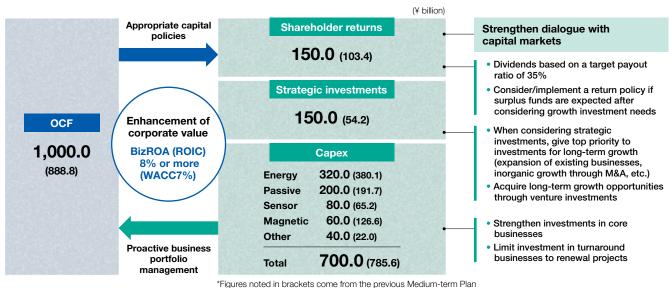
But if we receive a promising new business plan or investment proposal from a business company, we want to implement it if warranted after careful examination of the plan's feasibility, potential, profitability estimates, and so on.

Through the implementation of such business portfolio management, TDK endeavors to strengthen human capital, which is one of our important pre-financial capitals. For example, it is the general managers of BCs and BGs who make presentations to the ECM and so on to explain their business plans, report on the progress of business achievements, and communicate important matters, such as capital investment. But in the case of business portfolio management, it is mainly the responsible personnel at CBUs that are the targets of proactive business portfolio management who are made to explain improvement measures and the state of progress. Thus, we hope to promote changes in the way of thinking and improved skills

#### Business portfolio map



#### Capital allocation plan (FY3/25 to FY3/27 accumulated)



among CBU personnel and nurture human resources capable to taking part in management in the future.

### Creating about ¥1 trillion in operating cash flow and allocating ¥700.0 billion to capex

Under the new Medium-term Plan, we are scheduled to create a three-year cumulative operating cash flow of about ¥1 trillion and, of that, allocate ¥700.0 billion to capex. Specifically, the plan is to invest about 40% of that sum in energy application products. This means mainly investment in small capacity batteries for smartphones. The smartphone market is not in a situation where the number of manufactured units is going to increase greatly, but battery performance is evolving at a rapid pace, so investment is necessary for the development and production of new products. Incidentally, no major investment has been scheduled for medium capacity batteries, for which investment was finished in the previous Medium-term Plan. In addition, about 30% is scheduled to be allocated to passive components, about 15% to sensor application products, and the rest to HDD-related business and other products.



In the period of the previous Medium-term Plan, the market environment for HDD-related products deteriorated considerably. From a long-term perspective, however, the volume of data generation worldwide is certain to expand as a result of the increased use of Al and other factors. The use of flash memory is progressing as a means of temporarily storing data, but in the long term I think excellent cost-performance HDDs will continue to be the mainstream in the storage of large amounts of data. Going forward, shipments of magnetic heads for nearline storage are expected to increase toward a full-scale recovery of demand during the period of the next Medium-term Plan and beyond. TDK's policy is to promote a mass-production setup targeting demand from leading hyperscalers advancing investment in Al servers and to actively implement investment toward HDD-related product innovations with an eye on the market launch of HDD heads using heat-assisted magnetic recording (HAMR) technology. which enables the further high densification of HDDs.

#### To shareholders and investors

#### Strengthening shareholder returns by raising dividend payout ratio from 30% to 35%

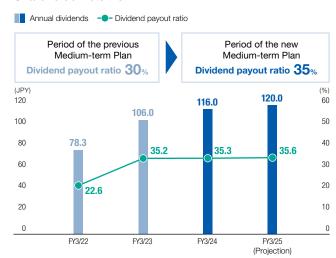
In accordance with our recognition that the medium- to longterm enhancement of corporate value will lead to the higher shareholder value, TDK's basic policy is to strive toward the stable increase of dividends through the growth of earnings per share (EPS). As a result of the previous Medium-term Plan, improvement of our financial condition progressed to a certain extent. For example, cumulative free cash flow after shareholder returns turned positive. In view of this trend, in the new Medium-term Plan we have decided to strengthen shareholder returns with the aim of raising the dividend payout ratio from the existing level of 30% to 35%. Regarding cash that remains in surplus even then, while taking the stock market situation and other factors into consideration, we will consider further return measures, such as the share buybacks.

In the market, although our stock price has remained firm, I think it is still at a low level. Our price-to-book ratio (PBR) is showing signs of improvement too, but it has not reached a point of maintaining a level of 2.0 or more. I think the main causes, unsurprisingly, are the fact that improvements in turnaround businesses are not advancing according to plan and that there are still many businesses with BizROA (ROIC) falling below the desired level.

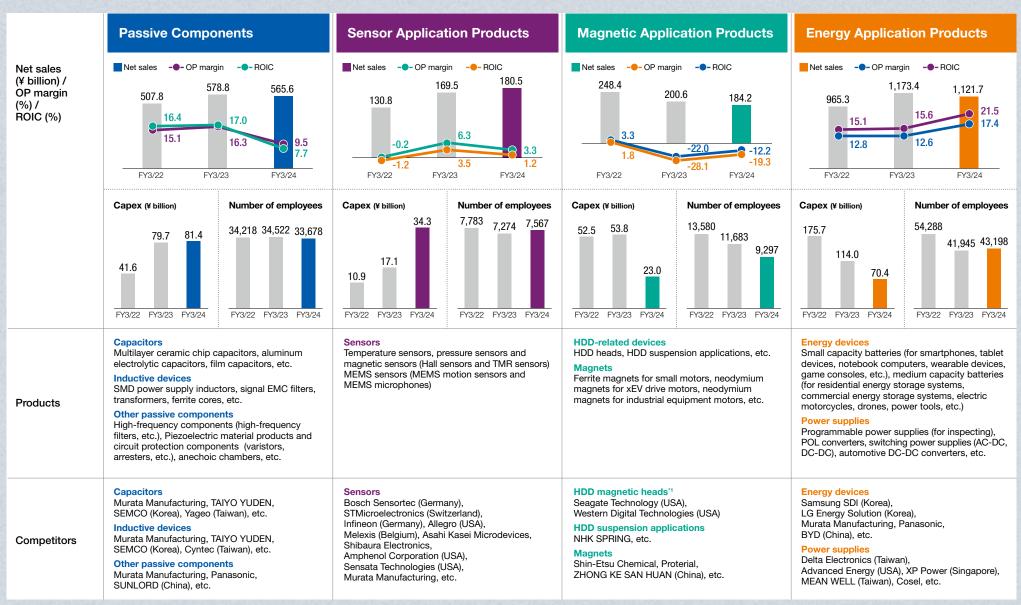
≡ Contents

In the period of the new Medium-term Plan, we will definitely achieve proactive business portfolio management and steadily raise BizROA (ROIC). As the social implementation of Al and other state-of-the-art technologies accelerates, the business opportunities for the TDK Group should further expand in the future. To clearly perceive such trends of the times, and to achieve sustained business growth and the enhancement of corporate value in the medium to long term, we will always implement measures looking ahead to the future. I ask for the continued and further support of our shareholders and investors in this endeavor.

#### Shareholder returns

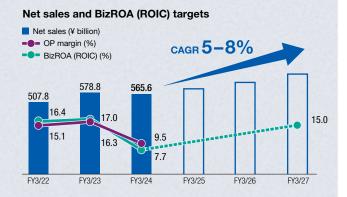


# TDK's Current Businesses (FY March 2024)



<sup>\*1</sup> TDK is the world's only specialized manufacturer of HDD magnetic heads. HDD magnetic head production is currently concentrated at three companies: TDK, Seagate, and Western Digital.

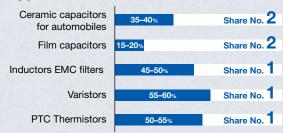
# **Passive Components**



#### Measures to improve net sales and BizROA (ROIC)

Net sales	Expand sales due to advances in xEVs and ADAS     Expand sales due to the recovery of demand in industrial equipment markets
BizROA (ROIC)	Increase profits by expanding the capacity and increasing sales of high-value-added products     Investment amounts to remain flat from the previous Medium-term Plan

#### Priority products and estimated market share





#### To-be in the long-term

The electronic components business environment is in the midst of a period of great change. As the social transformation including GX and DX undergoes, the electrification of automobiles will advance and generative AI, which is rapidly proliferating, will be introduced to smartphones and PCs in the future, making these devices even smarter. In addition, robots and renewable energy will likely become more common. We will take this time of change as an opportunity to provide to the world products that can contribute to the automobiles and devices of a new era.

Our core competencies are electronic materials technologies and production process technologies, and we will maximize our strengths by integrating these with digital technologies. To do this, we must transform ourselves. We will reorganize our development organizations for new technology and establish a development structure that spans departments so that we can anticipate customer needs and seeds and guickly develop and product while sharing information globally. In addition, we will optimize operations by introducing new supply chain management systems and reorganizing production sites while taking into consideration responses to geopolitical risks. We will also establish data analysis

functions in Europe and Japan to reinforce quality and manufacturing and raise production efficiency.

#### **Growth strategies**

- Further strengthen high-reliability products for powertrains
- Launch new products for ADAS use
- Optimize investments and manufacturing sites in line with market growth
- Improve quality and productivity
- Combine materials and optimal production methods, e.g., winding, layering, and thin-film technologies

#### Competitive advantage

- Combination of materials and processes technology
- · Long-standing quality track record in the automotive market
- High-reliability eco-friendly technologies, e.g., high-temperature and high-voltage
- In-house production engineering technology

#### **Business opportunities**

- Increase in added value and number of components due to the progress of xEVs and ADAS of vehicles
- Increase in demand for low power consumption passive components, e.g., Al servers
- Increase in demand for high-value-added custom products for industrial equipment use

#### Risks and issues

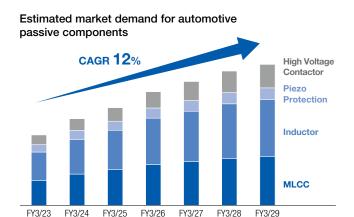
- Catching up technologically by passive components companies in China and other Asian countries
- Unpredictable price fluctuations in energy, raw materials, and distribution costs
- Geopolitical issues

## Strategy by Segment Passive Components Segment

### Market growth

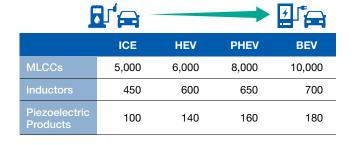
(TDK forecast)

The market for automotive passive components is expected to grow with a compound annual growth rate in excess of 12% on a value demand basis. We expect solid growth in demand for MLCCs as well as inductors, piezoelectric protection components, and other components.



There are also expectations that the number of components used in xEVs will increase steadily. In tandem with this trend, we will substantially increase our production capacity for our main products including MLCCs and film capacitors to steadily meet this demand.

### Number of components usage per gasoline vehicles vs. xEVs

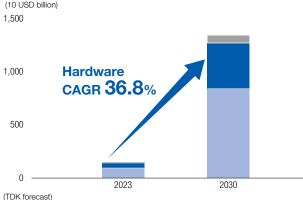


# TOPICS

#### New needs for passive components in Al markets

In conjunction with the rapid development of AI, the AI computing market is expected to undergo substantial growth in the future. In this market, the demand is increasing not only for software including Al services, but also for hardware, such as the electronic components used by processors and peripheral devices, and in 2030, we expect the growth rate to exceed 36% compared to 2023.

## Growth of the AI computing market Software Hardware Service (10 USD billion)



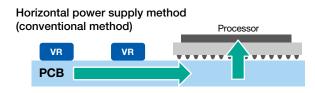
As the performance of the processors used in Al servers improves, the electricity consumption of and the amount of heat generated by power supplies are also expected to increase greatly. To solve these issues, TDK is conducting research on next-generation power supply methods that can save energy by reducing resistance component.

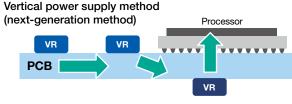
Until now, a horizontal power supply method where electronic components are located around a processor was the mainstream. We believe that future trends will

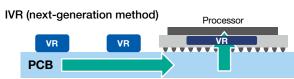
include, for example, an increase in vertical power supply methods, where the power supply and electronic components are placed directly under the processor, and integrated voltage regulators (IVRs) that are mounted on the board.

If these new technologies can be achieved in the future, we expect that power loss will be reduced by the equivalent of several nuclear power plants compared to conventional power supply methods.

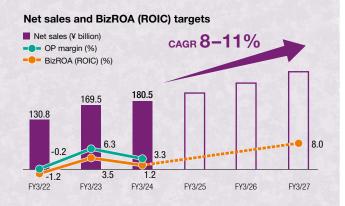
These new technologies will require ultra-compact and ultra-thin electronic components, and for this reason, TDK is developing next-generation inductors that use the winding, multilayering, and thin-film technologies and multilayer thin-film capacitors, which we have developed over many years so that we can respond to these needs.







# **Sensor Application Products**



## Measures to improve net sales and BizROA (ROIC)

Net sales	Increase sales due to increased demand for TMR sensors     Expand sales of MEMS microphones
BizROA (ROIC)	Increase earnings from TMR sensors Improve profitability of MEMS sensors Improve earnings from temperature and pressure sensors Increase investment amounts from the previous Medium-term Plan

#### Priority products and estimated market share

Temperature sensors	35–40%	Share No. 1
Magnetic sensors	20–25%	Share No. 3
MEMS Motion sensors	15–20%	Share No. 3



## To-be in the long-term

In Sensor Application Products segment, we have set a Long-term Vision of: "Create different and Connect" (create things which differ from those that have come before; and actively connect all things to each other). We will repeat the cycle of "market-in," to apprehend the needs of the market and of our customers, followed by "concept-out," to deliver customized solutions at the concept level, to make a reality of being "first-to-market." We will meanwhile strive to achieve improved margins by also putting into practice rigorous company-wide "quality first." Specifically, with the aim of delivering products of value that satisfy the needs of our customers, we will expedite the market launch of products, including offering them in both single sensor and user-friendly sensor modules. TDK has furthermore begun to offer high-precision position sensors that combine a TMR sensor with a MEMS motion sensor, utilizing TDK's magnetic technology, to apprehend the needs of customers seeking high-precision position detection.

We are moreover endeavoring to create an organizational structure oriented around the market, to achieve prompt market-in as part of our own transformation. In addition, we are actively planning to enhance our Monozukuri (manufacturing excellence) capabilities by fully leveraging

TDK's production technologies, know-how, and human resources, while also promoting a production base strategy to bolster cost competitiveness and the supply chain.

### **Growth strategies**

- Establish a "market-in" business approach, which captures market/customer needs to achieve "first-to-market," and a "concept-out" approach, which provides solutions based on concepts
- Expand collaboration with technology leaders and game changers that drive the industry forward
- Optimize the internal resources by transformation of organization structure

#### Competitive advantage

- TMR technology derived from long accumulated magnetic and thin-film technologies
- Temperature sensors with top share in the automotive market
- Our unique production methods, materials and processes technologies
- MEMS design technology and magnetic circuit design technology
- IC design capabilities of IC Sense and InvenSense, including expertise of sensor characteristics
- Product development capabilities by combining sensors and software

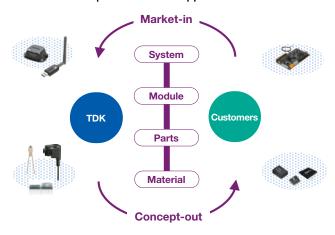
### **Business opportunities**

- Increased demand for sensors due to the utilization of Al
- Increased business opportunities due to electrification of vehicles
- Establishment of top position leveraging the cooperative relationships of existing and new businesses

#### Risks and issues

- The rise of new competitor companies
- Unpredictable price fluctuations in energy, raw materials, and distribution costs
- Geopolitical issues

### Market-in/concept-out business approach



### Market growth

TDK estimates that demand for sensor components will grow at a compound annual growth rate of 6% in line with the growing demand for EX and DX. By market, we estimate that growth in the automotive, ICT, and industrial equipment markets, will respectively progress in the manner illustrated in the below graph.



# TOPICS

## **Expansion of sensor products into** the automotive market

TDK sensor products are deployed in a range of applications. Among these, we are seeing the expansion of applications of TMR sensors, as well as temperature and pressure sensors, into the automotive market.

#### TMR sensors

Demand for TMR sensors can be expected to increase in line with the electrification of automobiles, including the shift to xEVs. We are also utilizing technology developed in

products for the ICT market to develop products for the automotive market, and have finalized an augmentation of the Asama Techno Factory to enhance our production system.



Expansion of Asama Techno Factory

#### Examples of automotive products in use



e-axle / Traction motor • Motor angle sensor



Battery management system On board charger (OBC) Invertor

Current sensor



EPS steer by wire · Steering angle sensor



Electric mechanical brake system Angle sensor for brake motor

### Temperature and pressure sensors

For xEVs, thermal management systems to control the temperatures of various vehicle components have become extremely complex. This is because there is a greater need than is the case in engine vehicles to better regulate heat to realize comfortable driving conditions while conserving battery power. In line with progress in the shift to xEVs, opportunities for TDK temperature and pressure sensors to contribute are expanding.

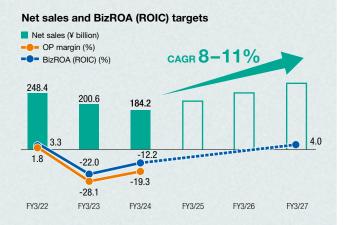
For example, unlike conventional air conditioning management in vehicles, BEVs require a heat pump that uses the properties of liquids and gases—namely the fact temperatures will rise in response to increases in pressures and fall when pressure is reduced—to adjust the temperature of the coolant, which serves as the medium for heat transfer. TDK temperature and pressure sensors may be deployed to fulfill this role, due to the necessity to control the temperature of this heat pump using pressure.

In addition to the above, it is anticipated that temperature and pressures sensors will be deployed in a variety of other applications, including battery management systems.



Operations at factory in Hungary (temperature sensors)

# **Magnetic Application Products**



#### Measures to improve net sales and BizROA (ROIC)

Net sales	Recovery of data center demand     Continued expansion of near-line HDD market
BizROA (ROIC)	<ul> <li>Profitability improvement of HDD heads and suspensions</li> <li>Improved productivity of magnets</li> <li>Curtailment of investment from the previous Medium-term Plan</li> <li>No new investments, only renewals</li> </ul>

#### Priority products and estimated market share

HDD heads	20–25%	Share No. 3
HDD suspension assemblies	40–45%	Share No. 1



## To-be in the long-term

Magnetic Application Products business's mission is clear: to maintain its status as the premier independent manufacturer in magnetic head storage, meeting the demands of the large-capacity data storage era. Our vision encompasses restoring profitability and ensuring business sustainability, advancing innovative technologies, particularly in heat-assisted magnetic recording (HAMR) magnetic heads, and scaling up of Tri-SA suspension shipments. Moreover, as for our efforts to deepen digital transformation, we're enhancing our data analytics and mining capabilities, and integrating them into our development and production processes to drive efficiency and innovation.

In FY March 2024, we saw a sudden slowdown in the market, but the data center market also appears to be bottoming out, so we expect the market see continued growth in the future. We will improve profitability by gradually increasing the mass production ratio of high-value-added products such as microwave-assisted magnetic recording (MAMR) technology while also incorporating the benefits of the restructuring implemented during the previous Medium-term Plan.

#### **Growth strategies**

• Maintain MAMR technology leadership, accelerate development of HAMR technology, and prepare for mass production

≡ Contents

- Optimize production capacity and operations
- Strive to increase market share of Tri-SA suspensions to support high capacity near line drives

### Competitive advantage

- Ability to continuously develop and mass produce new technology products
- Optimize production capacity and operations by continuously working on automation and increasing the use of big data

### **Business opportunities**

- Increase in demand for data storage due to the progress of Al technologies and the spread of cloud services
- Leading in medium- to long-term innovation in cutting-edge technologies

#### Risks and issues

- Curbs on investments in data centers and storage
- Cost reductions due to SSD technology innovations
- Unpredictable price fluctuations in energy, raw materials, and distribution costs
- Geopolitical issues

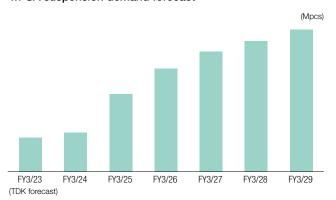
## Market growth

Demand for head gimbal assemblies (HGAs) bottomed out in FY March 2024, and will have a tendency to increase in the medium- to long-term due to an increase of the amount of data transaction generation and an expansion of HDD storage volume. With suspensions as well, demand for the Tri-SA system is expected to increase by roughly three times due to an increase in high-capacity models.

### **HGA** demand forecast



#### Tri-SA suspension demand forecast



# TOPICS

## The evolution of technologies in HDD heads and suspensions

TDK has developed innovative head technologies over the years. In 1987, we developed the thin-film magnetic head, which significantly increased recording density over conventional heads. In 2005, we commercialized the perpendicular magnetic recording (PMR) head, which broke the density limitations of Longitudinal Magnetic Recording. The perpendicular TMR head, which incorporates high-sensitivity TMR technology, has pushed recording densities even further, enabling higher-capacity HDDs.

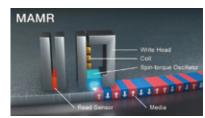
On the other hand, with the higher-capacity HDDs, the size of a recording bit within the recording (magnetic) layer has become so small that writing using current magnetic head technology is approaching the limits of physics. Two recording technologies is available to solve this problem: MAMR and HAMR. In the near future, the movement

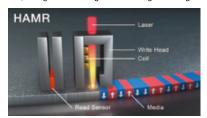
of mass production of HAMR is expected to realize as seen in the HDD technology roadmap below. We will accelerate to develop HAMR towards the full-scale of mass production.

In suspension products, the dual stage actuator (DSA) system used to be the mainstream, gradually shifting toward the Tri-SA system.

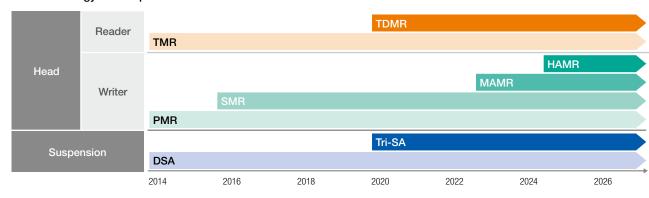
TDK will put next generation Tri-SA suspensions for high-capacity nearline HDDs on the market to expand further its share.

MAMR and HAMR, next generation magnetic recording technologies

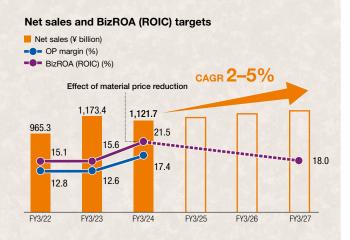




## HDD technology roadmap



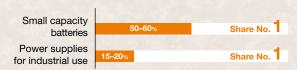
## **Energy Application Products**



#### Measures to improve net sales and BizROA (ROIC)

Net sales	Expand small capacity battery high-value-added products     Expand medium capacity batteries business
BizROA (ROIC)	Maintain and improve profitability of small capacity batteries     Increase earnings from medium capacity batteries     Optimize business assets including investments

#### Priority products and estimated market share





## To-be in the long-term

In our energy application products segment, we seek to contribute to "TDK Transformation" in two fields. The first is our contributions to achieving a sustainable society that give consideration to the environment, such as GX and EX. In our medium capacity batteries business, we will push forward on expanding our energy storage system (ESS) for commercial and industrial use and promote making renewable energy the main source of power. In our industrial power-supply business, in addition to our existing product portfolio, we will expand our renewable energy and battery-related products. With respect to the electrification of vehicles, we will create the infrastructure for a full-scale launch of batteries for electric motorcycles.

Second is our contribution toward transforming people's lives into ones that are better and richer. The silicon anode-using lithium batteries that TDK has developed were installed in smartphones for the first time in the world last year. It is a technology that achieves higher energy density compared to conventional batteries, and can provide one with a real sense of how smartphones are lighter and thinner. By using innovative new technologies of this sort, we hope to deliver a new user experience to the world.

### **Growth strategies**

- Maintain and enhance top position in the market for small capacity batteries by continuous development of cutting-edge technologies
- Establish the top position in the medium capacity battery market as a supplier
- Further enhance market competitiveness by strengthening differentiation technologies and cost competitiveness

### Competitive advantage

- Ability to develop cutting-edge technologies as a technology leader in the industry
- · Capability of management transformation based on "Capability to envision the future" and "Capability to execute"
- High-reliability mass production technology, thorough safety risk management
- Cost optimization technology and production engineering technology capabilities
- Broad customer base and long-term partnerships

#### **Business opportunities**

- Further expansion of applications requiring high-performance rechargeable batteries
- A boost in the high-end smartphone market due to the expansion of high-function devices, such as foldable smartphones and Al smartphones
- Increased added-value in LIB due to silicon anodes and other new differentiation technologies
- Expansion of the storage battery market and demand for related devices due to the accelerated introduction of renewable energy (rechargeable battery and industrial power supply businesses)
- Local demand increase in growth markets such as India

#### Risks and issues

- Uncertain supplies of raw materials and semiconductors due to sharp expansion of the EVs and renewable energy markets
- Unpredictable price fluctuations in energy, raw materials, and distribution costs
- Geopolitical issues

## Strategy by Segment Energy Application Products

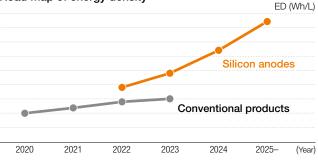
## Small capacity batteries growth strategy

With regard to small capacity batteries, we will support the evolution of small electronic devices such as smartphones through advanced and innovative technologies.

### 1. Offer new value through innovative technologies

We will enhance the user experience through advanced technologies. Specifically, silicon based on a new structure will improve stability during charging and discharging. Increasing the silicon content to improve energy density is conducive to such purposes as downsizing and lowering profiles as well as longer periods of use.

Road map of energy density



2. Implement a China plus one strategy in view of geopolitical risks



In India, we began the pack production process for batteries in 2017. In 2022, we also started cell production. In 2025, we plan to begin production in Sohna, India.

#### 3. Maximize business value by strengthening the value chain

With regard to materials procurement initiatives, we will work to strengthen our value chain and maximize business value, including strategic initiatives such as investments in materials suppliers.

## Medium capacity batteries growth strategy

In the area of medium capacity batteries, we will pursue the following three core values to attain in the medium to long term our target position of being number one in the world:

### Medium capacity battery market demand growth



### 1. Superior Customer Service

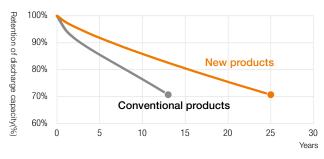
TDK is targeting the markets for such applications as ESS, electric motorcycles, and power devices (such as drones). Our ability to deliver products tailored to the needs of our customers and the characteristics of devices thanks to being able to draw on a broad range of aspects as our materials

technologies and product platforms is one of our strengths.

### 2. Technology Advancement

We aim to expand our market share with technology and product strategies that further increase customer value. In particular, for the ESS market, we aim to expand our market share with extremely long-life (20 to 25 years) span products based on the life spans of solar power panels and for power devices, Jumbo-Power, which provides high output power.

### Comparison of retention of discharge capacity and life span



## 3. Operational excellence

We will work to expand the capacity of new manufacturing sites to meet demand and sales growth going forward, with our goal of cementing our status as number one in the industry in terms of Q (Quality), C (Cost), and D (Delivery).



Manufacturing site in Xiamen, Fujian

## **Pre-financial Capital That Backs TDK's Value Creation**

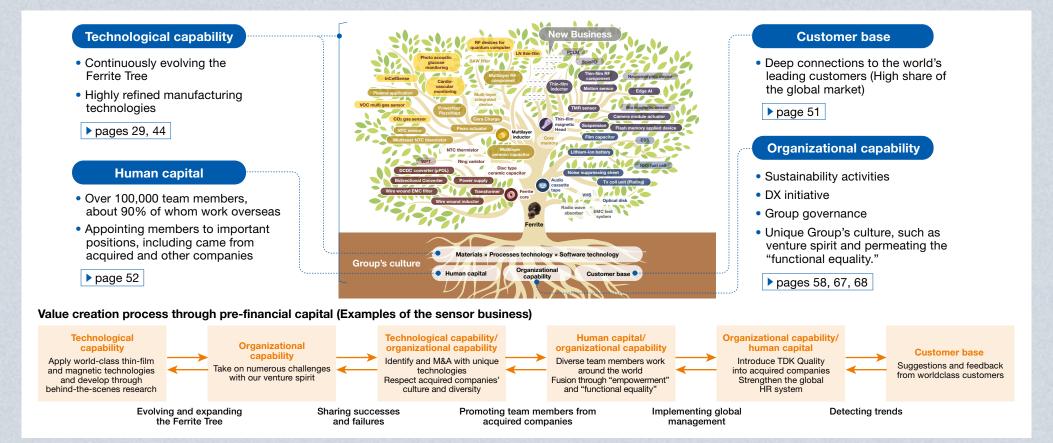
Just as its roots below the ground are vital for a tree to grow, so the enhancement of pre-financial capital, such as technological capability, human capital, organizational capability, and customer base, are important for the further substantial evolution and growth of the ferrite tree. The technological capability, organizational capability, and customer base we cultivate for the success of a single business, including some failures, are shared across the company and inherited for the next opportunities.

Also, at the foundation of the pre-financial capital is our Group's culture we have embraced since our founding, our

venture spirit and a functional equality. Functional equality is one of our values to encourage discussions in an open and equal atmosphere, based on functions (roles) rather than hierarchy. Have the courage to take on new challenges and embracing a functional equality. Encourage open discussion as equals regardless of role or title and respect the existing cultures of the companies we acquire. Learn from each other globally and generate a unique synergy. By valuing this culture, we have successfully created innovative new products throughout the years.

## Our thinking regarding pre-financial capital

At TDK, corporate management must pursue more than financial value. It is also critical that we increase our corporate value by balancing ESG and other activities that generate pre-financial value. TDK considers technological capability, human capital, organizational capability, and customer base and so on, which are called "non-financial capital" in general, to be capital that generates future cash flows and expresses it "pre-financial capital."



# Putting a further polish on the technology platform that is a TDK forte

TDK has declared in our Long-term Vision "TDK Transformation" that we will "become the No.1 partner growing alongside our worldwide customers by pursuing continuous transformation," As CTO, I believe that putting a further polish on the technology that above all is a TDK forte is crucial toward making that statement a concrete reality. Our greatest technological strengths lie in materials, but that is not limited solely to our capability to develop and manufacture superior materials. The very fact that we have strengths in core technologies related to Monozukuri (manufacturing excellence) in the forms of the know-how about how to use materials based on a deep understanding of their physical properties and the process technologies for getting the most

of the materials' physical properties makes it possible for us to propose technologies that will help our customers to set their products apart.

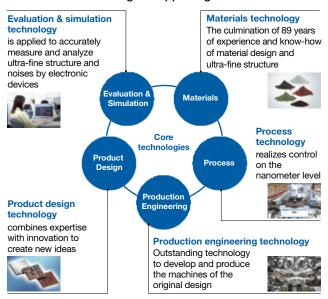
Another major advantage is that we can develop a wide range of products by structuring these technologies as a technological base and platform, rather than hanging on to them as individual elemental technologies. These technologies include materials technology sourced from ferrite; process technology including thin-film deposition, multilayer process, and micro-fabrication; evaluation and simulation technology for realizing smooth development; product design technology for integrating multiple components to achieve high performance; and production engineering technology that provide for stable mass production. We at TDK have effectively used these platforms to quickly deliver solutions that respond to the

changes and increasing sophistication in the technological requirements of our customers, and we have broken ground on new product domains.

One of the leading examples is our battery business, which has grown into the Group's largest business. A major key of the innovation of film-type lithium-ion batteries, which TDK has made practical use, is the mixing and coating technologies used to form electrodes on ultrathin sheets. That in turn is a further advance on the technologies TDK had cultivated for years in the cassette tape business. Magnetic sensors are another product that is a TDK forte. The unique materials and process technologies used for these are further refinements of the technologies we cultivated with magnetic heads for hard disks.

Furthermore, TDK has developed the new nine-axis sensor by combining this magnetic sensor technology with the six-axis motion sensor technology of North America's

#### The five core technologies supporting TDK's Monozukuri



InvenSence, a company that TDK acquired in 2017. The fact that these can detect absolute position and direction on their own means there is no need for an external micro controller or CPU to do the calculations, enabling smaller sizes and power savings. TDK plans to develop them as essential, key parts for the AR/VR goggles that are expected to serve as the information devices that will come after smartphones, as well as for robot controls and so forth.

Thus, at TDK, we have refined the technologies developed in one of our businesses to create a platform, and we have managed to develop more advanced new products and new technologies. In order to further strengthen these technology platforms, we need to first further refine technologies for materials, processes, and the like in each business division. In addition, as CTO and general manager of the Technology and Intellectual Property HQ, using the following three approaches I intend to accelerate the development of our technology platforms.

The first is to search for and take the lead in developing "Disruptive Technology" that could possibly replace current products and technologies. For example, in the field of recording media, as a result of technological innovations, magnetic tape has been replaced with various anchor products including optical media, followed by HDDs, SDDs, and so forth. The crucial thing is to recognize these signs and prepare the next move in advance so that one can accurately respond to these changes in technological trends and market demands. I believe that, even if a given product is one for which TDK holds the largest market share, at the same time we have to do research and development on new technologies whose impact may be so much that we need to terminate that product in the future.

The second is our response to cutting-edge technologies. For example, we will research how new technologies such as Al, AR/VR, and digital twinning can be incorporated into existing TDK businesses, and move forward with preparations for advancing into new technological domains.

The third approach is to further advance the analytical evaluation and simulation technology that is also a part of our company-wide technology platforms. It is necessary for us to develop a more substantial environment for realizing smoother technological development in each business division. By steadily carrying out these measures, I hope that we can turn TDK's technological advantages into something more rock-solid.

## Getting market-in concept to permeate into an organization that is technology oriented, and strengthening the capability to envision the future

Another crucial point when it comes to realizing "TDK Transformation" is strengthening our capability to envision the future. TDK is a company that has grown making use of its technological capability, and is one where the "technologyout, product-out" orientation remained strong. One of our greatest strengths has been that not only our engineers but also top management and staff from sales and administrative divisions were quite familiar with the technologies, used that to come up with strategies, and were able to understand the issues facing our customers. However, with such changes to the environment as a worsening of the climate change problem and the digitalization of society accelerating, we will have to not only understand the issues that our customers face today but also their visions for the future. If we do not work together with our customers to envision and then make practical the products and technologies needed to realize a sustainable future, we will not be able to "become the No.1 partner growing alongside our worldwide customers by pursuing continuous transformation."

In 2021, we established our Corporate Marketing & Incubation (CM&I) HQ, a cross-business organization meant to further strengthen this market-in concept. CM&I HQ sweeps its antenna across TDK's wide-ranging markets, customers, and product applications while also making use of information about the latest technological trends obtained from TDK Ventures,

which is our corporate venture capital firm investing globally, to search for themes for new product and technological development to respond to changes in the environment.

By strengthening collaboration among divisions including the CM&I HQ and our technology divisions going forward, we will percolate this market-in concept throughout the company and further strengthen our capability to envision the future as the TDK Group. We will also establish a framework wherein our human resources performing their various functions from a variety of countries and regions work together, where they envision the future together with our customers from both technology and market perspectives, and where they promote new business development and innovation.

## Strengthening our capability to respond to software, realizing better solutions to our customers' issues

Strengthening our capability to develop software will also be a major issue going forward. To date, TDK has grown as a hardware manufacturer that develops and supplies electronic devices and the like. However, as our customers' needs have grown more sophisticated and diverse, in recent vears there have been more and more cases where rather than only devices we are delivering modules that incorporate software into devices or multiple devices and systems with modules installed.

For example, a temperature sensor is a device that detects temperatures changes as a change in a resistance. However, the function that our customers need is not that resistance but rather of a specific temperature display, as they will take whatever actions in conjunction with temperature changes. In order to realize such functions at a higher level and realize better solutions to our customers' issues, rather than just supply individual devices we need to have the capability ourselves to also develop and supply software that gets the most out of those devices' performance.

Of course, to accomplish this we need to research to grasp what sorts of functions our customers want from our devices now and what sorts of functions they will want in the future. Furthermore, we still have insufficient numbers of software engineers in the Group. Our plan is to push forward to achieve a balance between strengthening such research and broadening our software development system.

Furthermore, I believe that not only our software engineers but also the engineers responsible for designing the devices themselves and developing the materials for them will need to further hone their knowledge and skills regarding software. This is because, in order to provide our customers with better solutions, it will be crucial for our hardware and software engineers to think together not about developing hardware and software separately but rather how to design them as a total system. They will need to design hardware and develop materials that anticipate the software that will be installed.

## Making effective use of our IP landscape, and strengthening IP intelligence functions

Essential to TDK maintaining and strengthening its competitive advantages in the market is making effective use of its intellectual properties, including patents. In response to the globalization of our businesses and R&D, we have established intellectual property divisions at our business companies in each region. Each business company works together with our corporate intellectual property divisions on patent applications and intellectual property management in accordance with the business characteristics and laws and regulations of each region. Furthermore, we have introduced our "IP Landscape" as a tool for not only "protecting" our technologies and businesses through intellectual property, but also for "proactive" that apply intellectual property information toward future business growth. Rather than being a simple patent map, this is an analytical tool that superimposes information about technology trends in the market, trends among competitors, our own business and product roadmaps, and so forth. It is used at management level for

formulating strategy, and also for the management of business and technologies in each business division.

Going forward, we will further develop this initiative and further strengthen the Group's intellectual property intelligence functions. Namely, we will of course analyze and determine how to obtain patents and how to manage and use intellectual property in each part of the world, but also—with IP providing our point of view—what sort of development to pursue in the future and in which directions to pursue business. Toward that end, staff in a wide range of divisions that includes not only intellectual property divisions but also corporate planning, each business division, and R&D must make effective use of the IP landscape. Meanwhile, it is crucial that the intellectual property divisions go beyond their simple staff functions to raise their status from an intellectual property standpoint to that of strategic advisors and in-house consultants who help each division with making correct analyses and decisions about information. Setting our sights on such a transformation and organizational evolution, we are currently working to strengthen collaborations between the Technology & Intellectual property HQ, the CM&I HQ, the Corporate Strategy HQ, the Finance & Accounting HQ, and other divisions.

## Handing down a culture where every engineer finds their own development themes and takes on challenges

We are now accelerating to transform ourselves for realizing our Long-term Vision "TDK Transformation," but at the same time there are also those things that we must uphold. These are our Corporate Motto of "Contribute to culture and industry through creativity," and our Corporate Principles of "Vision, Courage, Trust" This is because TDK engages in a variety of businesses worldwide, and for "TDK United" which includes overseas subsidiaries and companies joined the Group through M&A—to continue to grow with a sense of togetherness, it must have such philosophy and a sense of values that provide a core common to the entire company.

Providing a major force toward making these a reality is

TDK's unique R&D culture, where engineers think up their own themes and take on their own challenges. In fact, most engineers at TDK not only take on development themes that have come down from the top, but have also continued steady research on themes that are of personal interest to them and themes in which they have discovered possibilities. The company also has a culture of supporting rather than rejecting autonomous activities by its engineers. There have been more than a few instances of new products and technologies resulting from this bottom-up R&D work, and they have been used to solve issues faced by customers.

≡ Contents

In order for TDK to continue coming up with innovations and lead the market in technology, I believe this unique culture must be carefully handed down and developed further. In particular, I want to see emerging talent more proactively take on the challenge of new technological themes. The development of quite novel technologies frequently comes with failures and setbacks, but there is nothing to be gained if you worry about that and give up on taking the challenge in the first place. I believe that it is extremely important for engineers to learn from their failures in order to hone their skills. Even with a failure, if you can carefully analyze the reasons for it, the next time you won't repeat the same mistake and possibility of succeeding at those things you attempt will rise. For that reason, I am requesting that everyone to write reports about those matters where they have failed. If you share them with everyone, then not only that person but other members, too, will be able to avoid failing in the same way.

In this way, if there is something to be gained from failures rather than viewing them all in a negative light, I believe that those failed attempts at taking on challenges should be evaluated in a positive light. I want to see this positive way of thinking reflected in our evaluation systems going forward, and create an environment where engineers do not fear failure but rather can take on the challenges of coming up with innovations with even greater courage than ever.

## Promoting an "proactive" IP intelligence strategy to enhance our capability to envision the future

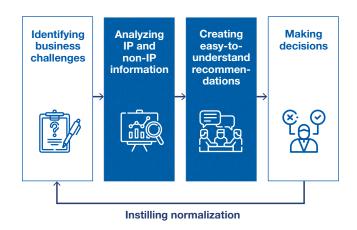
## Strengthening inter-functional collaboration and seeking value creation utilizing intellectual property as its guiding perspective

Based on our Long-term Vision of "TDK Transformation," TDK has set its sights on being the "No. 1 partner to our worldwide customers," as we actively work with customers to conceive of and realize products and technologies to support a sustainable future. To enhance our capability to envision the future, TDK does not confine itself to "protecting" intellectual property activities that protect its core technologies via patents, but additionally promotes an "proactive" IP intelligence strategy, by which it links intellectual property information to returns in the form of business growth by actively utilizing this information to make new proposals to our customers and to develop new products and technologies. Specifically, we are strengthening the inter-functional collaboration between the intellectual property divisions and corporate planning, marketing, finance, corporate venture capital (CVC), and other divisions, while pursuing new value creation utilizing intellectual property as its quiding perspective. This is enabling us to realize, for example, proper disclosure of pre-financial information in compliance with the Corporate Governance Code; IP landscaping practices to link intellectual property information with marketing; and better investment decisions in tech start-ups.



## Analyzing IP and non-IP information to support improved decision-making

IP intelligence plays an additional important role in the formulation of business and R&D strategies by our business and technology divisions. For example, if a customer or competitor undertakes a newspaper announcement or issues a press release, our intellectual property divisions will analyze aspects including each company's aims and product strategy, based on factors such as its patent application patterns, and report this information to the business and technology divisions as important information for TDK's own strategic planning. A company's strategies for development investments can be understood as a line through completing analyses of its number of patent applications and trends in its areas of focus over time. It is then possible to infer a company's development and business strategies by matching this information with the points represented by newspaper announcements and press releases. Combined analyses of IP and non-IP information of this kind allow the visualization of trends among customers and competitors and thereby support improved decision-making.

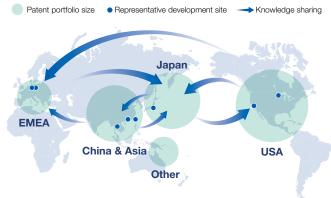


We do not only provide IP intelligence at the request of business and technical divisions, but we aim to make IP intelligence a regular part of their activities.

≡ Contents

## Sharing best practices worldwide

TDK has welcomed a variety of overseas corporations into the Group through cross-border M&A. Intellectual property systems differ from country to country, and distinct workstyles and cultures also exist at companies that have joined the Group through such M&A. With this in mind, and to realize optimal IP management on a global level, TDK implements IP management that respects the local characteristics and the unique features of each company through the delegation of authority and increased transparency in its activities. As a result, diverse best practices and IP intelligence have been generated at respective sites, with these then shared across all Group companies to further enhance the intellectual property activities of the entire TDK Group.



## **Development of New Business and New Products**

To contribute to the transformation of society, TDK is developing a variety of new products by applying the spintronics technologies that it has accumulated through HDD head manufacturing and combining materials and process technologies as well as software technologies. We introduce three examples of applications achieved through the inter-organizational activities that we are emphasizing.

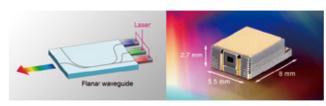


### AR glasses, etc



## Full color laser module

TDK focused on new Planar Waveguide Technology\* that neither uses a lens nor mirror in order to achieve significant reduction in module size. Laser beams emitted from the new module are visualized onto a MEMS mirror, then reflected off a lens and projected directly onto the eye's retina. Unlike how one sees real objects, images projected directly onto the retina will always be sharp, without the need to adjust focus. When used in AR glasses, which layer images over the view of an environment, all elements stay in focus, making it possible to provide a more realistic and higher-quality AR experience.



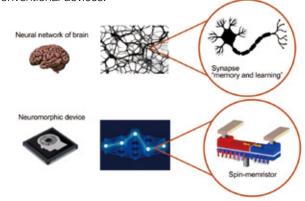
\* Planar Waveguide Technology: The technology for forming optical waveguides similar to those in fiber optics, but on a planar substrate

#### **Data center**



## **Neuromorphic devices**

With the expansion of Al usage, the energy consumed by computers has been increasing explosively. TDK is developing a spin memristor, an analog memory element that electrically mimics the synapses in the human brain. Devices that utilize this technology, known as neuromorphic devices, are expected to be over 100 times more energy-efficient than conventional devices.



#### Predictive maintenance solutions



## A solution business that integrate sensors, edge AI, and networks

The i3 Micro Module, an ultracompact sensor module with onboard edge AI, integrates various sensors (vibration, temperature, sound, barometric pressure, etc.), edge Al, and a mesh network function and can confirm the status of machinery and equipment without relying on humans, minimizing down time and contributing to a higher productivity. By adding Auto ML edge Al functions from Qeexo, high added value from edge sensing combined with edge Al can be achieved, making it possible to provide sensing solutions that contribute to the implementation of DX and improved productivity by customers.



Sensor module

Machine learning

• TDK established Al venture. TDK SensEl Pte. Ltd https://www.tdk.com/en/news\_center/press/20240730\_01.html

## **Design and Production (Monozukuri)**



## Hisayuki Abe

General Manager, Production HQ and General Manager, **Production Strategy Planning Group** 

## Reinforcing Monozukuri by optimizing our production technology portfolio

In order to achieve our Long-term Vision of becoming the No.1 partner, growing alongside our worldwide customers, we need to transform TDK's Monozukuri (manufacturing excellence). TDK has adopted a medium- to long-term perspective and is advancing and deepening the basic technologies (five core technologies) that support our current production activities while developing unique technologies that adopt perspectives such as energy conservation.

Over the medium term, we will advance development of production processes from an early stage so that we can respond immediately to the product roadmaps of business divisions. Over the long term, we will take active measures to advance technology, including internal and external technologies as well as technologies from other industries, and undertake innovative Monozukuri. We will also employ

technologies such as DX and AI to fortify our Monozukuri foundations and take measures to accelerate the pace of development and reform business.

In this way, we will optimize the allocation of resources to innovative elemental technologies, processes, and device development Group-wide so that we can improve our Monozukuri capabilities in parallel from a variety of angles while enhancing Monozukuri human resource training to make maximum use of individual capabilities and generating new value.

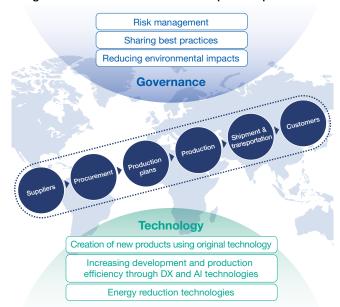
### Initiatives throughout the entire value chain

TDK is taking action to optimize its entire value chain. In April 2023, we created a system that integrates all processes from receipt of orders to transportation and includes the pursuit of zero defects, responses to procurement, geopolitical risks, and so on to ensure stable supplies of high-quality products to customers around the world. For example, we are globally deploying a production system that centrally manages information on the place of origin of raw materials used in production around the world, the substances contained in products, and the laws and regulations of relevant countries. We are also conducting common governance operations so that we can respond to a variety of conceivable risks.

Regarding CO<sub>2</sub> emissions reductions as well, in addition to reducing emissions generated in production, we are also cutting Group-wide CO<sub>2</sub> emissions from the entire value chain, including Scope 3.

≡ Contents

### Integrated measures from order receipt to shipment



#### **Example of Initiative**

## **Development of Monozukuri human resources**

At TDK, the Production HQ is focusing its efforts on the training of human resources to reinforce Monozukuri. We conduct training on the fundamentals and key points of Monozukuri and systematically and continuously develop human resources who can drive the evolution of manufacturing sites.

Veteran team members (employees) with high levels of knowledge on Monozukuri pass their varied expertise down to other members, developing human resources who can perform core roles in manufacturing. We also conduct training for IT and maintenance engineers and introduce new technology by inviting external lecturers to give talks.





## Takeshi Takahashi

Corporate Officer Chief Officer of Quality. Safety and Environment and General Manager, Quality Assurance HQ

## Reinforcing upstream management through digital transformation of the 3Qs

TDK is further reinforcing its quality assurance activities with the 3Qs-human resource quality, technological quality, and systematic quality as the theme. In addition to existing measures to address these "3Qs," we are introducing technologies such as analysis of big data and deep learning. We are supporting design through system development using prediction and prevention of in-process problems and AI with these tools and achieving upstreammanagement-type quality assurance that prevents defects in the product planning and equipment design stages.

We set pursuit of zero-defect product quality, reduction of quality failure costs, and enhancement of customer

satisfaction as goals in the new Medium-term Plan. To achieve these goals, we are reinforcing upstream management in terms of both software and hardware. Specifically, we are developing autonomous Al control systems that can enable equipment to automatically set manufacturing conditions and adjust equipment, introducing Al concierge functions in design reviews, and taking other DX measures.

To anticipate and respond to application changes by customers in recent years, we will seek to anticipate changes in reliability requirements for products and establish advanced reliability technologies. Through these activities, we will reinforce upstream management.

#### What are the "3Qs"?

3Qs	Measures
Human Resource Quality Sustained quality improvement activities facilitated by raising quality awareness and practical skills	Introduction of DX to QC education and implementation of small-group activities     Development of on-site DX human resources through the implementation of DX in quality management operations
Technological Quality Sustained quality assurance initiatives keyed to improvements in quality technology and preventive measures	Development of autonomous Al control systems     Introduction of Al concierge functions to design review
Systematic Quality Sustained quality improvement activities mobilizing quality management systems structured to integrate TDK's distinctive Monozukuri know-how with international standards	Establishment of reliability technology in response to new customer requirements and applications     Establishment of supply chain management that includes EPQ* and software requirements that anticipate future markets

<sup>\*</sup> EPQ: Environmental product quality

## **Example of Initiative**

## Digital transformation of design review: introduction of AI concierge functions

TDK's Quality Assurance HQ believes that creating high-quality new products will require upstream approaches that start with product design and is developing Al concierge functions that can be used during all design review stages. Simply put, an Al concierge function refers to an advisory function that draws designers' attention to things they may overlook. During day-to-day development work, it is necessary to quickly find the needed decision-making materials from within a massive amount of technical information. The Al serves as a concierge to provide advice on this.

Many business organizations in the TDK Group have accumulated extensive know-how in product design. Representative examples of this are the valuable lessons contained within the troubleshooting that has been performed in the past. By having an Al concierge extract information during each stage of design review, it will be possible, for example, even for new engineers who were recently hired to identify optimal solutions equivalent to those found by seasoned veterans.

The TDK Group will proceed in step with this global trend and create products that even more customers can use with confidence.





## Michael Pocsatko

Senior Vice President General Manager, Corporate Marketing & Incubation HQ

## CM&I initiatives to expand business activities

The Corporate Marketing & Incubation (CM&I) HQ vision is to transform TDK and expand by Exploration. CM&I was established as a cross-business organization to quickly identify market and customer needs and to strengthen the market-in function so that TDK can respond promptly to potential needs and collaborate across the organization.

We promote a "Market Centric - Customer Pain" focused approach to develop and implement new Business Models. We strive to enable "best in class" products = "King of the Hill," to ensure the early adoption of our ideas. To create something new, we sometimes consider system or even software business models. Concretely, the CM&I-team ideates to generate new revenue, accelerates growth through incubation projects, establishes new internal startups and consolidates incubation activities and processes. We embrace the new corporate strategic direction of transformation through a diverse toolbox of novel methodologies including bridge building between crucial TDK innovators such as technology and intellectual property (Tech & IP) HQ, TDK Ventures, Business Companies, and other internal and external global partners.

We intensify homegrown entrepreneurship in the form of TDK's initial internal startups (TDK Kindergarten), and the scaling of incubation projects like i3 Micro Solution—realization of predictive maintenance based on edge Al.

## Strengthened cooperation with Tech & IP HQ

To enhance support for Tech & IP HQ, the two departments will jointly develop, establish, and deploy an innovation process management system to raise the commercial success rate of R&D. CM&I will support Tech and IP HQ with market and customer "in" development requirements, as well as define market potential for technology, product, and solution "out" projects. The teams will collaborate to validate desirability, feasibility, viability, and customer value.

We will delve deeper into market and technology mega trends, customer and partner requirements through cross functional technology roadshows, user experience (UX) caravans and pinpoint research.

## **Example of Initiative**

## Internal incubator program **TDK Kindergarten**

Internal incubator program TDK Kindergarten aims to create TDK's next superstars by empowering a culture of entrepreneurship within the organization. The program is designed to ideate, create, and accelerate groundbreaking ideas by leveraging TDK's core capabilities.

≡ Contents

We always start with customer pain so that we do not build something that nobody wants to use or buy. TDK team members (employees) with an idea can explore his/her dream by understanding customer pains, how they behave, and how they make decisions. We differentiate between must solve and nice-to-solve customer pains. We validate or invalidate hypotheses. We are planning to provide a fellowship program so that more TDK members learn the new customer-centric agile working style.



Working on a project created by TDK Kindergarten

## Message from the CPSO and General Manager, Human Resources HQ

**TDK Transformation fosters sustainability and** future-shaping capabilities

## **Andreas Keller**

Senior Vice President Chief People and Sustainability Officer and General Manager, Human Resources HQ

#### **Profile**

Andreas Keller joined the company in 2000 and has held several positions. Prior to assuming his current role, he served as Executive Director of Human Resources and Supply Chain Management at TDK Electronics Europe GmbH. In 2017, he was appointed General Manager of Human Resources and Administration Headquarters. In April 2023, he was appointed Chief People and Sustainability Officer, where he leads the development and implementation of human resources and sustainability strategies. He concurrently holds the position of General Manager of Human Resources Headquarters, overseeing the strategic direction of human resources initiatives.

At the core of the TDK Group lies a robust management structure that oversees the growth and development of over 100,000 team members (employees) across a network of more than 100 companies worldwide. This expansive network not only focuses on maximizing each member's value-creation capabilities but also cultivates an environment conducive to individual growth. This approach serves as the bedrock of TDK's success, offering substantial potential for continued expansion and development.

As Andreas Keller, who is spearheading TDK's Human Resources HQ, enters his second year as Chief People and Sustainability Officer, he aims to illuminate how the

company will expedite its transformation journey. By amplifying the intersection of human resources and sustainability initiatives, TDK is set to embark on a path of accelerated growth and innovation.

I feel that the world presents TDK with numerous environmental, social, governance (ESG) issues, often associated with the environment. However, sustainability encompasses a broader spectrum beyond environmental concerns, including social and governance aspects. Our Long-term Vision and aim are built on two main pillars: TDK's contribution to societal transformation and its internal evolution to enhance effectiveness and drive growth for better societal service. We call this vision, TDK Transformation.

## **Empowering team members to drive value creation**

We are dedicated to nurturing a sustainable future while continually enhancing corporate value, in order to be the customer's indispensable No.1 partner. Spearheading this mission is the Sustainability Promotion Headquarters, which is committed to realizing a sustainable society in harmony with TDK's Long-term Vision "TDK Transformation," to accelerate transformation for a sustainable future.

To fulfill this agenda, we foster a culture of My Sustainability Action (MSA), where each team member is empowered to act with personal dedication and a proactive desire to contribute. This ethos extends beyond mere compliance to encompass a broader range of global issues, making sustainability a personal responsibility for all TDK members.

Since the establishment of Sustainability Promotion Headquarters in 2019, we have cultivated a system where frontline members actively consider how to leverage our technology to address diverse challenges, integrating these solutions into our business strategies. Rather than viewing sustainability initiatives as mere costs, we have embraced them as opportunities for innovation and future growth.

## Sustainability initiatives for the year ahead

In the upcoming fiscal year, my focus will center on three key areas outlined in our Medium-term Plan: fostering value creation through engagement in MSA, strengthening our social responsibility management system, and addressing global environmental challenges.

I plan to enhance team member engagement by leveraging our Group's shared platforms, such as MSA and MSA Guides, and by promoting internal and external initiatives through the DX for Sustainability+ project. Over the past five years, we have undertaken more than 80 projects as part of our global management development programs, with

approximately one-third of them touching on sustainability in some capacity. These projects have played a crucial role in raising awareness among our members, fostering a common understanding of sustainability within the Group.

Looking ahead, I aim to accelerate TDK's sustainability transformation by further encouraging active participation in our projects. For me, sustainability encompasses achieving a balance between environmental and social concerns and economic prosperity. I believe that prioritizing the continuous development and well-being of our team members is key to establishing TDK as a sustainable organization—one that contributes to building a sustainable company, society, and future.

### **Human resources strategy**

TDK has identified the promotion and cultivation of a diverse pool of human resources as one of its key issues (materialities) in realizing our Long-term Vision. We particularly focus on enhancing team member engagement to bolster sustainable human capital for continued growth and development. Under my leadership, I aim to foster a corporate culture that values diversity, promotes inclusive leadership, and empowers all members to make meaningful impacts.

Success cannot be achieved in isolation or by working within organizational silos. We all share a collective responsibility, and it is essential to connect and collaborate across departments and organizational boundaries to thrive.

## Advancing leadership and organizational growth

To foster diversity, equity, and inclusion within our organization, I am committed to appointing leaders from diverse backgrounds and cultivating inclusive leadership styles. Leaders who draw on diverse experiences and knowledge accelerate the transformation of the entire Group through inclusive leadership. Secondly, I aim to enhance our organizational capabilities to drive innovation and efficiency. Lastly, I am committed to further improving

the health and engagement of our team members. Regarding environmental and social issues, my focus is on addressing these challenges while upholding human rights and tackling climate change.

## TDK initiatives developing tomorrow's leadership

We have been actively developing the next generation of business entrepreneurs and planning for succession through a variety of programs, including the Global Management

Development Programs and TDK Kindergarten where internal start-ups are nurtured. Guided by our principles of Empowerment and Transparency, we ensure that all Group companies adhere to the same programs and objectives, while granting each company and leader the autonomy to handle detailed planning and on-site management. This approach, underpinned by mutual support and the sharing of progress and information, is essential for the success of inclusive leadership.

## Our Long-term people strategy

Long-term Vision

- · Contribute to the transition towards a sustainable future by accelerating the transformation of society and advancements in technology enabled by electronic devices developed using cutting-edge innovation in materials, processes, and software technology.
- Become the No. 1 partner growing alongside our worldwide customers by pursuing continuous "transformation."

Leaders and HR Functions collaborate to increase value of human capability in talent, organization and leadership. Together they foster a corporate culture that values diversity, promotes inclusive leadership practices, and creates an environment where all team members feel valued & included and create impact.

**TDK United HR** 

Transforming Human Capability with

**Empowerment &** Transparency

#### **Attract and Develop Talent**

Attract and develop diversified and intelligent team members to enhance competitiveness. We find talented people worldwide and enable them to create impact.

#### **Global Leadership Pipeline**

Execute Global Management Development Programs to develop future leaders, create & manage succession plan to all TDK key positions, and enable talent mobility.

#### **Inclusive Leadership Practices**

Our leaders lead by example. They actively demonstrate inclusive practices, drive TDK Transformation, and promote culture. They are evaluated on clear goals, open feedback. & broad value creation.

#### **Organization Capability and Efficiency**

Create a continuous learning culture to improve individual and team capability, communication, and productivity through an operating model that integrates and digitalizes organizational processes.

**Team Member Health and Engagement** 

Develop and implement health programs, listen to and act on team member voices to improve engagement and retention, enhance employer branding, and develop TDK as an employer of choice.

One aspect that concerns me is how we can sustain our progress while considering the global landscape. It is common knowledge that Japanese companies often seek to adopt Western management styles when expanding globally. However, I firmly believe that TDK's true success lies in our capability to blend both approaches. That is why our top leadership program, the Global Executive Management Program (GEMP), collaborates with both a top Western business school in Barcelona and a Graduate School of Leadership and Innovation in Tokyo. In the last leadership program session, roughly half of the participants were Japanese, with the other half coming from various countries worldwide, resulting in a diverse mix. Participants learned

from varied approaches, fostering a vibrant exchange of ideas. I am committed to ensuring that we continue this balanced approach, rather than focusing too heavily on one perspective over the other.

Reflecting on our company's growth and workforce demographics, when I joined TDK in 2000, we had roughly 35,000 members. Since then, numerous companies have joined us through mergers and acquisitions. Now, we have around 100,000 members. About 80% of our members joined TDK through M&A activities. Of the roughly 100,000 members, about 11,000 are based in Japan, with the remaining 90,000 located outside of Japan. This diversity is what makes TDK so unique. I have noticed that human

resources leaders from other Japanese global companies have been reaching out to us, interested in learning how we manage such a diverse population. This uniqueness gives us a significant advantage compared to our competitors.

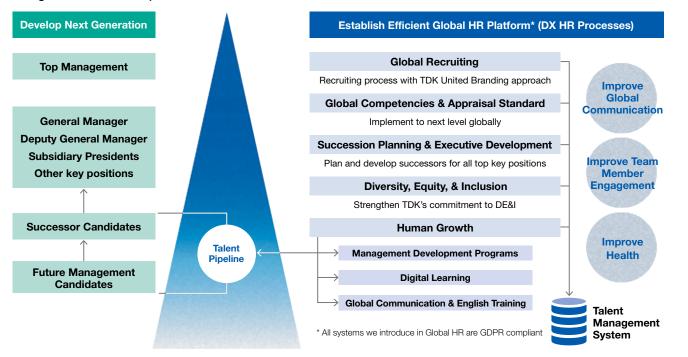
### Strengthening our foresight capabilities

To achieve our vision of becoming our customers' No. 1 partner, we must transition from a product-out approach to one centered on discussing and co-creating various futures with them. This shift requires foresight capabilities, where each team member envisions potential market scenarios. I believe the following three approaches can enhance our members' future envisioning capabilities.

Firstly, we aim to foster an environment that encourages innovation. By decentralizing authority to our subsidiaries and implementing programs like TDK Kindergarten, we encourage creativity and entrepreneurial thinking. Through this program, TDK's first internal start-up business has been underway, which aims to solve electromagnetic compatibility (EMC) for consumer electronic companies. We will continue the program to bring out the creativity and future vision of our team members.

Secondly, we prioritize knowledge sharing and collaboration across regions and divisions through Weconnect, a group-wide e-Learning platform. This platform facilitates the creation and dissemination of courses, enabling members to acquire skills quickly and efficiently. For instance, our global leaders collaborated to develop standardized quality training modules. These modules were created through working groups, validated by our headquarters, and then translated into multiple languages for global accessibility. This streamlined process ensures that all team members can swiftly access and exchange the knowledge and skills essential to TDK. Furthermore, these courses undergo continuous evaluation and improvement, allowing us to maintain updated and relevant content. By doing so, we not only enhance individual capacity for future envisioning and

### TDK global HR - focus & priorities



## Message from the CPSO and General Manager, Human Resources HQ

proposal-making but also foster collaboration by co-creating new courses with colleagues worldwide.

Lastly, we focus on improving team member engagement and well-being. Through events, engagement surveys, and initiatives promoting empowerment and transparency, we create an environment where every team member feels valued and can contribute meaningfully.

Implementing these programs that prioritize our principles of Empowerment and Transparency enables TDK to gain insight into the perspectives and experiences of each team member. This allows us to promptly identify and address any issues that arise.

For example, during last year's engagement survey across all Group companies, many team members reported encountering procedural barriers when attempting tasks beyond their company's scope. In response, we introduced a global IT system to digitize decision-making processes, improving organizational efficiency. This initiative exemplifies our commitment to the PDCA cycle, where we use survey results to pinpoint on-site and organizational issues and implement effective solutions.

Moving forward, we will continue to strengthen both individual and organizational foresight capabilities, fostering a cohesive team dedicated to our shared goals while empowering each member to implement their own MSA by thinking and acting proactively.

## **Empowering TDK Transformation through my own** personal transformation

Initially, I was not an expert in sustainability, much like when I started in human resources. My background was in supply chain management. However, thanks to the knowledgeable individuals at TDK, I am learning something new every day.

Shortly after assuming the role of General Manager of Human Resources HQ in 2017, I recognized the critical importance of enhancing our global human resources development to strengthen the Group's organizational

structure. This realization, informed by my background in supply chain management, spurred me to devise a plan to appoint human resources leaders from Group companies and regions worldwide. Presenting this proposal to the then-president Ishiguro, he promptly granted me the authority to proceed with the initiative under TDK's auspices.

Subsequently, I empowered human resources leaders across U.S., Asian, and European Group companies for global projects. They had autonomy while collaborating closely with me. This approach empowered them to present their initiatives directly to management and the CEO, instilling a sense of responsibility and pride in their newfound roles, which, in turn, fueled their motivation and yielded positive outcomes. Consequently, we fostered an organizational culture characterized by Empowerment and Transparency.

This cultural shift, along with our distinct team management approaches, transformed within our Human Resources HQ. Previously comprising solely Japanese members, the HQ now boasts approximately 20 non-Japanese managers and leaders, reflecting a more diverse composition.

In April 2023, I was honored with the appointment as Chief People and Sustainability Officer. As the head of Human Resources HQ, I perceive the significance of this role lies in the inherent connection between people and sustainability. Having witnessed firsthand how fostering connections and nurturing individual growth generates value and opens avenues for new possibilities, I firmly believe that human resources are indispensable for both the sustainability and growth of our company and society.

I am committed to my ongoing personal growth in tandem with TDK's development, as together, we continue our transformative journey. Our vision is to establish an autonomous and sustainable organization where our talented leaders inspire and empower their team members to think and act independently, guided by the principle of "empower minds, Ignite action." To address areas for improvement, we

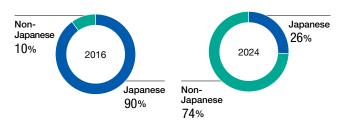
will enhance and leverage our Group's common communication platforms to foster cross-cultural understanding and embrace a feedback culture.

Additionally, we aim to enhance operational efficiency by promoting greater transparency through increased sharing of information and evaluations with senior leaders and executives. Achieving these objectives necessitates harnessing the strengths of Europe, America, Asia, and Japan to bolster our readiness to navigate any global business environment. I see it as my mission to propose and implement effective initiatives in pursuit of these goals, and I am fully committed to realizing them. Through the integration of our human resources and sustainability initiatives, we will continue to advance our TDK Transformation, paving the way for a future of sustainable growth and innovation.

### Global HR structure (male/female)



## Global HR structure (Japanese/non-Japanese)



## **People Strategy**

## Transformation through promoting and cultivating diverse pool of human resources to further enhance competitive advantage

### Linkage between investment in human capital and value creation

We are accelerating to transform ourselves through our "capability to envision the future," "capability to execute the envisioned future," and "capability of human resource transformation" to ensure it continues to contribute to Social Transformation based on its Long-term Vision. The diversity of our human resources is one of TDK's strengths. We believe that strengthening the relationships between our diverse human resources beyond boundaries of the Group companies will facilitate an enhancement of our capability to envision the future as well as to our capability to execute. We have therefore set out three themes for human resources key issues (materiality), which we will focus on over the period of new Medium-term Plan.

With regard to Materiality 1 (Promote diversity, equity and inclusion driven by inclusive leadership practices), we have established a global human resource development system (see page 55), and have adopted the best practices of our acquired companies.

For Materiality 2 (Develop organizational capability to enhance innovation and efficiency), we hold a leadership program which brings together management and future leader candidates with a wide variety of backgrounds from throughout the world. Trainees on this program build horizontal connections between themselves who would not normally interact in their daily work.

From ideas generated from this program, in addition to facilitating the successful establishment of a system called the "TDK Kindergarten" (see page 51), an internal incubator program to offer an environment to identify, create, and scale new business creations, a number of candidates for business commercialization have now started to emerge. One example

is an idea for a solutions business utilizing edge Al which was generated from horizontal connections by the triggered of the corporate officer-ranked training, and which is currently tabled for further work toward commercialization at a future point.

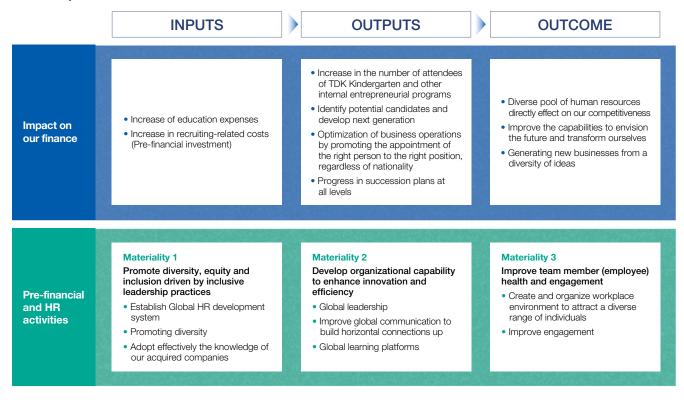
Implementing measures to enhance horizontal connections in this way expedites the processes of securing and developing talents while at the same time hastening the assignment and promotion of the right people in the right places, regardless of nationality. We also anticipate that it will serve to create workplace environments which attract a diverse range of individuals, thus facilitating the achievement of Materiality 3 (Improve team member (employee) health

and engagement.)

Meanwhile, we will actively invest in various education and training programs and recruit highly professional people to enhance our software technology, which is indispensable to the achievement of our Long-term Vision.

We anticipate that, as an outcome of these initiatives, a virtuous cycle will be created whereby the diverse pool of human resources will directly effect on our competitiveness. We also believe that further enhancing our "capability to envision the future" as well as our "capability to execute" toward achieving transformation will facilitate a cycle of value creation, with new businesses thus created from a diversity of ideas.

### Human capital disclosure indicators and initiatives



## **People Strategy**

## Key initiatives in people strategies

Three key themes for transformation through promoting and cultivating diverse pool of human resources to further enhance competitive advantage

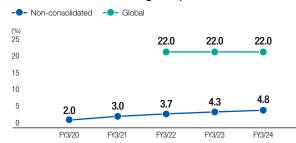
#### (1) Promote DE&I

TDK commenced full-fledged activities to promote DE&I in 2020. We set a target for TDK Corporation of increasing the ratio of women in managerial positions to 15% by 2035. We held the career development seminars focusing on change of thinking for female team members and conducted mentoring. As a result, as of April 2024, the ratio increased by 4.8%, which was more than double the level four years ago at the start of these measures.

In 2023, we established a global DE&I team and took steps to strengthen Group collaboration and initiatives, including formulating a global approach for promoting DE&I throughout the TDK Group worldwide, engaging the Global HR organization in a DE&I survey to help set strategic direction, and conducting activities globally on International Women's Day. The most recent ratio of women in managerial positions for the TDK Group as a whole was 22.0%.

In addition to supporting the active participation of women, we have also initiated measures to raise understanding and encourage respect for the dignity of the LGBTQ+ community. In 2023, we implemented measures such as holding a study session on LGBTQ+ issues with the participation of corporate officers in Japan including the president and about 90 managers.

### Ratio of women in managerial positions



<sup>\*</sup> Figures are the ratios of women in managerial positions as of the day after the last day of the fiscal year (i.e., April 1)

## (2) Develop organizational capability to enhance innovation and efficiency

We develop business entrepreneurs who are able to generate innovation and create new business. Specifically, we strive to develop leaders who demonstrate the capability to create business that contributes to the reinforcement and expansion of continuous commercialization of cutting-edge technology from a market-in perspective that understands the needs of the market and customers and a concept-out perspective that can propose value from a concept-based approach that adopts customized solutions.

To accelerate innovation, it is also important that we notice new things and make discoveries by combining knowledge from different fields and different time frames that at a glance do not seem to intersect. As TDK United, we will continue reinforcing various global programs that instill business entrepreneurship so that we can make maximum use of the Group's assets and enhance collaborative capabilities for creating new innovation and businesses.

#### Scene from training



## (3) Improve team member (employee) health and engagement

In February 2023, TDK conducted the first Team Member Engagement Survey ("My Voice") of Group team members worldwide. Going forward, in order to create a working environment which both measures engagement and ensures that each individual can flourish, we have established targets relating to team member engagement in the Medium-term Plan, as one of the assessment indicators for Performance Share Units (PSUs) as performance-based stock remuneration for corporate officers.

Also, we have set the KPIs for this survey for FY March 2027. One is at least 80% of the response rate, to maintain the same level of the previous survey in February 2023. The other is at least 75 points of the communication score, the previous survey score was 67 points, which requires an improvement of 12%. We believe that focusing on communication is effective due to the fact that it has the potential to influence many aspects of engagement, including leadership and barriers to duties execution.

- Establish readily-accessible communication channels
- Design clear processes
- Support global collaboration
- Support effective communication by leaders

## (1) Improvement ratio in communication scores Improved by 12%

(Ratio of improvement required to achieve target score of 75)

(2) Response rate

## Maintain a level of at least 80%

(industry benchmark of 75%)

## Link to PSUs Target amount paid for 100% achievement of KPI

Create a working environment so that the "people" who are responsible for executing transformation can be more active themselves

Actions



Vision to be achieved

## **Response to Climate Change**

TDK's mission is to establish our presence as a company contributing to a sustainable future. This is because we believe that this approach is necessary for us to grow together with society and to create sustainable value through initiatives that combat climate change. Therefore, the TDK Group has identified our response to climate change as a important issue in our key issues (materiality) and is conducting activities accordingly toward realization of the TDK Environmental Vision 2035 (The operation under the environmental load within natural circulation, halve the CO<sub>2</sub> emissions intensity from a life-cycle perspective by 2035).

Furthermore, since our goals are consistent with the 1.5°C target, we have received recognition of the Science Based Targets initiative (SBTi). This approach shows clearly that TDK aims for net zero by 2050 and is a declaration of our determination to take steps to combat climate change. As one aspect of measures to combat climate change, we have set CO<sub>2</sub> reduction as a KPI and are promoting efforts toward its achievement. As a measure to permeate efforts to tackle environmental problems among the management, we have linked the goal of CO<sub>2</sub> reduction with the remuneration of directors and Audit & Supervisory Board members. In addition, we are forcefully promoting the use of renewable energy (RE). TDK is promoting climate-change countermeasures throughout the entire organization and is playing a positive role toward the realization of a sustainable society. Through these efforts, TDK grows together with society and fulfills our social responsibility as a company, and at the same time we are showing that we directly link these efforts to the sustained growth of our business.

Please refer to the Sustainability Website for details. Environmental Policy and Environmental Vision https://www.tdk.com/en/sustainability/ environmental\_responsibility/policy-vision

#### **RE and EP initiatives**

TDK will aim to achieve our target for the reduction of CO<sub>2</sub> through a dual approach of promoting a transition to renewable energy (RE) and engaging in activities to improve energy productivity (EP).

#### **Transition to RE**

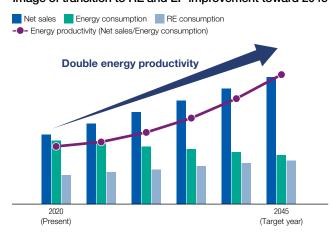
As a BtoB (Business to Business) company, TDK stands in the midstream of the supply chain. Our aim is to reduce the environmental load throughout the entire lifecycle of products by achieving energy saving and lighter products together with customers. In particular, as a drive to introduce RE, we have joined the RE100 initiative and aim to switch all of our production sites both in Japan and overseas to 100% RE-derived electricity by 2050. We are making this challenge not only in response to demands from society and stakeholders but also to fulfill our own social responsibility. TDK is actively promoting the introduction of RE globally, and in 2023 we succeeded in attaining 100% RE-derived electricity at all our manufacturing sites in Japan. Thanks to these achievements, we achieved our RE-derived target of 55% of electricity consumed worldwide in FY March 2024, two years ahead of the original schedule.

#### **EP** activities

TDK has been promoting energy-saving activities heretofore, but in the present state of ongoing growth, there are limits to the reduction of total energy consumption. Therefore, in place of energy saving, which placed the emphasis on energy reduction, we are introducing the effective use of energy, in other words, the improvement of energy productivity, as a new guideline. Our aim is to double EP, which is defined as net sales divided by energy consumption, over the 25 years from 2020 to 2045. Through EP activities, which are the crux of this initiative, we will respond to climate-change risks. EP activities will be a continuous endeavor in which the energy perspective is included along with quality improvement and productivity improvement, which TDK has been tackling heretofore as the essence of the manufacturing business. Through these EP activities, we will strengthen TDK's Monozukuri (manufacturing excellence) and accelerate the reduction of CO<sub>2</sub>. And TDK will continue to march forward with the aim of both achieving further corporate growth and contributing to the realization of a sustainable society.

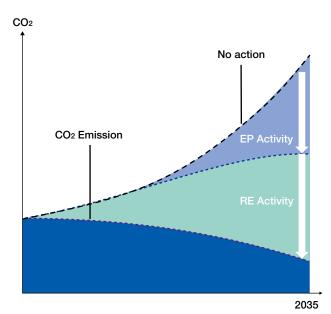
≡ Contents

### Image of transition to RE and EP improvement toward 2045



## **Response to Climate Change**

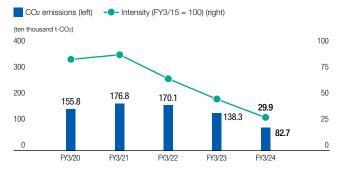
## Aiming to achieve both corporate growth and CO<sub>2</sub> reduction for sustainable management



## Reduction of CO<sub>2</sub> emissions at manufacturing sites

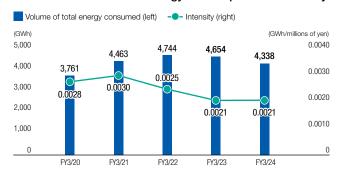
At TDK, we are tackling the effective use of energy and expanded use of renewable energy in order to reduce CO2 emissions at our manufacturing sites. In FY March 2024 CO<sub>2</sub> emissions decreased by 40% from the previous year to 0.827 million tons due to the expanded introduction of renewable energy. Going forward, we will promote reduction efforts rooted in manufacturing activities across the entire Group.

## Trends in CO<sub>2</sub> emissions at manufacturing sites (global)\*



\* The measurement and calculation methods, as well as the numerical results for FY March 2020 and beyond, have been verified by a third party.

#### Trends in volume of total energy consumption and intensity



#### Percentage of electricity from renewable energy sources introduced



#### **Example of Initiative**

## Leading the development and commercialization of sustainable films for capacitors

Innovative sustainable films are applied in TDK's film capacitor series ModCap. The use of eco-friendly materials further improves products initially contributing to the environment. All ModCap products use bio-circular materials to pursue high environmental performance.

We are constantly investigating different approaches related to the circular economy to extend the lifecycle of our components, reduce material required, and better manage end-of-life waste. Therefore, we are actively collaborating with suppliers to develop new sustainable materials without compromising on the final material properties. During our activities, a revolutionary proposal of applying bio-based films, which are already a wellknown solution for packaging, especially for the food sector, to our capacitors was made.

This biobased film has the very same electrical and physical properties and performance as conventional products. The technology can be applied to other film capacitors in addition to ModCap.



Dr. Marisa Rico (left side of photo), coordinator of the materials science laboratory Mr. Victor Alcaide Lozano right side of photo), Director of Product Marketing for PEC **HP** Capacitors **TDK Electronics** Components, S.A.U., Spain.

## Sustainability

## **Response to Climate Change**

## Expansion of contributions to reduction of CO<sub>2</sub> emissions through products

Aiming to realize carbon neutrality by 2050, manufacturers around the world are endeavoring to reduce CO2 emissions through their products. Furthermore, by measuring the CO<sub>2</sub> emissions of products and comparing them with previous ones, manufacturers are publicizing the improved performance of new products. Also, when purchasing such items as TV sets, household electric appliances, and cars, it has become routine for consumers to check CO<sub>2</sub> emissions at shops, in catalogs, online, and so forth. In the European Union, efforts have been made since 2018 to display common energy labels on household electric appliances, such as refrigerators and washing machines, showing their environmental performance so that consumers can check when making a purchase.

To mount potent appeals for the social contributions by TDK products as the fruits of technical initiatives, these product contributions have been calculated and disclosed. Public awareness activities are also being advanced to gain understanding of the contributions of electronic components as intermediary parts, along with moves to formulate coherent industry standards for calculation methods positioned to serve as the basis for earning appropriate evaluations of product contributions performance, and the results were released in the form of guidance by industry groups. Based on these results, TDK established the Guideline for Calculation of Product Contributions and is promoting the diffusion of global calculation work throughout the entire TDK Group by adding the calculation of product

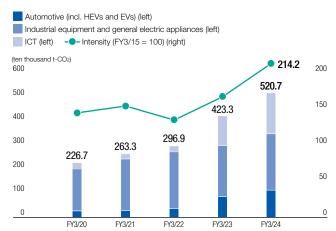
contributions to assessment requirements at the product development stage. Going forward, TDK will continue to establish calculation rules and endeavor to disseminate them throughout the Group.

≡ Contents

The contribution to CO<sub>2</sub> reduction by products in FY March 2024 was 5.207 million tons, a year-on-year increase of 23%. In terms of intensity, it was a 27.5% rise over the previous fiscal year, and so we were able to achieve our target by a wide margin.

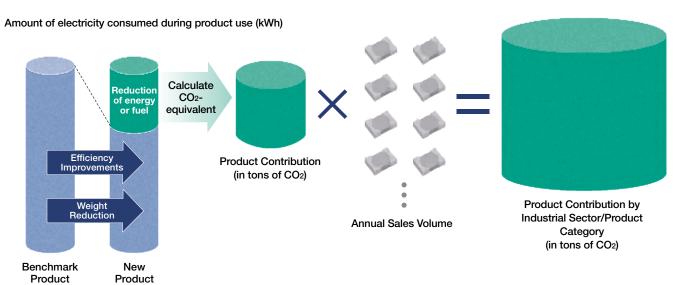
Going forward, we will strive to develop eco-friendly products that contribute toward reducing the environmental load of customers and society and to popularize such products by publicizing their value.

### Trends in CO<sub>2</sub> emission reductions by products\*



<sup>\*</sup> The calculation method was reviewed by a third party.

### How product contribution is calculated



The concept of product contribution: By calculating the amount of CO2 reduced through efficiency improvements and weight reduction in energy-saving products and multiplying them by annual sales volumes, the amounts contributed to the reduction of CO2 can be broken down by industrial sector and by product group.

<sup>\*</sup> The product contributions have been calculated based on the internal guidelines compliant with IEC's "TR62726 Guidance on Quantifying Greenhouse Gas Emission Reductions from the Baseline for Electrical and Electronic Products and Systems," the Institute of Life Cycle Assessment, Japan's "Guidelines for Assessing the Contribution of Products to Avoided Greenhouse Gas Emissions," and JEITA's "Guidance on Calculating GHG Emission Reductions Contribution of Electronic Components."

### **Sustainability**

## **Response to TCFD**

In May 2019 TDK expressed its support of the Task Force on Climate-related Financial Disclosures (TCFD), which makes recommendations to analyze and disclose information on the impact of climate change on corporate finances.

The TDK Environmental Vision 2035 calls for "halving the CO<sub>2</sub> emissions intensity from a lifecycle perspective by 2035" throughout the entire value chain from procurement to disposal. Believing that assessing the risks and opportunities to our business due to climate change and appropriately disclosing information are going to be essential for both achieving corporate growth and building a sustainable society in the future, TDK is steadily addressing these matters.

TDK's initiatives to address the issues of climate change are disclosed below according to the TCFD framework.

#### Governance

## Board's oversight of climate-related risks

At TDK, the CPSO carries out a management review more than four times a year of the state of progress in environment-related matters, including climate change, as well as plans and risks. The results of the management review and matters requiring management decisions are deliberated in the Executive Committee and, if necessary, the Board of Directors.

## Management's role in assessing and managing climate-related risks

#### Positioning

Regarding risks relating to the environment, including climate change, TDK has clarified the responsibilities of the CPSO, who is appointed by the President & CEO. In addition, the Enterprise Risk Management (ERM) Committee discusses important matters among environmental risks, including climate change.

## **■** Responsibilities

Regarding a company's social responsibility, TDK recognizes that coexistence with the global environment is an important issue in management and has established the post of environmental officer. Appointed by the President & CEO, the CPSO takes responsibility for environmental management in general, including climate change. In addition, the head of the Safety, Environment and Social Group of the Sustainability Promotion HQ, which has been established under the environmental officer, is given responsibility for implementing environmental management, including climate change. In the TDK Group, all business groups, departments, sites, manufacturing subsidiaries, and head office functions come together in unison to work toward realizing the goals of the TDK Environmental Vision 2035.

Among environmental risks, including climate change, important matters are reported through the ERM Committee to the Executive Committee and the Board of Directors.

### **■** Content of responsibilities

The Safety, Environment and Social Group of the Sustainability Promotion HQ sets Group-wide targets for environmental matters, including climate change, and identifies environment-related risks for the Group. The ERM Committee identifies Group-wide risks in accordance with Enterprise Risk Management Regulation and handles problems relating to climate change as one aspect of Groupwide risks.

#### Monitoring

The achievements of environmental activities, including activities relating to climate change, are reported in the management report, and more than once a year the CPSO carries out a management review, discussing and deciding

important matters in the promotion of environmental activities, such as the compilation of reports and medium- to long-term targets for major KPIs and energy-saving investment. In addition, matters in this management review that are deemed to exert an important impact on management, such as visions and large-scale investment, are discussed in the Executive Committee and, if necessary, the Board of Directors.

### **Strategy**

TDK has designated the vision of what we want to be for TDK in 10 years as our Long-term Vision, the "TDK Transformation." which declares "Contribute to the transition towards a sustainable future by accelerating the transformation of society and advancements in technology enabled by electronic devices developed through leveraging cutting-edge innovation in materials, processes, and software technology" and "Become the No.1 partner growing alongside our worldwide customers by pursuing continuous 'transformation.'" (→page 13 Long-term Vision)

To realize it, TDK has reidentified key issues (materiality) and is accelerating the shift to renewable energy and innovation toward reducing power consumption and enhancing efficiency of material technology and material function to support in terms of addressing global warming and energy security.

## Response to TCFD

## Results of scenario analysis

In accordance with the Practical Guide for Scenario Analysis in line with the TCFD recommendations issued by the Ministry of the Environment, TDK implemented scenario analysis based on the following preconditions:

Assumed period: FY March 2031 Applicable scope: Entire TDK Group

Adopted scenarios: 1.5°C scenario (Net Zero Emissions by

2050 [NZE] of the International Energy Agency [IEA]), 4°C scenario (the IEA's Current Policies Scenario [CPS], Stated Policies Scenario [STEPS], and

Representative Concentration Pathway

[RCP] 6.0 scenario)

The following are the main risks and opportunities identified based on the scenario analysis. Under the 1.5°C scenario, in which countries' regulations through decarbonization policies become stricter, we understood the possibility of transitional risks occurring with the introduction of carbon pricing and higher cost of renewable energy. The analysis estimated the financial impact of these risks in 2030 to be ¥11.4 billion in the case of carbon pricing and ¥15.5 billion for renewable energy.

In the automotive market, which is one of TDK's key markets, since the shift to electric vehicles will progress, we also recognized the possibility of expanded sales opportunities for EV-related products and battery-related risks and opportunities.

Under the 4°C scenario, the analysis also showed the possibility of increased risks of flooding due to the frequent outbreak of abnormal weather.

## Physical Risk Response Plans

As a physical risk relating to climate change, TDK has specified the increase of business risks due to increased flooding. Regarding water risks at all manufacturing sites of the TDK Group, we conduct investigations in accordance

## Main risks and opportunities

	Classification	Risks and opportunities	Occurrence*	Main countermeasures
Transition risks  Ir c restance of the control of t	Carbon pricing / carbon-emission targets of each country	Risk	Medium-long term	Promotion of the effective use of energy, expanded use of renewable energy, etc. at manufacturing sites toward the realization of net-zero CO <sub>2</sub> emissions in 2050
	Increase of energy costs due to rise in renewable energy ratio	Risk and opportunity	Medium-long term	Promotion of the effective use of energy at manufacturing sites toward the realization of net-zero CO <sub>2</sub> emissions in 2050     Promotion of the development of products for renewable energy, etc.
	Increase in price of cobalt and lithium	Risk	Short-long term	Monitoring of raw material price trends and implementation of risk hedging at time of procurement     Implementation of long-term supply contracts     Reduction of amount of cobalt and lithium used in products, etc.
	Increase of new business chances due to expansion of EV market	Opportunity	Medium-long term	Promotion of product development with an eye on EV market expansion
	Development of next-generation battery materials	Risk and opportunity	Long term	· Promotion of the development of all-solid-state batteries
	Increase of customer demands regarding RE100	Risk and opportunity	Short-long term	Analysis of customer initiatives to respond to climate change     Compilation of plan to introduce renewable energy, etc.
Physical risks	Increase of business risks due to rise in flooding	Risk	Medium-long term	Implementation at sites of measures to counter flooding risks     Promotion of BCP response, building of BCM framework, etc.

<sup>\*</sup> Time horizon: "short-term" is expected to be less than 1 year, "medium-term" between 1 and 3 years, and "long-term" between 3 and 20 years.

## **Sustainability**

## Response to TCFD

with the TCFD using two global evaluation tools—the WWF Water Risk Filter and the Aqueduct, announced by the World Resources Institute (WRI). This enables us to identify highly water-stressed regions. Among other things, each site implements measures to counter flooding risks, promotes BCP response, and builds a BCM framework.

## Risk management

Risks which are significant for management is assessed as a part of comprehensive risks in the ERM Committee. Regarding risks deemed by the assessment to require Group-wide efforts, including climate change risk, the ERM Committee checks the progress of countermeasures approved by the Executive Committee and, after completion of the countermeasures, obtains the approval of the Executive Committee.

## **Metrics and targets**

## Medium- to long-term targets

In the TDK Group's key issues (materiality) we declare our aim of realizing net-zero CO<sub>2</sub> emissions by 2050, and in the TDK Environmental Vision 2035 we set the target of halving the CO<sub>2</sub> emission intensity from a life-cycle perspective by 2035 (compared to FY March 2015). Based on this vision, as an environmental basic plan up to 2025, we have stipulated activity tasks and objectives in the TDK Environment, Health and Safety Action 2025 and are managing progress. In addition, in June 2024 we received a certification of the Science Based Targets initiative (SBTi).

Climate Change Initiatives https://www.tdk.com/en/sustainability/ environmental responsibility/climate-action

## Medium- to long-term targets

Scope 3

TDK Group's key issues (materiality)	Strengthen our activities to reduce greenhouse gas emissions and promote measures to address climate change in order to realize a net-zero CO <sub>2</sub> emissions society by 2050. (Scope 1, 2)	
TDK Environmental Vision 2035	Halve the CO <sub>2</sub> emissions intensity from a life-cycle perspective by 2035, compared with FY March 2015 (Scope 1, 2, 3)	
Action Plan in TDK	Improve CO <sub>2</sub> emissions intensity by 30% by 2025, compared with FY March 2015 (Scope 1, 2, 3)	
Environment, Health and Safety Action 2025	Achieve renewable energy target of 50% by 2025 (Scope 2)	

### FY March 2024 goals and achievements

Goals	Achievements	
Reduction of CO <sub>2</sub> emissions at manufacturing sites		
Improve CO <sub>2</sub> emission intensity from energy use by 1.8% compared with the previous fiscal year	Improved by 38.0% compared with the previous fiscal year	
Improve energy consumption intensity by 1.0% of the previous fiscal year Improved by 2.9% compared with the previous fiscal		
Implement efforts to achieve 50% renewable energy by 2025 (Scope 2)	55.2% introduced compared to target of 40% in FY March 202-	
eduction of CO₂ emissions through Scope 3 category-based in	itiatives	
Promote reduction of environmental load through activity of	Reduction of CO <sub>2</sub> emissions in global logistics Improved CO <sub>2</sub> emission intensity in logistics by 12% compared	

GHG emission (kt-CO <sub>2</sub> )	FY 3/24 result
Total emission	20,373
Scope1	134
Scope2	694
Scope3	19,546

## Response to the TNFD

with the previous fiscal year

In response to the final recommendations of the Task Force on Nature Related Financial Disclosures (TNFD), and in accordance with the guidance, we began an assessment of our dependencies, impacts, risks, and opportunities relating to natural capital in general, including biodiversity.

Please refer to the Sustainability Website for details: TCFD/TNFD

https://www.tdk.com/en/sustainability/ environmental\_responsibility/tcfd\_tnfd

## Other Environmental Initiatives

#### Water resources conservation

### Our approach

At TDK, water is an essential resource in manufacturing activities. Since we are impacted by such events as the exhaustion of water resources and flooding, the proper understanding and management of water risks are important issues for us. TDK stipulates the TDK Supplier Code of Conduct and requests suppliers to address the management of wastewater and efficient use of water. Together with local communities and stakeholders, TDK will continue to promote sustainable water use.

From the procurement of raw materials to the disposal of products, TDK strives for operations with little environmental load throughout the entire supply chain. Similarly, we promote the conservation of forestry resources and water resources. In line with the TDK Environmental Charter, we aim to "Develop and Prosper in Harmony with the Global Environment." Every single employee will act positively by thinking about the impact of production activities on the environment and the relationship between corporate activities and the environment, endeavoring to conserve an affluent global environment, and constantly paying heed to contributions to preserve the ecosystem.

Furthermore, in consideration of business characteristics, TDK has specified the key SDGs that we will focus on and clarified our policy of solving issues, including water-related problems, through technological development in our main businesses. As a water-related example, we are promoting the development of various sensors in accordance with Goal 12 of the SDGs, which is titled "Ensure sustainable consumption and production patterns" In addition, we are reducing water withdrawal in manufacturing processes.

Please refer to the Sustainability Website for details. Water Resources Conservation

https://www.tdk.com/en/sustainability/environmental responsibility/ water-resources

### Addressing biodiversity

#### Our approach

We at TDK consider the role we fulfill through our business activities as being to achieve a sustainable future through, for example, working to restore and protect the global environment. The decline in biodiversity has become a long-term global risk second only to climate change. Throughout the entire value chain—from the procurement of raw materials to the disposal of products—there is demand for activities that avoid, mitigate, and restore adverse impacts on biodiversity.

All TDK members are aware of the impact on the environment from production activities. We consider the relationship between business operations and the environment and strive to protect an affluent global environment. The TDK Environmental Charter expressly provides that employees are to consider contributions to ecosystems and take proactive action at all times.

Please refer to the Sustainability Website for details. Addressing Biodiversity

https://www.tdk.com/en/sustainability/environmental\_responsibility/ biodiversity

#### Initiatives for the circular economy

#### Our approach

Amid the need to shift to a circular society, from the perspective of the effective use of limited resources, TDK promotes initiatives to curb the generation of waste itself.

We also hope to contribute to the building of a circular society by promoting a circular economy that maximizes efficiency of resource usage throughout product life cycles and minimizing dependencies and impacts on natural capital.

Please refer to the Sustainability Website for details. Initiatives for the Circular Economy

https://www.tdk.com/en/sustainability/environmental responsibility/ limited-resources

## Responsible management of chemical substances

### Our approach

## ■ Management of chemical substances in products

In 2004, TDK introduced the Environmental Product Quality Management System (EPQMS) as a system to prevent and control exposure to hazardous substances in products that threaten human health and the environment, and we operate it within our Quality Management System (QMS).

## ■ Management of chemical substances in manufacturing processes

We are promoting management of chemical substances globally by means of common guidelines with the goals of understanding the hazardousness and danger of chemical substances and improving safety in their handling in compliance with each nation's laws and the like. In addition, we are moving forward on reducing the use and emissions of hazardous or dangerous chemical substances in order to reduce their impact on the environment as well as to mitigate the health risks to employees and risks of fires or explosions.

Please refer to the Sustainability Website for details. Responsible Management of Chemical Substances https://www.tdk.com/en/sustainability/environmental responsibility/ chemicals-management

## **Respect for Human Rights**

The TDK Code of Conduct states that "The TDK Group will continue to respect human rights, comply with relevant laws and regulations and international rules, and discharge its social responsibility with a strong sense of ethical values for the purpose of creating a sustainable society." Toward this end, for example, the TDK Code of Conduct prohibits all child labor, forced labor including human trafficking, and unreasonable restrictions on movement that lead to compulsory labor in supply chains. The TDK Code of Conduct also requires compliance with all relevant human rights laws and regulations including those prohibiting child and forced labor in the supply chain and the other laws identified above.

The TDK Group Policy on Human Rights was formulated in 2016. We respect and support international norms on human rights including the International Bill of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, the OECD Guidelines for Multinational Enterprises, and the Children's Rights and Business Principles. Based on the framework of the UN Guiding Principles on Business and Human Rights, TDK promotes the correct understanding of potential human rights issues and takes steps to address them, not only within the business operations of the TDK itself but also throughout the value chain. We expect our business partners and suppliers to understand and support the TDK Group Policy on Human Rights, and we also require our business partners and suppliers to comply with TDK Supplier Code of Conduct.

#### Governance

At TDK, the Sustainability Promotion HQ—with the Chief People and Sustainability Officer (CPSO) in place as the responsible party—promotes human rights responses while coordinating with related functions. The Sustainability Promotion HQ issues reports at Board of Directors at least twice a year regarding the status of sustainability initiatives for the entire Group including those with respect to human

rights. Based on this information, the Board of Directors conducts deliberations and adopts resolutions as necessary.

### **Strategies**

The TDK periodically assesses the issues which could present potential human rights risks and the groups of people who might be vulnerable to such risks through dialogues with external parties, reports from international human rights organizations and conducting risk assessments and CSR self-checks. (See the figure below)

In FY March 2024, TDK reviewed materiality when formulating the new Medium-term Plan that started in FY March 2025 and re-evaluated key human rights themes. As a result, we identified the following three points as priority issues:

Responsible sourcing of minerals

Human rights due diligence process of TDK Group





Risk Identification and Assessment

Dialogue Dialogue

- TDK Code of Conduct
- TDK Group Policy on **Human Rights**
- TDK Supplier Code of Conduct
- Identify potential human rights issues in the value chain
- Evaluate risks by probability, human rights impact, and scale of our company's leverage
- Prioritize key themes based on risk evaluation result
- Assess detailed risks for each key theme
- Assess potential human rights risks in potential new business relationships created through M&A and similar transactions

 Respecting the human rights of employees at our manufacturing sites

≡ Contents

 Respecting the human rights of employees of suppliers (including manufacturing sub-contractors and labor agencies)

TDK is committed to implementing prevention and mitigation measures and monitoring progress to address each major human rights issue relating to those priority issues and will continue to perform periodic re-evaluation.

## Risk management (human rights due diligence)

TDK undertakes human rights due diligence processes and promotes its due diligence activities in line with the procedures set out in the UN Guiding Principles on Business and Human Rights. We also continue to dialogue with internal/external parties and stakeholders to make our activities more effective.



Prevention/Remediation Measures and **Periodic Review** 



Dialogue

- Implement measures for each key theme and undertake periodic review
- Training



Reporting

Dialogue

Sustainability Website

· Human Rights Statement

## **Respect for Human Rights**

## Metrics and targets

Action items	FY 3/24 goals	Results
Responsible sourcing of minerals	A ratio of at least 92% of suppliers recognized as procuring the 3TG minerals from RMAP*-conformant refineries	90.9%
	Achieve 100% implementation of CSR self-checks at manufacturing sites (TDK Group manufacturing sites)	100% implementation
	Achieve 100% implementation of labor, human rights, and ethics risk assessments at manufacturing sites (TDK Group manufacturing sites)	100% implementation
Respecting human rights of employees at our manufacturing sites	Conduct either an RBA-authorized audit (VAP, AMA, or CMA), customer CSR audit, or a CSR assessment based on the RBA VAP Operations Manual at all our manufacturing sites at least once every three years	Implemented at 100% of sites over the three years from FY March 2022 to FY March 2024
	Conduct training for personnel involved with CSR in Japan and overseas	Conducted CSR internal auditors training in Japan, ASEAN, and China
	Achieve 100% implementation of labor, human rights and ethics internal audits at targeted manufacturing sites	100% implementation at subject sites
	Achieve CSR compliant supplier rate of 99.5%	100%
Respecting human rights of employees at suppliers (including manufacturing sub-contractors and labor agencies)	Achieve 100% implementation of CSR self-checks at sub-contractors (FY March 2023 to FY March 2024)	97%
	Achieved 100% implementation of CSR self-checks at dispatch companies used by manufacturing sites in the high-risk countries in Asia	100%

<sup>\*</sup> The Responsible Mineral Assurance Process (RMAP) is a program that verifies compliance with responsible sourcing of minerals. The program uses an independent third-party organization to evaluate smelters' and refiners' management systems and procurement practices.

## Initiatives for prevention and reduction of human rights risks

In 2020, TDK joined the Responsible Business Alliance (RBA), an organization which is dedicated to improving social, environmental and ethical conditions in the global supply chains. TDK utilizes the RBA Code of Conduct as the standard to promote our CSR activities at manufacturing sites. We conduct activities to prevent and reduce human rights risks identified as major human rights issues by making use of the RBA's Code of Conduct, assessment items, and audit frameworks.

For information on specific measures, please see the Sustainability Website. Respect for Human Rights

https://www.tdk.com/en/sustainability/social/human\_rights



## Roshan Thapliya

Corporate Officer Chief Digital Transformation Officer and General Manager, Management System HQ

## Digital transformation in TDK

Recent technological trends in cybersecurity, data platform, Al and IoT have rapidly accelerated the transformation of society. These trends undoubtedly bring challenges to the status quo, but from our perspective, it provides us with opportunities to serve society better in many new ways. I see this as an example of creative disruption, where we can certainly bring value through our broad business portfolio, which we acquired from our history of innovation and diversification.

It is with this in mind that in our digital transformation (DX), we intentionally embrace these cutting-edge technologies by design and complement it with our

sustainability-conscience intentions and global diversity in talent, market and culture, by default. To be specific, TDK is intentionally evolving itself via business cycle transformation, putting emphasis in data-driven market trend insight, revolution of manufacturing through proprietary data-driven process optimization, and futureproofing our supply chain with environmentally-geared focus. The established companywide DX initiatives will undoubtedly contribute to further enhance our corporate value, both as "Financial" and "Pre-financial"-enablers, through operational efficiency and value creation, respectively. To ensure execution, we put emphasis in promoting upskilling and reskilling of our human assets through agile deployment of digital technologies for DX-OJT, formulating curricula for domain specific DX and strategically hiring external top talents globally. Furthermore, to accelerate TDK Transformation, we formed a dedicated organization to develop cutting-edge AI technologies, that ensures the integration and alignment of TDK's proprietary Al technologies with other advanced Al innovations into our business processes worldwide.

#### **DX** initiatives to accelerate TDK Transformation

The DX initiatives are intended to accelerate TDK Transformation based on our Long-term Vision. The three priority fields are: "Reinforcing sales and marketing capabilities," "Enhancing our manufacturing processes," and "Strengthening our commitment to sustainability."

#### Reinforcing sales and marketing capabilities

By combining proprietary sales and marketing data with emerging technologies such as generative AI, we will reinforce our current market and find new opportunities for growth. That will help us to become the No.1 partner for our customers around the world.

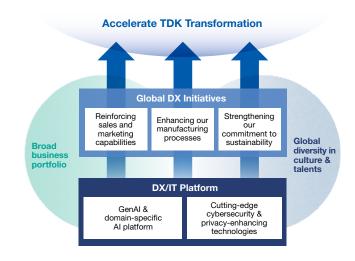
## Enhancing our manufacturing processes

Combining digital technologies and systems with our globally diverse workforce, extensive knowledge and manufacturing data, we improve overall equipment effectiveness, quality of products and inventory turnover to enhance our manufacturing productivity.

### Strengthening our commitment to sustainability

Over the years, our commitment to sustainability has consistently grown in significance. Here, we will reinforce our activities on decarbonation with DX by employing advanced digital technologies that will allow us to trace carbon emissions and optimize entire supply chain to provide sustainable business processes.

## DX initiatives for the Long-term Vision

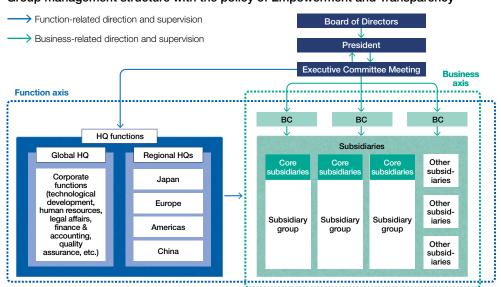


### Organization building to display diverse strengths

One of TDK's strengths is our diversity. To further demonstrate those strengths, we are working to transform ourselves into an autonomous and decentralized organization based on a fundamental policy of "Empowerment and Transparency" that will also serve to guarantee transparency for our stakeholders, while also working to speed up decision-making by trusting the people who share our goals and principles and empowerment. We are adopting a matrix management system based on two axes—the business axis, which is the chain of command for the execution of work, and the function axis, which involves the support of business operations and monitoring of the state of operations by headquarters functions. We are also setting up regional headquarters in Europe, the Americas, and China that, in cooperation with the global headquarters, will implement support and monitoring of our subsidiaries in each region. We have also established R&D and marketing functions in tune with the special characteristics of each region, thus forming setups capable of responding to regional needs and technological trends in a timely manner.

Furthermore, regarding M&A, rather than controlling acquired companies, we adopt a policy of post-merger integration (PMI) by which we maintain equal relationships and respect one another's corporate culture. In this way, we position acquired companies as partners and accept their technologies, strengths, and values, thereby creating synergy on a global scale.

### Group management structure with the policy of Empowerment and Transparency



## Appointment of non-Japanese corporate officers

TDK has been pursuing its businesses on a global scale. In 2004, we appointed our first non-Japanese corporate officer, and since then have been increasing the number of such officers while promoting the globalization of management. At present, both the ratio of overseas sales and the overseas employee ratio stand at around 90%, while non-Japanese account for 50% of our corporate officers.

(As of the end of June 2024)



Michael Pocsatko Senior Vice President



Andreas Keller Senior Vice President



Albert Ong Corporate Officer



Ji Bin Geng Corporate Officer



Werner Lohwasser
Corporate Officer



Roshan Thapliya
Corporate Officer



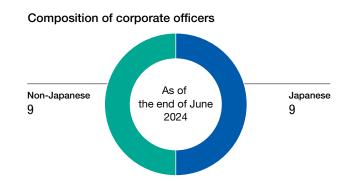
Ludger Trockel
Corporate Officer



Joe Kit Chu Lam Corporate Officer



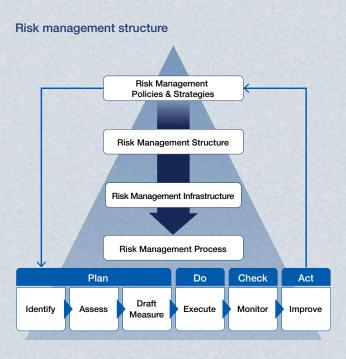
**Jim Tran**Corporate Officer



## Risk management structure

In aiming for sustainable growth, the TDK Group promotes company-wide measures against factors (risks) that hinder the achievement of organizational goals and implements company-wide risk management (Enterprise Risk Management; ERM) activities to appropriately manage them. TDK's basic policy for risk management is to ensure that each organization within the TDK Group takes appropriate risks in order to create corporate value (Value Creation) and prevent damage to corporate value (Value Protection) by appropriately identifying and responding to opportunities and risks.

In order to consider and implement measures related to ERM activities and strengthen risk management activities, we have established an ERM Committee under the direct control of the Executive Committee, which is chaired by a corporate officer appointed by the president. The ERM Committee clarifies the role of each organization in risk management activities and promotes the PDCA cycle of a series of risk management activities, from identification of risks to evaluation, consideration of countermeasures, implementation, monitoring, and improvement.



#### Risk assessment

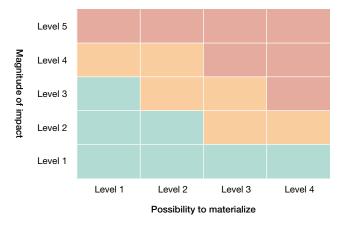
As a risk assessment, each term the residual risk (i.e., after control by the measures taken so far) is examined from the perspective of the three elements of management resources (people, goods, and money), relationships with internal and external stakeholders, reputation, and BCP. We calculate the magnitude of the impact on the TDK Group from the above and combine it with the possibility of the risk materializing to create a residual risk heat map to visualize

and evaluate the priority of risk countermeasures. The results of these risk assessments and the status of countermeasures are deliberated at the Executive Committee and reported to the Board of Directors. In addition, the validity of the heat map is verified at least once during the period, and the assessment of residual risk is reviewed if necessary.

#### Potential risks over the term of the Medium-term Plan

Category	Contents	
Economic/ Market trends	Slowdown of global economy, changes in social trends, soaring prices and personnel costs, hikes in raw material purchase costs and energy resource prices	
Technological trends	Delay in the use of digital technologies, acceleration in technological transformation	
Geopolitical Geopolitical tensions, tightening regulat for technology export		
Compliance  Deficiencies in compliance system, deficiencies in contract signing, insufficie legal due diligence, information leakage to misconduct		
Supply chain	Quality deficiencies in supply chains, soaring row material and logistic costs, inadequate human rights efforts in value chains	

## "Residual Risk" heatmap





Chapter 3 TDK's

TDK's Board Culture

Other Similar Meetings

the Board of Directors

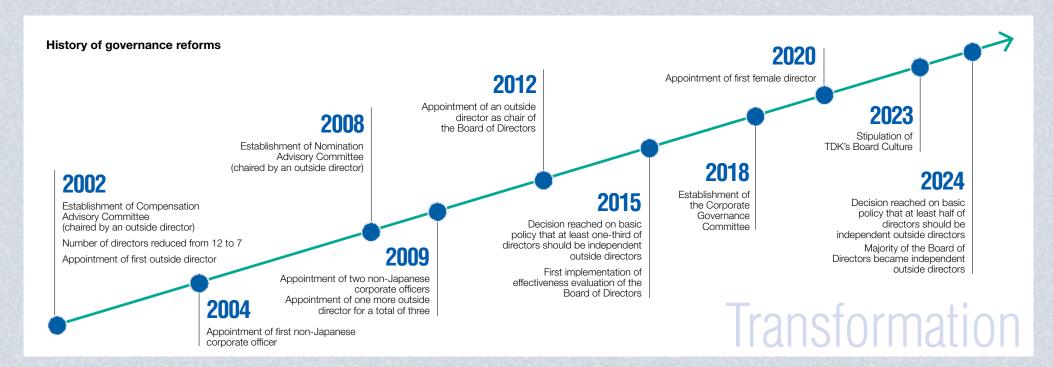
and Corporate Officers

80 Succession Plan 81 Skills Matrix

86 Directors, Audit &

71

## Changes in TDK's Governance/TDK's Board Culture



TDK has established the culture that should be passed down across generations, even if composition of the Board of Directors changes, on the TDK Basic Policy on Corporate Governance.

#### **TDK's Board Culture**

Board members consisting of Directors and Audit & Supervisory Board Members and the executive side such as Corporate Officers, based on their respective responsibilities, endeavor toward the common purpose of achieving sustainable corporate growth and increasing the medium- to long-term corporate value of the TDK Group. The philosophy and culture shared by the Board of Directors to achieve this purpose are as follows.

- Board members and the executive side build and maintain a relationship of deep mutual trust and a sound tension.
- Board members and the executive side achieve both the delegation of authority to encourage prompt and autonomous decision-making and the transparency in business execution (Empowerment & Transparency).
- Based on the premise that discussions at the Board of Directors meetings should be essential discussions that contribute to corporate value, Board members actively and diversely make remarks and engage in discussions from each member's standpoint and from a broad point of view, regardless of whether they are inside or outside members or whether they are Directors or Audit & Supervisory Board Members.
- The executive side takes the opinions of the Board of Directors sincerely as an opportunity to improve management and implements necessary measures. Directors and Audit & Supervisory Board Members supervise and audit from an objective standpoint. Through these efforts, they aim to further improve the TDK Group's corporate value.

Continuation

## A Talk by Outside Directors

We will maintain the spirit of taking on challenges that has existed since the company's founding and further evolve management as a global company while working to achieve "TDK Transformation," our Long-term Vision.



## Mutsuo Iwai

Outside Director

Chair of the Board. Member of Nomination Advisory Committee, Member of Compensation Advisory Committee, Member of Corporate Governance Committee

## Kozue Nakayama

Outside Director

Chair of Nomination Advisory Committee, Member of Compensation Advisory Committee, Member of Corporate Governance Committee

## Shoei Yamana

Outside Director

Chair of Compensation Advisory Committee, Member of Nomination Advisory Committee, Member of Corporate Governance Committee

## Formulation of the New Medium-term Plan

What discussions took place within the Board of Directors during the process of formulating the new Long-term Vision and Medium-term Plan?

**Iwai:** During that process, the executive side expressed an intention to start by clarifying the new Long-term Vision and then backcasting from that to formulate a Medium-term Plan. Discussions, which started with the Long-term Vision, were conducted not only at the monthly Board of Directors meetings, but on multiple other occasions such as during off-site meetings. The Board's time is limited, and as a result, there is a tendency for the Board to be given explanations of plans that have already been set, but this time we were able to discuss the issues in a variety of forums, and the executive side presented matters on the draft level indicating their thought process. Since we were able to carefully consider the specific details at an early stage, I believe that the opinions of the outside directors were well reflected in the plan.

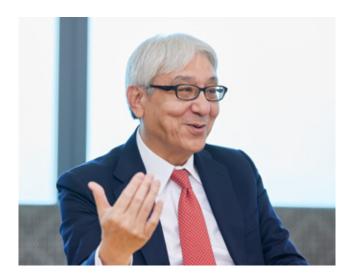
Nakayama: As Mr. Iwai stated, there are still many companies where plans are generally solidified internally and the Board of Directors simply approves them, but once details are set, it becomes more difficult to see the problems in the background or the process leading up to formulation, and there is little opportunity to make revisions. At TDK, if I liken the process to cooking, the ingredients were presented to the Board at a stage when they were still just raw ingredients, and we were able to think together about how they should be cooked.

Yamana: If you don't gather high-quality ingredients, however, the result will not taste good no matter how it is cooked. In that respect, I believe that excellent ingredients were prepared this time. When formulating the Long-term Vision, for example, President & CEO Noboru Saito personally re-examined the purpose of TDK's existence,

Governance

## A Talk by Outside Directors

prepared a statement expressing his thoughts on what type of company TDK should be in the future, and asked our opinions before beginning the debate. In this way, top management considered very carefully what type of company TDK should be in the future based on its purpose, presented a solid foundation for the vision, and also engaged in repeated discussions that included external perspectives from an early stage. I believe that as a result of that process, the Long-term Vision, known as TDK Transformation, is extremely convincing to a wide range of stakeholders. Nakayama: TDK has adopted "Technology for the wellbeing of all people" as its sustainability vision and formulated the Seven Seas as its direction for the future in order to make that vision a reality, and I think that it's wonderful that the company is looking even further into the future to create a new vision, and I can sense the company's strength. **Yamana:** One additional aspect of the process that was positive is that not only was the Medium-term Plan formulated by backcasting from the Long-term Vision, a review was also conducted of materiality. Also, I believe that



it was very meaningful that we were able to participate at an early stage in the discussions that followed along with the overall flow regarding where to set the targets of the threeyear Medium-term Plan.

## Were there any aspects of the discussions that you placed particular emphasis on or that made a particular impression on you?

Nakayama: From the perspective of an outside director, I requested that the company strengthen its measures to enhance team member (employee) motivation. Of course, the executive side fully understands the importance of this, but since the team members are the source of all power for a corporate organization, I argued for this quite strongly in a variety of forums including the Board of Directors, Nomination Advisory Committee, and Compensation Advisory Committee. Also, one thing that made a lasting impression on me was when Mr. Yamana asserted that "in order to pursue benefit for customers, we need to think about applications that combine hardware and software, rather than individual components."

**Yamana:** Under a business model as a parts manufacturer that has been adopted until now, the company has been able to fully fulfill its role by listening to the requests of customers, which are end-product manufacturers, and using technology to provide components that meet those requests. For TDK to become the No. 1 partner to its worldwide customers. however, this alone will not be sufficient. We have to engage in co-creation with customers at an early stage and create new innovations from the perspective of end-product manufacturers and a brand owner. To achieve this, we need to think from the perspective of applications by asking, "what do end-product manufacturers and end users want to do with these devices?" Also, software technology will become more and more important for achieving this. For example, TDK has superior hardware technology in the sensor field, and accordingly, we discussed whether we should combine

this technology with software, Al, and other technologies to create new applications.

**Iwai:** I personally have had the opportunity to tour overseas subsidiaries, factories, and other facilities over the past several years. When I visited InvenSense, a sensor manufacturer, the year before last, I was struck by the comment of a local team member that in the future, they want to combine sensors with software and sell products with increased added value, rather than individual components. The Medium-term Plan includes reinforcing software technology as one measure, and it should be extremely convincing, even to overseas Group team members.

## What do you believe are some issues that need to be addressed in order to carry out the new Medium-term Plan?

**Iwai:** In order to achieve the reinforcement software technology that I mentioned earlier, it will be necessary to build development structures by recruiting specialized human resources and taking other measures, but it will not be easy to recruit adequate numbers of software engineers with skills that can be applied immediately, and it also takes time to develop human resources when starting from the ground up. In the future, therefore, I believe that it will be important to implement measures promptly while making use of various means including M&A.

**Yamana:** We need to speed up the implementation of measures, but at the same time, reinforcing risk management even further is a major issue. The outlook for the global economy is increasingly uncertain due to the war in Ukraine, the situation in the Middle East, the slowdown of the Chinese economy, and other factors. In order to enhance competitiveness while responding to these geopolitical risks, TDK will need to rebuild global supply chains and to rebuild business processes, manufacturing processes, and so on based on new ideas. Both of these are reforms that will require expenditures, but if we start now and produce results

## A Talk by Outside Directors

in a few years, TDK will be able to grow into a company that is unrivaled in terms of the reliability of its technology and its cost competitiveness.

Nakayama: In order to carry out these reforms, I believe that it will be important to raise the level of global management even further while maintaining TDK's unique culture. I believe that one of the major sources of TDK's competitiveness is its culture of taking on challenges. For example, in the past, TDK sold its SAW filter business, which had been performing well, to raise funds and implemented M&A with the objective of strengthening the sensor business as a seed for future growth. There are very few companies in Japan that can take on a challenge of extreme business transformation of this type. TDK is now a global company with market capitalization in excess of 3 trillion yen and more than 100,000 team members worldwide. It is by no means easy to operate global matrix management centered on both business and functions without losing the culture of taking on challenges that TDK has.

**Iwai:** Just as you say, fully maintaining this distinctive spirit of taking on challenges like a venture company from the time of its foundation, even though it has grown to such a scale, is one of TDK key attributes. It is precisely for this reason that TDK was able to achieve this tremendous transformation of its business portfolio. Even as the company has grown larger, I believe that its cohesiveness has remained strong. When viewed on the level of operations, however, I feel that there is some degree of inconsistency in current conditions, with some subsidiaries maintaining their earlier methods of doing business at the time of acquisition, and also, some have financial functions handled by the parent company while others have had authority delegated to them. For TDK to become a much stronger corporate group. I believe that it is important to achieve operational consistency from the perspective of overall optimization, to the extent that this can be done without losing the spirit of taking on challenges. Nakayama: Reinforcing brand strategies will also be a major

issue in the future. If TDK is unable to substantially enhance its name recognition and establish an appealing brand image, it will become increasingly difficult to recruit outstanding human resources. Raising team member motivation through internal branding is also important. Reinforcing brand strengths takes time. It will be important to thoroughly analyze what measures produce what types of results, including overseas, for raising TDK's recognition and then to implement effective brand strategies.

Iwai: Also, closely monitoring changes in the business environment and technology trends, appropriately reorganizing the business portfolio in the future will also be a major issue. The company intends to discuss this thoroughly at Board of Directors meetings as a high-priority agenda item.



#### The Evolution of TDK's Governance

## What discussions are taking place concerning the reinforcement of corporate governance?

Iwai: Mr. Shigenao Ishiguro, who retired from president and was appointed non-executive Chairman & Director in FY March 2023, restructured the Corporate Governance Committee to serve as a venue for discussing how the company should be managed in the medium- to long-term view. Since then, all of the outside directors have participated in these discussions. In FY March 2023, we discussed the handing down of the Board culture, which was an issue that had been pointed out in the effectiveness evaluation of the Board of Directors, and we clarified the ideal state of TDK's Board. Starting in FY March 2024, we initiated full-scale discussions on how we should change governance of TDK. **Nakayama:** To give an example, the Nomination Advisory Committee has discussed matters in response to debate at the Corporate Governance Committee. Until now, TDK has

not used executive titles such as CEO, CFO, and CTO, but there has been discussion that uniform executive titles that can be understood globally should be used in order to bolster global management. We also discussed the introduction of the global grading to evaluate team members at Group companies around the world using the same criteria.

**Yamana:** As of the General Meeting of Shareholders in June of this year, a majority of the Board is made up by outside directors, and this reform was first discussed by the Corporate Governance Committee.

Nakayama: TDK has an Audit & Supervisory Board, and the Corporate Governance Committee, Compensation Advisory Committee, and Nomination Advisory Committee are all discretionary committees, and I believe that excellent collaboration between the Board of Directors and these three committees has facilitated steady progress in improving governance. After the Corporate Governance Committee discussed the introduction of the CxO positions mentioned earlier as well as the composition of the Board of Directors,

the skills matrix, succession plans, and other topics, the Compensation Advisory Committee and Nomination Advisory Committee have investigated these issues in greater detail. Yamana: The Compensation Advisory Committee, for which I serve as chair, conducted a major review of the remuneration system for officers this fiscal year. Specifically, in addition to substantially increasing the portion of short-term and mediumterm results-linked compensation included in remuneration for officers, we also incorporated new pre-financial evaluation items into the medium-term evaluation criteria, such as the rate of reduction of CO<sub>2</sub> emissions and Team Member Engagement Survey scores. We have furthermore succeeded in raising the ratios of evaluations of achievement both in terms of TDK's financial performance and our outcomes, and of the missions of individual corporate officers.

Nakayama: The Nomination Advisory Committee clarified selection policies and processes for outside directors and



outside Audit & Supervisory Board members in response to indications made during the effectiveness evaluation. Iwai: Within the various discussions concerning optimal governance by TDK, the issue of institutional design arose. It is generally believed that a company with committees has a more advanced governance format, but I believe that TDK's current governance format is quite excellent.

Yamana: I would also evaluate TDK's governance highly. Even though TDK is "a company with an Audit & Supervisory Board," the effectiveness has been refined from an early stage, and the governance structure is extremely advanced. A lot of effort is put into the annual effectiveness evaluations in particular, and I feel that TDK is the most serious about governance among all the companies that I have observed. **Nakayama:** TDK truly is thorough about governance. Iwai: Of course, we gather opinions from everyone using surveys. After responses were submitted, former Chairman Ishiguro, who was the chair of the Corporate Governance Committee, conducts interviews with each team member individually to ask the reasons for their evaluations in specific areas and to obtain more detail about certain issues, thereby acquiring detailed information and the true thoughts of the respondents, which cannot be conveyed in writing alone. Based on this, topics are identified and an improvement cycle is carried out. The process itself has been thoroughly considered and it is put together with the utmost care.

Yamana: In the case of "a company with a nomination and other committees," the Board of Directors performs supervisory and monitoring functions, and it is my understanding that if some problem arises concerning the executive team, the nomination committee functions to select the next executive team. It is beneficial if there is some degree of tension between the executive team and the

Board, but if it is excessive, there is a risk that the executive team will atrophy. It is important to separate execution from supervision, but it is necessary for each company to discuss in detail what type of monitoring will enable the executive team to demonstrate the greatest capabilities.

**Nakayama:** This is because it's all meaningless if motivation on the part of the executive team drops.

Yamana: Although TDK's governance structure separates execution and supervision, the two are not in a confrontational relationship. For example, the Corporate Governance Committee is able to transcend the differences in positions and roles between the outside directors and the executive side to share their wisdom regarding even better management for TDK. TDK's approach to governance is that this is the inherent value of the Board.

Iwai: I think that's right. I believe that under the current TDK system, where in-depth discussions are held in the discretionary committees followed by final discussion and decision by the Board of Directors, highly effective governance can be achieved if the systems are properly operated. Nakayama: Of course, looking to the future, it is necessary that the Corporate Governance Committee and the Board continuously discuss the issue of what form of governance systems will be optimal.

Iwai: Indeed. If we can identify examples of best practices by other companies, we will of course gather information from those companies and use that information for designing and operating systems in the future, and if TDK's governance is going to be enhanced even more, we will need to conduct substantial reviews of the system design itself. I hope to evolve TDK's governance even further in the future by all of the outside directors working in collaboration with the Audit & Supervisory Board members and the executive side.

## **Corporate Governance Structure**

#### Basic stance and structure

#### Emphasis on enhancing corporate value

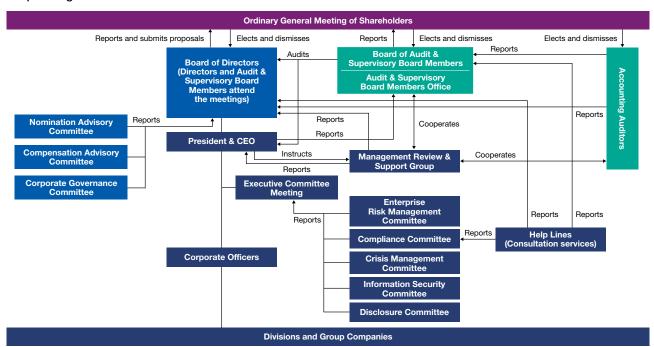
As "a company with an Audit & Supervisory Board," TDK strives to ensure the soundness, compliance, and transparency of management through the introduction of various mechanisms to strengthen corporate governance with the aim of enhancing long-term corporate value.

Regarding the Board of Directors, we strive for swift management decision-making by having a small number of members, and we actively appoint independent outside directors with no conflicts of interest so as to strengthen monitoring functions. Discussions are conducted from a long-term perspective. In addition, to strengthen supervisory functions over management, three committees have been

established as advisory bodies to the Board of Directors (the Nomination Advisory Committee, Compensation Advisory Committee, Corporate Governance Committee).

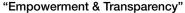
Regarding the execution of business, TDK endeavors to ensure swift decision-making and to clarify responsibility and authority in business execution through the adoption of a corporate officer system. In addition, regarding global Group management, TDK trusts people who share the same goals and principles and delegates authority to them. Furthermore, to ensure transparency toward stakeholders, TDK advocates a policy of Empowerment and Transparency and is promoting reforms to realize an autonomous and decentralized organization.

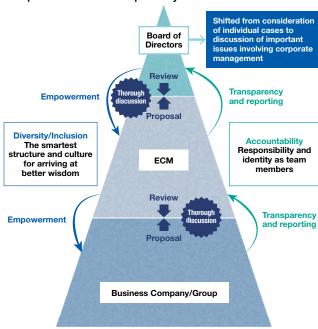
### Corporate governance structure chart



## Roles and authorities of the Board of Directors, ECM, and BCs/BGs

≡ Contents





Corporate governance at TDK is based first of all on conducting rigorous discussions within the ECM on the business execution. side. The Board of Directors then issues its management decisions based on even more thorough discussion of the conclusions presented by the ECM that also incorporate outside perspectives. This not only increases management transparency and ensures trust, but also speeds management decision-making by advancing the delegation of authority to the business execution side. In this way, the Board of Directors and the executive side maintain an appropriate relationship of both tension and trust and an ongoing cycle of rigorous discussion, ensuring transparency, and delegation of authority, creating a balance between effective governance and management speed. Note that the number of members on both the Board and the ECM is limited to achieve active, effective discussions while also ensuring diversity. To ensure fairness in these discussions, both groups are comprised of members that do not include the individuals responsible for the respective businesses.

## Strengthening of the Board of Directors' Monitoring Function

### **Appointment of outside directors**

Persons recruited as independent outside directors have a wealth of practical experience relating to corporate management and are able to provide advice from an independent perspective regarding general management for enhancing TDK's corporate value. To secure the independence of outside directors and outside Audit & Supervisory Board members recruited to the board, TDK established "items to be verified regarding independence" by making reference to "Securing Independent Director(s)/ Auditor(s)" of the Securities Listing Regulations and the Guidelines Concerning Listed Company Compliance, etc., established by the Tokyo Stock Exchange, Inc. The directors' terms of office are set at one year to give shareholders an opportunity to cast votes of confidence regarding directors' performance every fiscal year.

## Emphasis on external and medium- to long-term perspectives

TDK's basic policy is to have a small number of members (up to 10 persons) on the Board of Directors so as to expedite speedy management decision making. At present there are seven directors sitting on the board. In addition, in order to strengthen the management supervision function, TDK's basic policy is that a half or more of these directors should be independent outside directors with no conflict of interests. Currently four of the seven directors sitting on the board are independent outside directors. Furthermore, in principle an independent outside director serves as the chair of the Board of Directors. The three inside directors are the CEO, CFO. and CTO. Independent outside directors serve as the chairs and a majority of the members of the Nomination Advisory Committee and Compensation Advisory Committee, which are advisory committees of the Board of Directors, and the Corporate Governance Committee, which discusses the broad framework of TDK's governance, also includes independent outside directors.

### Composition of directors (as of June 21, 2024)



## Members of Advisory Committees (as of June 21, 2024)

		Nomination Advisory Committee	Compensation Advisory Committee	Corporate Governance Committee*
Noboru Saito	Representative Director	•	_	•
Tetsuji Yamanishi	Representative Director	_	•	(Chair)
Shigeki Sato	Director	_	_	_
Kozue Nakayama	Outside Director	(Chair)	•	•
Mutsuo Iwai	Outside Director	•	•	•
Shoei Yamana	Outside Director	•	(Chair)	•
Toru Katsumoto	Outside Director	•	•	•

<sup>\*</sup> One more person, the corporate officer serving as GM of the Corporate Strategy HQ

## Composition of the Nomination Advisory Committee (as of June 21, 2024)

≡ Contents



## Composition of the Compensation Advisory Committee (as of June 21, 2024)



## Composition of the Corporate Governance Committee (as of June 21, 2024)



≡ Contents

Taking note of the results of evaluation of the effectiveness of the Board of Directors, the Corporate Governance Committee compiles operational policy for the Board of Directors every fiscal year and, on the basis of this policy, discusses and decides the yearly agenda of the Board of Directors.

In the previous term (T128), the Corporate Governance Committee stipulated the operational policy as follows and, based on this policy, discussed and set the agenda of the Board of Directors.

## **Operational policy for the T128 Board of Directors:** basic policy for board operations:

Directors and Audit & Supervisory Board Members and the executive side endeavor toward the common purpose of achieving sustainable corporate growth and increasing the medium- to long-term corporate value of the TDK Group. T128 represents the final year of the current medium-term management plan and the year for formulating a new Medium-term Plan starting from T129. Therefore, the Board of Directors will provide supervision and advice from various perspectives to ensure the formulation of a plan that is highly feasible and compelling to stakeholders.

## **Key items for discussion in the Board of Directors** in the T128

- (1) Review of the long-term plan and discussion on the new Medium-term Plan
- (2) Discussion on the strengthening of stakeholder engagement
- (3) Discussion on the next management structure

## Outline of the yearly agenda of the Board of Directors for T128 (April 2023–March 2024)

	Financial accounts, human resources, compensation	Businesses, functions (cases of capex, M&A, etc. to be added as they arise)	Governance (lawsuits and other important issues to be reported as they arise)	Discussions, study meetings, etc. outside the Board of Directors
April	Full-year results, financial results		Internal control system (resolution)	
Мау	Account documents (Companies Act) Resolution on convening of Ordinary General Meeting of Shareholders		State of internal audit report State of possession of cross- shareholdings report Group risk management report Compliance management report Business Ethics Supervisory Committee report	Study meeting on geopolitics
June	Executive structure after the General Meeting of Shareholders Securities Report	IR activity report	Board of Directors' operational policy Auditing policy and auditing plan Sustainability activity report	
July	Quarterly results, financial results 1Q quarterly report Global HR strategy	Branding and PR strategy	Review of standards for referral to Board of Directors	Next management structure
August		HQ function reports (technology, intellectual property, DX, marketing, etc.) IR activity report	Business Ethics Supervisory Committee report	Long-term strategy update toward next Medium-term Plan
September		HQ function reports (production, quality assurance)	Sustainability activity report	TDK's Long-term Vision Panel discussion in Akita area
October	Quarterly results, financial results 2Q quarterly report Interim dividend resolution		Board of Directors evaluation (kickoff) Group risk management report Compliance management report Business Ethics Supervisory Committee report	CEATEC inspection tour
November		Global market report Review of long-term plan and direction of next Medium-term Plan Progress report on main businesses (Medium-term Plan)		LGBTQ+ study meeting Inspection of internal technology exhibition Discussion in Narita area
December	Succession plan report	Progress report on main businesses (Medium-term Plan) IR activity report	Board of Directors evaluation (interim report)	Important themes in next Medium-term Plan (business portfolio management)
January	Quarterly results, financial results 3Q quarterly report	Progress report on main businesses (Medium-term Plan)	Sustainability activity report	
February		Branding and PR strategy IR activity report Integrated Report policy	Business Ethics Supervisory Committee report Sustainability activity report	
March	Decision on candidate directors Compensation standards for next-term directors and Audit & Supervisory Board members	Next Group-wide Medium-term Plan (resolution) Next Group-wide business plan (resolution) (strategy, finance, investment, management targets)	Board of Directors evaluation (deliberation of evaluation results)	

## Activities of Advisory Committees and Other Similar Meetings (FY March 2024)

## The Nomination Advisory Committee

Members	3 outside directors and 2 inside directors
Number of times held	10 times
Theme	The Committee deliberates on the nomination of directors, Audit & Supervisory Board members and corporate officers, as well as on successor planning, and contributes to ensuring the appropriateness of their election and dismission as well as the transparency of the decision-making processes. In the current fiscal year, the Committee deliberated on the selection of candidates for the Board of Directors, succession plans, and the clarification of the policy and processes for the selection of directors and Audit & Supervisory Board members.

The Corporate Governance Committee			
Members	and 1 corporate officer		
Number of times held	4 times		
Theme	The Committee is an organization which undertakes considerations on the ideal configurations of TDK's medium- to long-term corporate governance. In the current fiscal year, it held discussions on, among other topics, the Board of Directors' operational policy, delegation of authority, and management structure, and made recommendations to the Board of Directors. It also undertook the formulation of a plan for the Board of Directors evaluation as well as the implemented the initial evaluation, confirmed the operational status of the internal control system, and verified the status of compliance with the Corporate Governance Code.		

## The Compensation Advisory Committee

Members	3 outside directors and 2 inside directors
Number of times held	9 times
Theme	The Committee deliberates on the framework and level of remuneration for directors and corporate officers and contributes to ensuring the transparency and appropriateness of the remuneration decision-making process. In the current fiscal year, the Committee held deliberations on the institution of a new remuneration plan for executives, the executive remuneration table, and the corporate officer results-linked bonus target values and payment amounts.

### Meetings of outside directors only

Members	All outside directors and all outside Audit & Supervisory Board members
Number of times held	4 times (including 1 time with full-time Audit & Supervisory Board members)
Theme	From the perspective of ensuring that outside directors actively contribute to discussions at the Board of Directors, meetings exclusively attended by outside directors and outside Audit & Supervisory Board members are held on a regular basis. These meetings are intended to facilitate exchanges of information and shared perceptions based on the attendee's independent and objective positions.

#### Discussions outside the Board of Directors

Members All directors and Audit & Board members		All directors and Audit & Supervisory Board members
	Number of times held	4 times
	Theme	Open discussions are regularly held with the aim of deepening and improving the effectiveness of discussions at meetings of the Board of Directors. As the current fiscal year constitutes the fiscal year in which the new Medium-term Plan was formulated, discussions were held on the Long-term Vision and important themes of the Medium-term Plan.

## Column

## Initiatives to enhance employee engagement

The effectiveness evaluation of the Board of Directors for the 127th term, identified the issue that: "It would be beneficial for the Board of Directors to be more open to employees, as the entire Group works toward the common goal of TDK's sustainable growth and enhancement of corporate value over the medium and long term."

In response to this issue, in the current fiscal year, the Board of Directors initiated activities called "Open Board" to enhance engagement with employees.

This included holding board meetings in the Akita region with panel discussions involving employees, discussions between outside directors and employees in the Narita region, and messages from directors to employees, aiming to facilitate interaction and information sharing between the Board of Directors and employees.



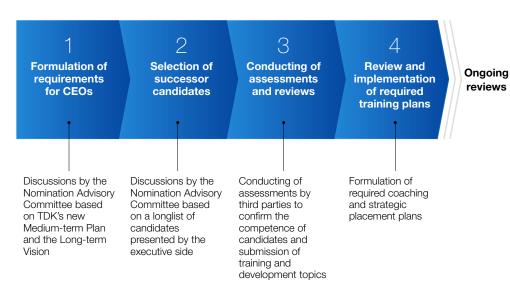






## **CEO Succession Planning**

The Nomination Advisory Committee undertakes considerations on CEO succession planning. The Committee agrees on the required criteria for CEOs in terms of their skills, experience, and distinguishing characteristics, with the potential CEOs identified from among the pool of candidates in succession planning for key positions as well as graded training conducted by the Human Resources HQ. The training and experiences necessary to assume the role of CEO is then provided and the appropriate candidate is selected.



## Policy and procedures for election of Directors and **Audit & Supervisory Board Members**

#### Policy for election of Directors and Audit & Supervisory Board Members

The Company's policy for election of Directors and Audit & Supervisory Board Members is as follows.

- (1) The candidate must be able to understand the Company's board culture and share its values.
- (2) The candidate must have excellent character and insight, as well as experience and abilities to contribute to the sustainable growth of TDK and the enhancement of its corporate value over the medium to long term.
- (3) The candidate must have a high sense of legal compliance and ethics.
- (4) The Company shall strive to balance diversity, including gender, internationality, and professional experience, with appropriate size for the Board of Directors as a whole, including Directors and Audit & Supervisory Board Members.
- (5) Outside Directors and Outside Audit & Supervisory Board Members must satisfy the requirements provided in the items to be verified regarding independence established by the Company.
- (6) Independent Outside Directors must include those with management experience at other companies.
- (7) At least one (1) of the Audit & Supervisory Board Members must have sufficient knowledge of finance and accounting.

## Procedures for election of Directors and Audit & Supervisory Board Members

In selecting candidates for Directors and Audit & Supervisory Board Members, the Nomination Advisory Committee, the Chair and more than half of the members of which are Independent Outside Directors, shall thoroughly deliberate on the candidates and report to the Board of Directors. The Board of Directors shall respect and deliberate the contents of the report, decide on the candidates for Directors and Audit & Supervisory Board Members, and submit them to the General Meeting of Shareholders. In selecting candidates for Audit & Supervisory Board Members, the Audit & Supervisory Board shall review the candidates in advance, and with the consent of the Audit & Supervisory Board, the Board of Directors shall select the candidates.



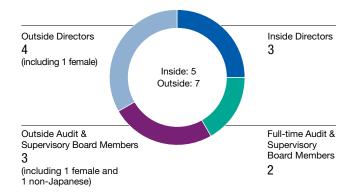
In selecting candidates possessing the respective skills, consideration is given to the overall balance and diversity of the directors and Audit & Supervisory Board members taken as an integrated whole as the constituent members of the Board of Directors.

	Name	Position	Corporate Management	Global Business Experience	Sales/ Marketing	ESG/ Sustainability	Technology/ Research & Development	Manufacture/ Production Technology	Finance/ Accounting	Legal/ Compliance/Risk Management
	Noboru Saito	Representative Director, President & CEO	•	•	•	•				
	Tetsuji Yamanishi	Representative Director, Senior Executive Vice President	•	•					•	•
Dire	Shigeki Sato	Director, Senior Vice President	•	•			•	•		
Directors	Kozue Nakayama	Outside Director	•	•	•	•				
S	Mutsuo Iwai	Outside Director	•	•						•
	Shoei Yamana	Outside Director	•	•	•	•				
	Toru Katsumoto	Outside Director	•	•			•	•		
Auc	Masato Ishikawa	Full-time Audit & Supervisory Board Member		•				•		•
Audit & St	Takakazu Momozuka	Full-time Audit & Supervisory Board Member		•		•			•	•
Supervisory Members	Douglas K. Freeman	Outside Audit & Supervisory Board Member		•						•
ory Bo	Chizuko Yamamoto	Outside Audit & Supervisory Board Member		•					•	•
Board	Takashi Fujino	Outside Audit & Supervisory Board Member	•	•					•	•

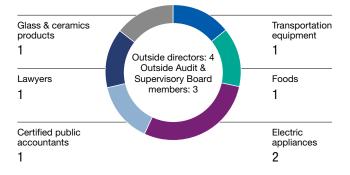
## Fields where the Company especially expects Directors and Audit & Supervisory Board Members to demonstrate their skills

Skills the Company expect	Reasons for selecting the skills in question
Corporate Management	To contribute to a sustainable society and enhance corporate value, the capability to perform in corporate management and to manage and supervise executive divisions is required.
Global Business Experience	Experience and knowledge in global business are essential in TDK where over 90% of net sales is recorded outside of Japan.
Sales/Marketing	Sales and marketing skills are necessary to understand market demands and create new business opportunities from the conception of both technology-out and market-in.
ESG/Sustainability	An adequate understanding of ESG and sustainability, one of the most crucial issues in present-day society, is an important capability to supervise the corporate management.
Technology/Research & Development	As under the Corporate Motto "Contribute to culture and industry through creativity," the Company aims to be a company that contributes to the realization of a sustainable future by accelerating the advancements in technology and the transformation of society.
Manufacture/Production Technology	An adequate understanding and passion for Monozukuri (manufacturing experience) is required as quality and reliability of products are the foundation of TDK's business.
Finance/Accounting	To aim for sustainable growth and carry out necessary investments, knowledge in finance and accounting, which supports a sound and solid financial basis, is required.
Legal/Compliance/Risk Management	Legal, compliance and risk management skills are necessary to respond to the trust of all stakeholders and to enhance corporate value in a sound and sustainable manner.

### Composition of directors and Audit & Supervisory Board members (as of June 21, 2024)



## Backgrounds of outside directors and outside Audit & Supervisory Board members



Governance

## **Remuneration for Executives**

## **Basic Policy**

TDK emphasizes linkage with short-term and medium- to long-term results. Also, to promote as much as possible behavior on the part of directors geared toward enhancing corporate results and stock value and sustainably enhance the corporate value of the overall TDK Group by constantly pursuing the formulation of a competitive remuneration system to secure diverse and excellent human resources.

#### Governance for remuneration

## Decision-making process

TDK has in place a Compensation Advisory Committee acting as an advisory body to the Board of Directors, which is chaired by an independent outside director and of which a majority of the members are composed of independent outside directors. The Committee examines the remuneration system and the level of remuneration pertaining to Directors and corporate officers of TDK, submits a report to the Board of Directors, and thereby contributes to the securement of transparency of the remuneration decision-making process and appropriateness of individual remunerations in light of corporate business performance, individual performance and general industry standards, among other factors.

The remuneration of Directors and corporate officers of TDK is discussed by the Compensation Advisory Committee and then resolved by the Board of Directors.

## Clawback and malus provision

TDK has adopted a clawback and malus provision that allows the company to forfeit the right to be issued payment or shares, or to demand a reduction or recoupment of remunerated sums based on deliberations by the Compensation Advisory Committee and a resolution passed by the Board of Directors in the event of a sudden and dramatic deterioration in performance, malfeasance, or violations of the law.

### Structure of remuneration for directors and Audit & Supervisory Board members

Type of remuneration		Details of remuneration	Fixed/Fluctuating
Basic remuneration		Monetary compensation paid monthly	Fixed
Results-linked bonus		Monetary compensation which is paid at predetermined times each year with an emphasis on the linkage with short-term performance. The amount of the bonus fluctuates within a range of 0% to 200% of the standard payment amount depending on the degree of attainment of the consolidated results for the fiscal year under review and the targets set for each division.	Fluctuating (single fiscal year)
Post-delivery type stock remuneration  Performance share unit (PSU)		RSU is a type of stock remuneration which is issued based on continuous service. In case of RSU, subject to continuous service for a period of three years from the first day of the first year to the last day of the last year of the Medium-term Plan (or a period of three years or more as determined by the Board of Directors of the Company, the "Target Period"), a pre-determined amount of the Company's shares and money is delivered after the end of the Target Period.	Fixed
		PSU is a type of stock remuneration which is issued based on factors including performance. In case of PSU, an amount of the Company's shares and money calculated in accordance with the degree of achievement of performance targets set by the Medium-term Plan is delivered after the end of the Target Period. Rates of payment will vary depending on the degree of achievement of consolidated performance targets and related matters as outlined in the Medium-term Plan.	Fluctuating (medium- to long-term)

### Eligible for payment

Classification	Basic remuneration Results-linked bonus		Post-delivery type stock remuneration		
Classification			RSU	PSU	
Directors concurrently serving as corporate officers	•	•	•	•	
Directors not concurrently serving as corporate officers	•	-	•	-	
Outside directors	•	-	_	-	
Audit & Supervisory Board members	•	-	-	-	

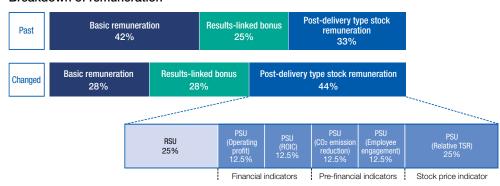
≡ Contents

## Increasing the ratio of results-linked stock remuneration

In June 2020, TDK introduced a post-delivery type stock remuneration system with the aim of sharing the benefits and risks of fluctuations in stock prices with shareholders and increasing their motivation to contribute to improving medium-term business performance as well as increasing corporate value. In June 2024, the system was revised to, for example, increase the ratio of stock remuneration linked to business performance, while maintaining the current level of basic remuneration (fixed compensation), to further increase such motivation and to ensure a competitive remuneration level in the human capital market in a rapidly changing and difficultto-predict global business environment.

In addition, as evaluation indicators for PSUs, the Company proposes to introduce environmental and social indicators in order to increase the willingness to contribute to the realization of a sustainable society, and to introduce stock price indicators in order to further motivate management practices that are conscious of the cost of capital and stock price.

#### Breakdown of remuneration



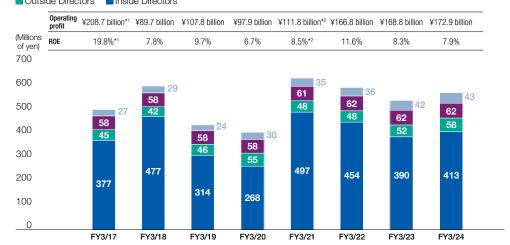
<sup>\*</sup> In the case that the Representative Director, President & CEO achieves 100% of performance targets, etc.

#### PSU evaluation indicators

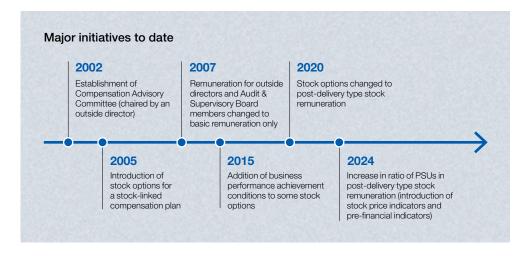
Classification	Evaluation indicators	Percentage of payment
Financial indicators	Operating profit targets in the Medium-term Plan	
Financial indicators	ROIC targets in the Medium-term Plan	0.4000/
D 6	Targets for CO <sub>2</sub> emission reduction in the Medium-term Plan	0–100%
Pre-financial indicators	Targets for employee engagement in the Medium-term Plan	
Stock price indicator	Relative TSR (vs. TOPIX)	0–200%

## Trends in total amount of remuneration for directors and Audit & Supervisory Board members





- \* As for the results-linked bonuses and post-delivery type stock remuneration for Directors, the amounts shown above are those recorded as an expense for the fiscal year under review.
- \*1 Includes ¥144.4 billion in gains from business transfer to Qualcomm
- \*2 TDK has adopted the IFRS on its consolidated financial statements in the annual Securities Reports from the FY March 2022 in place of the US-GAAP. The figures for the FY March 2021 are also presented in accordance with IFRS.



## **Effectiveness Evaluation of the Board of Directors (Process)**

## Continuous improvement based on effectiveness evaluation

TDK conducts an effectiveness evaluation of the Board of Directors each year in order to verify whether the functions expected of the Board of Directors are properly performed and enhance such functions. Also, TDK requests a thirdparty evaluation institution to evaluate the effectiveness of the Board of Directors periodically (about once every three years) in order to verify it from a neutral and objective standpoint.

Given that a third-party evaluation organization conducted a survey in FY March 2023, in the Board of

Directors evaluation for FY March 2024, the Corporate Governance Committee (Chair: Shigenao Ishiguro, Chairman & Director who is not also a Corporate Officer \*At the time) conducted the initial evaluation from a neutral standpoint. and after discussions by the Board of Directors, the Board of Directors conducted the final evaluation.

As for the issues identified in the evaluation for the previous fiscal year, TDK implements remedial measures and verifies their results, thereby creating a cycle for continuous improvement of governance.

#### The Board of Directors evaluation process and governance improvement cycle

## **Evaluation process** November-December Questionnaire to all Directors Questionnaire and Audit & Supervisory Board members December-January Individual interviews with all Interviews Directors and Audit & Supervisory Board members March-April Analysis and summary reported and discussed in the Corporate **Discussions** Governance Committee and Board of Directors Resolution on evaluation **Evaluation results** results by the Board of Directors

#### Improvement cycle

- Reports relating to issues identified in the evaluation planned in the Board of Directors annual schedule
- Implementation of improvement measures
- Verification of results in the next Board of Directors evaluation
- The above cycle of evaluation, identification of issues, improvement, and evaluation (verification) is rotated every year to ensure continuous improvement of governance.



### **Questionnaire Items (Major Items)**

- (1) Role and function of the Board of Directors (questions and free answers)
- (2) Size and composition of the Board of Directors (questions and free answers)
- (3) Operation of the Board of Directors (questions and free answers)
- (4) Composition and role of the Nomination Advisory Committee (questions and free answers)
- (5) Operation of the Nomination Advisory Committee (questions and free answers)
- (6) Composition and role of the Compensation Advisory Committee (questions and free answers)
- (7) Operation of the Compensation Advisory Committee (questions and free answers)
- (8) Composition and role of the Corporate Governance Committee (questions and free answers)
- (9) Operation of the Corporate Governance Committee (questions and free answers)
- (10) Support system for Outside Directors (questions and free answers)
- (11) Role of the Audit & Supervisory Board Members and expectations of the Audit & Supervisory Board Members (questions and free answers)
- (12) Relationship with investors and shareholders (questions and free answers)
- (13) Governance structure of TDK and effectiveness of the Board of Directors in general (free answers)
- (14) Self-evaluation by Directors and Audit & Supervisory Board Members (free answers)

<sup>\*</sup> The survey is multifaceted, with detailed sub-items underneath the major items described above. While certain question items are not changed in the effective evaluation questionnaire in order to enable continuous measurement each year, the other question items are reviewed each year in order to enhance the quality of the evaluation. Also, many "free comment fields" are provided in order to collect different and various opinions and suggestions without regard to the questionnaire items.

≡ Contents

## **Effectiveness Evaluation of the Board of Directors (Results)**

## Progress in addressing issues identified in the effectiveness evaluation of the previous fiscal year

The following issues reported in the previous fiscal year were addressed in the annual plan of the Board of Directors, and efforts for improvement were recognized.

	Item	Progress				
1	Further evolution of board discussions	Based on the operational policy of the Board of Directors for the T128, discussions are being focused. The Corporate Governance Committee has formulated the operational policy (key discussion items) for the T128 Board of Directors, aiming to focus the discussions on more comprehensive and medium- to long-term themes. The board operations are conducted based on this policy. Furthermore, based on the discussions on delegation of authority in the Corporate Governance Committee, the revision of the Regulations on Decision-Making Authority (Board Approval Criteria) was carried out in the July 2023 Board of Directors meeting to promote delegation of authority to the executive side. Additionally, the executive side ensured effective discussions in the Board of Directors by providing appropriate information sharing to board members, including orientation sessions for new directors, site visits, holding board meetings outside the headquarters, and inviting them to technology exhibitions and internal events.				
2	Strengthening engagement with stakeholders	In order to enhance the improvement of our group's corporate value and deepen stakeholders' understanding of our growth potential and competitive advantage, the Board of Directors provided supervision and advice from various perspectives towards the development of a Medium-term Plan that is highly feasible and appealing to stakeholders. Specifically, starting from August 2023, multiple discussions were held in the Board of Directors and other venues (off-site meetings) regarding our Long-term Vision and the Medium-term Plan derived from it through backcasting. Progress reports and deliberations on the Medium-term Plan "Value Creation 2023" were received from the entire company and each business division, leading to the decision on the new Medium-term Plan (T129 to T131) in the March 2024 Board of Directors meeting. Furthermore, the Board of Directors conducted multiple discussions on branding and PR strategies to promote enhanced communication with stakeholders by the executive side. The executive side made efforts to strengthen information dissemination through the integrated report and planned and held new IR events, achieving certain results. Additionally, the Board of Directors initiated activities called "Open Board" to enhance engagement with employees. This included holding board meetings in the Akita region with panel discussions involving local employees, discussions between outside directors and employees in the Narita region, and messages from directors to employees, aiming to facilitate interaction and information sharing between the Board of Directors and employees.				
3	Responding to rapidly changing market trends	To enhance the ability to respond to market trends on a global scale, including marketing strategies and geopolitical and geo-economic risks, the Board of Directors received reports on global market trends in anticipation of formulating the new Medium-term Plan. Discussions on market changes were conducted in the reports from the major business divisions in each Board of Directors meeting. Multiple discussions were also held on group risk management, and external experts were invited to give lectures on geopolitical and geoeconomic risks, targeting board members and the executive management team.				

#### Final evaluation by the Board of Directors

Based on the primary evaluation by the Corporate Governance Committee, the Board of Directors, as a result of conducting deliberations several times, confirmed that the effectiveness of the Board of Directors and its Advisory Committees (Nomination Advisory Committee and Compensation Advisory Committee) was sufficiently secured in terms of their size and composition, the content of the agenda items and deliberations, the status of discussions, their reflection in management, etc. In addition, the Board of Directors confirmed that it continues to enhance its effectiveness by making improvements based on the results of the Board of Directors evaluation in the previous fiscal year.

#### **Future issues**

As a result of the effective evaluation of the Board of Directors this time, the following three items are recognized as the main issues that the Board of Directors should address in the future.

	Item	Document.
	item	Progress
1	Decision-making for achieving the Medium- term Plan in the Board of Directors	To monitor the execution of our Medium-term Plan (T129 to T131) and support its achievement, the Board of Directors needs to deepen discussions on important elements of the plan, such as "business portfolio strategy" and "risk management at the management level," and make necessary decisions accordingly.  Specifically, in the "business portfolio strategy," continuous evaluation and optimization of the business portfolio (with a focus on core businesses, creation of next-generation pillar businesses, and addressing challenging businesses) are important. In terms of "risk management at the management level," the Board of Directors has been discussing group risk management, and there is a need to continue improving the risk heat map and engage in in-depth discussions from the perspective of major risk response policies, identified risks, and necessary countermeasures.
2	Strengthening engagement activities with stakeholders	To contribute to the improvement of corporate value through the Board of Directors, it is important to further strengthen stakeholder engagement activities. In the previous term, efforts were focused on engagement activities between the Board of Directors and internal stakeholders (employees) through initiatives such as the "Open Board" activities. In the current term, while continuing the "Open Board," the scope will be expanded to include external stakeholders (investors, shareholders, etc.) and communicate our pre-financial capital (sources of future cashflow: human capital, organizational capabilities, technological capabilities, customer base, etc.) and potential. Additionally, discussions on enhancing our PR and brand strength will be conducted in the Board of Directors to promote stronger communication with stakeholders by the executive side.
3	Pursuing an optimal governance structure in the Medium-Term Plan period	In formulating our Medium-term Plan (T129 to T131), we conducted planning based on the backcasting from our Long-term Vision, "TDK Transformation—Accelerating transformation for a sustainable future." In order to further enhance effectiveness, the Board of Directors itself needs to transform into an optimal form. This includes verifying the skill martix, formalizing the nomination process, and inviting directors with the necessary skills. Additionally, in pursuit of further improvement in governance functions, transitioning to a majority of independent outside directors and seeking an optimal governance structure will be important.

#### Operational policy of the Board of Directors

Taking note of the results of evaluation of the effectiveness of the Board of Directors, the Corporate Governance Committee compiles the Board of Directors' operational policy every fiscal year and, on the basis of this policy, discusses and decides the yearly agenda of the Board of Directors. The operational policy for the current term (T129) is as follows.

#### Basic policy for operation of the Board of Directors for the T129

Directors, members of the Audit & Supervisory Board, and the executive side will make efforts toward the common objectives of TDK's sustained growth and the medium- to long-term enhancement of corporate value. In the T129, which represents the first fiscal year of the new Medium-term Plan, the Board of Directors will discuss the business portfolio strategy and risk management, both of which are important elements in achieving the Medium-term Plan and pursue an optimal governance structure with a view to the period of the Medium-term Plan.

#### Key items for discussion in the Board of Directors in the T129

- 1. Discussion of the business portfolio strategy
- 2. Discussion of risk management at meetings of the Board of Directors
- 3. Pursuit of an optimal governance structure

## Directors, Audit & Supervisory Board Members, and Corporate Officers (As of the end of June 2024)

## **Directors**



Noboru Saito Representative Director

Apr. 2022 Representative Director of the Company

Apr. 2024 President & CEO of the Company General Manager of Humidifier Countermeasures HQ of the Company



Tetsuji Yamanishi Representative Director

Jun. 2018 Representative Director of the Company

Apr. 2024 Senior Executive Vice President of the Company Chief Financial Officer of the Company



Shigeki Sato

Director

Senior Vice President of the Apr. 2021 Company

> General Manager of Technology and Intellectual Property HQ of the Company

Jun. 2021 Director of the Company Apr. 2024 Chief Technology Officer of the Company



Kozue Nakavama **Outside Director** 

Jun. 2019 Outside Audit & Supervisory Board Member of Imperial Hotel,

Jun. 2020 Outside Director of the Company

Jun. 2022 Outside Director of Nanto Bank, I td.



Mutsuo Iwai **Outside Director** 

Jun. 2021 Outside Director of the Company

Mar. 2022 Member and Chairperson of the Board of JT



Shoei Yamana **Outside Director** 

Jun. 2022 Outside Director of the Company

Jun. 2023 Senior Advisor of Konica Minolta, Inc.

Outside Director of Zensho Holdings Co., Ltd. Jun. 2024 Outside Director of JAPAN

POST INSURANCE Co., Ltd. Outside Director of SCSK Corporation



**Toru Katsumoto** 

Outside Director

Apr. 2022 Senior Executive Vice President of Sony Group Corporation (resigned in Jun. 2022)

Jun. 2024 Outside Director of the Company

## **Audit & Supervisory Board Members**



Masato Ishikawa Full-time Audit & Supervisory Board Member

Jun. 2023 Full-time Audit & Supervisory Board Member of the Company



Takakazu Momozuka Full-time Audit & Supervisory Board Member

Jun. 2019 Full-time Audit & Supervisory Board Member of the Company



Douglas K. Freeman Outside Audit & Supervisory Board Member

Sep. 2007 Principal of Law Offices of Douglas K. Freeman (current Freeman & Partners)

Apr. 2019 Professor of Keio University Law School

Jun. 2019 Outside Audit & Supervisory Board Member of the Company



Chizuko Yamamoto Outside Audit & Supervisory Board Member

Jun. 2020 Principal of Chizuko Yamamoto CPA Office

Aug. 2020 Outside Audit & Supervisory Board Member of Ozu Corporation

Jun. 2021 Outside Director of Tokyo Rope Mfg. CO., Ltd.

Jun. 2023 Outside Audit & Supervisory Board Member of the Company



Takashi Fujino Outside Audit & Supervisory Board Member

Jun. 2021 Outside Director of Kyokuto Boeki Kaisya, Ltd. Jun. 2023 Outside Audit & Supervisory Board Member of the Company

## **Corporate Officers**

## **President & CEO**

**Noboru Saito** 

**Senior Executive Vice President** 

Tetsuji Yamanishi

**Senior Vice Presidents** 

**Michael Pocsatko** Andreas Keller Shigeki Sato

## **Corporate Officers**

Albert Ong **Fumio Sashida** Ji Bin Geng **Werner Lohwasser** Taro Ikushima Shuichi Hashiyama Roshan Thapliya **Ludger Trockel** Takao Tsutsui Ikuo Fukuchi Joe Kit Chu Lam Jim Tran Takeshi Takahashi

<sup>\*</sup> Only present post are listed in the career summary.

## **Key Financial Data for the Past 10 Years**

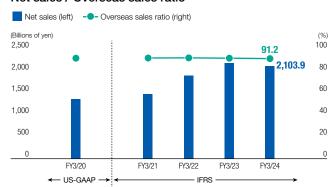
TDK has adopted the IFRS on its consolidated financial statements in the annual Securities Reports from the FY March 2022 in place of the US-GAAP. The figures for the FY March 2021 are also presented in accordance with IFRS. Account titles are presented in accordance with the IFRS.

										Millions of yen
Consolidated business highlights	FY3/15	FY3/16	FY3/17	FY3/18	FY3/19	FY3/20	FY3/21 (IFRS)	FY3/22 (IFRS)	FY3/23 (IFRS)	FY3/24 (IFRS)
Net sales	1,082,560	1,152,255	1,178,257	1,271,747	1,381,806	1,363,037	1,479,008	1,902,124	2,180,817	2,103,876
(Overseas sales)	989,348	1,061,203	1,073,024	1,158,004	1,268,437	1,252,634	1,361,803	1,753,086	2,004,381	1,919,245
Cost of sales	802,225	831,123	855,948	928,525	985,321	959,714	1,052,410	1,338,276	1,596,295	1,500,858
Selling, general and administrative expenses	199,795	227,185	239,446	257,630	287,561	289,771	328,217	410,568	434,803	452,520
Operating profit	72,459	93,414	208,660	89,692	107,823	97,870	111,814	166,775	168,827	172,893
Profit before tax	74,517	91,839	211,717	89,811	115,554	95,876	117,263	172,490	167,219	179,241
Net profit attributable to owners of parent	49,440	64,828	145,099	63,463	82,205	57,780	74,681	131,298	114,187	124,687
Purchase of tangible and intangible assets	102,525	160,674	167,631	178,612	173,592	173,429	212,196	291,337	275,709	218,589
Depreciation and amortization	80,249	83,224	87,491	92,171	106,631	124,984	148,356	177,031	206,285	190,546
Research and development expenses	70,644	84,920	91,254	102,641	115,155	117,489	127,409	165,250	179,467	188,860
Cash flows from operating activities	142,850	151,563	160,136	91,310	140,274	222,390	230,855	178,987	262,772	447,007
Cash flows from investing activities	(127,312)	(140,585)	(71,111)	(246,099)	(140,179)	(41,964)	(231,488)	(281,546)	(234,402)	(216,592)
Cash flows from financing activities	(35,243)	29,305	(37,753)	110,088	9,435	(121,769)	21,082	113,743	14,947	(146,368)
Free cash flow	15,538	10,978	89,025	(154,789)	95	180,426	(633)	(102,559)	28,370	230,415
Cash and cash equivalents at end of period	265,104	285,468	330,388	279,624	289,175	332,717	380,387	439,339	506,185	649,998
Total assets	1,404,253	1,450,564	1,664,333	1,905,209	1,992,480	1,943,379	2,359,663	3,041,653	3,147,027	3,415,304
Total equity attributable to owners of parent	738,861	675,361	793,614	824,634	877,290	843,957	958,929	1,300,317	1,458,446	1,707,332
Interest-bearing debt	268,332	335,737	334,132	483,019	520,268	424,690	521,822	679,813	752,158	685,736
Working capital	352,364	289,760	388,542	296,899	208,165	247,577	202,547	470,814	603,000	711,085
Number of shares issued (thousands)	129,591	129,591	129,591	129,591	129,591	129,591	388,772*	388,772	388,772	388,772
Per-share data*										Yen
Net profit attributable to owners of parent (basic)	¥392.78	¥514.23	¥1,150.16	¥502.80	¥651.02	¥457.47	¥197.06	¥346.44	¥301.19	¥328.70
Total equity attributable to owners of parent	5,865	5,355	6,289	6,532	6,947	6,681	2,530	3,431	3,845	4,500
Dividends	90.00	120.00	120.00	130.00	160.00	180.00	60.00	78.33	106.00	116.00
Payout ratio (%)	22.9	23.3	10.4	25.9	24.6	39.3	30.4	22.6	35.2	35.3
Key financial ratios										
Overseas sales ratio (%)	91.4	92.1	91.1	91.1	91.8	91.9	92.1	92.2	91.9	91.2
R&D expenses to net sales ratio (%)	6.5	7.4	7.7	8.1	8.3	8.6	8.6	8.7	8.2	9.0
OP margin (%)	6.7	8.1	17.7	7.1	7.8	7.2	7.6	8.8	7.7	8.2
Return on equity (ROE) (%)	7.2	9.2	19.8	7.8	9.7	6.7	8.5	11.6	8.3	7.9
Return on assets (ROA) (%)	4.0	4.7	9.3	3.6	4.2	2.9	3.5	4.9	3.7	3.8
Return on invested capital (ROIC) (%)	5.4	6.7	13.4	5.2	5.7	4.3	5.2	7.4	5.5	5.3
Equity ratio (non-consolidated) (%)	43.0	37.7	44.0	34.6	29.0	24.9	29.2	32.0	34.8	35.0
D/E ratio (times)	0.36	0.50	0.42	0.59	0.59	0.50	0.54	0.52	0.52	0.40

<sup>\*</sup> TDK split one share of its common stock into three shares with the effective date of October 1, 2021. Number of shares issued, net profit attributable to owners of parent (basic) per share, total equity attributable to owners of parent per share and dividends per share are calculated assuming that the share split was implemented at the beginning of the FY March 2021.

TDK has adopted the IFRS on its consolidated financial statements in the annual Securities Reports from the FY March 2022 in place of the US-GAAP. The figures for the FY March 2021 are also presented in accordance with IFRS. Account titles are presented in accordance with the IFRS.

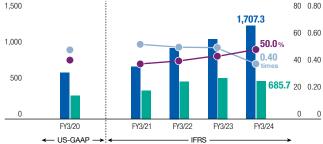
#### Net sales / Overseas sales ratio



In FY March 2024, net sales decreased 3.5% from the previous year to ¥2,103.9 billion. Final demand remained stagnant in the ICT market, and the market was sluggish. In the automotive market, although the xEV production volume increased from the previous year, parts inventory adjustments continued in some regions, and demand was below initial expectations. In the industrial equipment market, demand for capital expenditures overall was sluggish. Overseas sales ratio decreased 0.7 percentage points to 91.2%.

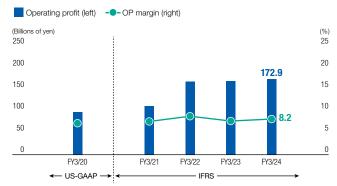
## Total equity attributable to owners of parent (ratio) / Interest-bearing debt / D/E ratio





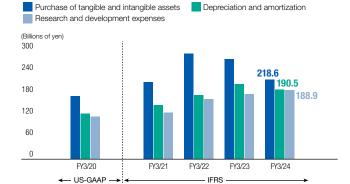
As of the end of FY March 2024, equity attributable to owners of the parent company amounted to ¥1,707.3 billion, an increase of 17.1% over the previous fiscal year end. Other capital components increased by ¥164.7 billion, primarily as a result of an increase in exchange differences on translation of foreign operations, and the ratio of equity attributable to owners of the parent increased by 3.7 percentage points to 50.0%. Interest-bearing debt decreased by 8.8% to ¥685.7 billion due to progress in repaying borrowings. As a result, the D/E ratio decreased by 0.12 percentage points to 0.40 times.

### Operating profit / OP margin



In FY March 2024 operating profit reached ¥172.9 billion, up 2.4% year on year, which, excluding the business transfer gains recorded in FY March 2017, was the highest ever. The OP margin was 8.2%. In addition to positive effects from ven depreciation, an increase in the sales volume of small capacity batteries, cost reductions from rationalization, benefits from restructuring conducted in the previous fiscal year, and streamlining of SG&A expenses contributed to operating profit.

### Purchase of tangible and intangible assets / Depreciation and amortization / Research and development expenses



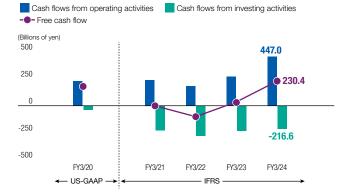
Capital expenditures amounted to ¥218.6 billion in FY March 2024, down 20.7% year on year, depreciation and amortization expenses reached ¥190.5 billion, down 7.6%, and research and development expenses reached ¥188.9 billion, up 5.2%. During the period of the previous Medium-term Plan, which began in FY March 2022, TDK initially planned for total capital expenditures of ¥750.0 billion over three years but total capital expenditures were ¥785.6 billion over the three years, due to an increase of about ¥100.0 billion as a result of foreign exchange fluctuations, and upfront investment in businesses which are expected to grow in the future.

#### ROIC / ROE / ROA



As a result of a decline in the net profit attributable to owners of parent, in FY March 2024 ROE decreased by 0.4 percentage points over the previous fiscal year to 7.9%. ROA increased by 0.1 percentage points to 3.8%, and ROIC decreased by 0.2 percentage points to 5.3%. We have set an ROIC target of at least 8% in FY March 2027 and at least 12% over the medium to long term.

#### Cash flows



In FY March 2024 free cash flow registered a surplus of ¥230.4 billion. Operating activities improved significantly due to the decrease in working capital resulting from ongoing inventory optimization, and capital expenditures was conducted while making careful determinations concerning changes in demand, resulting in a decrease of approximately ¥40.0 billion from the initial forecast of ¥260.0 billion. As a result, free cash flow increased substantially from FY March 2023.

## **IR Activities**

#### **Disclosures of information**

The TDK Group maintains fairness and transparency by means of timely and accurate disclosure of certain information to its shareholders/investors and other stakeholders. In addition, the TDK Group shall actively and widely communicate with society, and its shareholders/ investors, customers, business partners, employees, and local communities, and shall pay heed to their expectations and needs, and values and opinions that are different from those of the TDK Group, which shall, from time to time, be reflected in the TDK Group's corporate activities.

### Objectives of investor relations activities

The objectives of the TDK Group's investor relations activities are to develop a long-term relationship of trust with stakeholders by fulfilling its responsibilities not only to shareholders, who have entrusted administration of the company to management, but also to all other stakeholders including investors and analysts, through the faithful and fair disclosure of information, and also to obtain their confidence and esteem through bilateral communication. In order to pursue these objectives at all times, the TDK Group continuously discloses necessary information and conducts investor relations activities in such a manner that third-party opinions can be used to improve management.

#### Number of annual discussions

	FY3/23	FY3/24
Financial statement briefings for analysts and institutional investors	4	4
IR Tech Conference	_	1
Number of Management meetings	50	61
Number of individual meetings (include conferences)	347	435
Conferences hosted by securities companies	7	7
Overseas roadshow	2	4

## State of implementation of dialogue with shareholders

Item	Content
Main respondents in dialogue with shareholders	Mainly the President & CEO, Senior Executive Vice President CFO; executives; and the IR & SR Group, a dedicated team handling shareholder and investor response.
Profile of shareholders with whom dialogue conducted	Dialogue is conducted with active and passive institutional investors both in Japan and overseas; investors with various investment styles, such as growth and value investing; and diverse shareholders.
Main dialogue topics and matters of interest to shareholders	Constructive and lively dialogue takes place on such topics as management policy, problem awareness, financial strategy, progress of individual business strategies, progress of initiatives involving ESG and other pre-financial activities, and response to geopolitical risks.
State of feedback of shareholder opinions and concerns to the management team and Board of Directors	In-house feedback is being strengthened. For example, the numerous opinions and issues raised in the dialogue with shareholders and investors are sorted in the IR & SR Group and reported to the Board of Directors every quarter.  Number of reports in FY March 2024: 4
Matters introduced as a result of feedback	Decision to link pre-financial capitals to remuneration for executives
Issues currently under consideration as a result of feedback	Create opportunities for dialogue between investors and Outside Directors Disclosure on progress of business portfolio management

#### External evaluation of TDK's IR activities

#### Integrated report

NIKKEI Integrated Report Award 2023 Award for Excellence



Government Pension Investment Fund (GPIF) the Excellent Integrated Reports (receiving 1 vote) the Most-improved Integrated Reports (receiving 2 vote) by the GPIF's Domestic Equity Managers

#### IR website

BroadBand Security, Inc. Gomez IR Site Ranking 2023 Silver Prize

Daiwa Investor Relations Co. Ltd. Internet IR 2023, Commendation Award

Nikko Investor Relations Co., Ltd. All Japanese Listed Companies' Website Ranking 2023 All Markets Ranking, AAA Website



#### **Japan Investor Relations** Association (JIRA)

Greatest IR Improvement Premium Company



Best Continual IR Efforts Premium Company

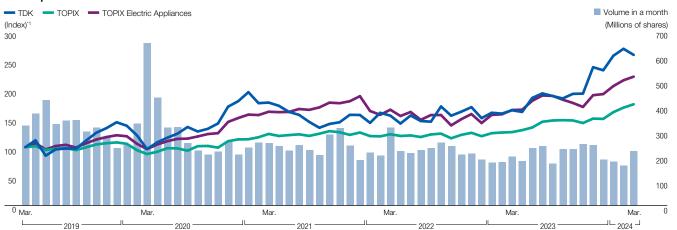


(As of March 31, 2024)

Corporate name	TDK Corporation		
Corporate headquarters	Nihonbashi Takashimaya Mitsui Building, 2-5-1, Nihonbashi, Chuo-ku, Tokyo 103-6128		
Date of establishment	December 7, 1935		
Authorized number of shares	1,440,000,000 shares		
Number of shares issued	388,771,977 shares		
Number of shareholders	27,031		

Common stock	¥32,641,976,312		
Securities traded	Tokyo Stock Exchange		
Securities code	6762		
Number of employees (consolidated)	101,453		
Transfer agent	Sumitomo Mitsui Trust Bank, Limited 1-4-1, Marunouchi, Chiyoda-ku, Tokyo 100-8233		
Independent registered public accounting firm	KPMG AZSA LLC (the Japan member firm of KPMG International)		

### Stock price and volume



## Total shareholder return (TSR)\*2

		FY3/20	FY3/21	FY3/22	FY3/23	FY3/24
	Total shareholder return (%)	98.7	181.0	161.2	174.0	273.4
	(Benchmark: TOPIX index)	90.5	128.6	131.2	138.8	196.2

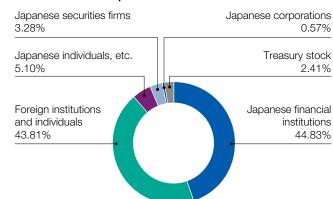
<sup>\*1</sup> The stock price data on the last day of March 2019 is set as 100.

## Principal shareholders (10 largest shareholders)

Name of shareholder	Number of shares held (thousands of shares)	Percentage of number of shares held in the total number of issued shares* (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	102,039	26.90
Custody Bank of Japan, Ltd. (Trust account)	52,147	13.74
JP MORGAN CHASE BANK 385632	16,314	4.30
STATE STREET BANK WEST CLIENT - TREATY 505234	8,111	2.14
SSBTC CLIENT OMNIBUS ACCOUNT	7,517	1.98
HSBC HONGKONG-TREASURY SERVICES A/C ASIAN EQUITIES DERIVATIVE	6,855	1.81
CITIBANK, N.ANY, AS DEPOSITARY BANK FOR DEPOSITARY SHARE HOLDERS	5,607	1.48
JP MORGAN CHASE BANK 385781	4,994	1.32
GOVERNMENT OF NORWAY	4,090	1.08
STATE STREET BANK AND TRUST COMPANY 505103	3,660	0.96

<sup>\*</sup> Other than the above, the Company holds 9,381 thousand shares of treasury stock.

## Status of ownership



<sup>\*2</sup> The formula for calculating total shareholder return for each fiscal year is as follows. (Stock price at the end of each fiscal year + accumulated amount of dividends per share from 4 fiscal years prior to the current fiscal year to each fiscal year) / Stock price at the end of 5 fiscal years prior to the current fiscal year.



# **TDK Corporation**

Nihonbashi Takashimaya Mitsui Building, 2-5-1, Nihonbashi, Chuo-ku, Tokyo 103-6128 https://www.tdk.com/en/index.html