

# Toward the Finalization of Materiality to Enhance TDK's Value

Since fiscal 2013 TDK has been working toward the finalization of materiality (important issues) on the basis of the 4th edition of the Global Reporting Initiative's Sustainability Reporting Guidelines. In the process, in order to embrace the perspective of stakeholders, we have been actively tapping assessment from outside the company. In October 2015 we invited three experts to join us in a dialogue and let us know their knowledgeable opinions on a wide range of issues, including what points TDK should emphasize in its materiality and, looking beyond the finalization of materiality, their expectations of TDK in the future.

Date of implementation: October 9, 2015

STEP  
3  
(Fiscal 2015)

## Opinions and Proposals from the Experts



**Keisuke Takegahara**  
General Manager, Environmental Initiative & Corporate Social Responsibility Support Department, Development Bank of Japan, Inc.

Joined the Japan Development Bank (now the Development Bank of Japan, Inc.) in 1989. Stationed for a total of six years in Frankfurt, Germany. Developed the DBJ's environmental rating loan scheme and is known as a leading figure in the field of environmental finance in Japan.



**Toshihiko Fujii**  
Consulting Fellow  
Research Institute of Economy, Trade and Industry

Entered the Ministry of Trade and Industry (now the Ministry of Economy, Trade, and Industry) in 1987 and became active as an expert in international negotiations. Also has an extensive knowledge of CSR and has written the third-party opinion for TDK's CSR Report since 2013

### Publicize relationship between efforts in nonfinancial fields and main business

Nonfinancial fields, such as environmental, social, and governance issues, are the foundation on which a company builds trust with society. In recent years, with the emergence of the concept of materiality, these nonfinancial fields have been attracting more and more attention from investors as values supporting a company's performance under the surface. In these circumstances, the need to explain the relationship of efforts in nonfinancial fields to the company's main business is growing, and expectations are rising for the transmission of materiality that connects business expansion and the realization of social values. Regarding environmental aspects, for example, TDK has already achieved the goal of carbon neutrality and in the future, I believe, will develop these efforts widely around the world, including among new acquisitions. In other words, the more TDK's products are sold and sales increase, the less will be the environmental load on society as a whole. I hope that by positively asserting this connection in its materiality, TDK can convey its corporate value as an even more powerful message.

### Hoping for challenges in fields where customer needs and social needs overlap

As a premise when talking about contributions to society, the essential point is to clarify what kind of society the corporate group is seeking to realize. For example, regarding response to the supply chain, sometimes guidance is necessary for a supplier facing problems. Such "involvement" only has meaning when the purpose is clear. Similarly, in the promotion of diversity, it is essential to share values on the basis of lofty targets in order to bring diverse human resources together as one. It may be difficult for TDK, because as a midstream company you are in the middle of the value chain and have few opportunities to come into direct contact with society through your products and services. And it is a fact that, for a BtoB company, the needs of customers and social needs do not perfectly match. But if all of your employees are facing in the same direction, and if every individual employee embodies your corporate principles of "vision, courage, and trust," I think TDK can overcome these restrictions. Based on your strong determination to realize a desirable society, I hope that you will make challenges so as to seek business in the parts where customer needs and social needs do overlap.



**Yayoi Masuda**  
President, Yayoi Japan Co., Ltd.

Serves as a consultant on leadership development and organizational development for the promotion of global corporate management. After working at Ricoh Co., Ltd. and the US head office of Levi Strauss & Co., became head of the Asia-Pacific Human Resources Development Department at the US head office of Nike, Inc. before setting up her own consulting company in Japan.

### Clarification and sharing of envisioned company image and created values are essential

In order to become a truly global enterprise, it is necessary for TDK to specifically draw the image of the kind of global enterprise it aims to be in a way that all of the TDK Group's employees around the world can understand. On the personnel side, TDK must convey what "global talent" really means and how they are to be trained. A sense of involvement and enthusiasm for growth will be fostered even more by continuous dialogue. The key will be talent management not limited to employees in Japan but covering the whole world. You should translate and articulate your vision and targets so that everyone can understand them. In the end, a process in which employees are evaluated based on fair indexes will lead to the promotion of genuine diversity. And in parallel with that, in order to achieve growth on the global stage, the values that TDK wants to supply to society must be shared among all employees around the world, so that all directors and employees behave in accordance with steadfast axes and values. I look forward to TDK employees around the world displaying their talents with even greater pride in their company.

## Reflections on the Expert Opinions



**Noboru Saito**  
Director and Senior Vice President, General Manager of Corporate Strategy HQ

I was made aware once again that it is essential to disseminate the Corporate Vision and TDK Value to every individual employee, eliminate the barriers of nationality, language, and organization, and build an organization in which we can interact. At the root of the risks and chances surrounding the TDK Group are people, and I am deeply aware of their importance. We have many issues to overcome before we can fully come together as a truly global enterprise. But on the basis of our corporate motto of "Contribute to culture and industry through creativity," we must continue to strive to become an awesome company that makes people say that, without our products, their convenient and affluent lifestyle would be impossible.



**Takakazu Momozuka**  
Corporate Officer, General Manager of Administration HQ

In response to the announcement of the Corporate Governance Code and Stewardship Code, the viewpoint of investors has been gradually shifting in recent years from the short term to the long term. In these circumstances, TDK recognizes that it is extremely important to clearly convey its materiality. TDK has its base in Japan, but for the promotion of globalization, there is perhaps no need to limit corporate functions to Japan. Once again I was made keenly aware of the importance of disseminating and sharing TDK's philosophy and DNA among employees around the whole world, wherever the site may be.

\* The organizations and titles of the participants are those valid at the time of the dialogue.







David Sheasby

Head of Governance and Sustainability, Martin Currie Investment Management Ltd.

Acquainted with IR department of TDK in Japan; expert in investment related to environmental, social and corporate governance

### Main areas of focus identified, but need to indicate CSR role in corporate vision and strategy

The main areas of focus have been broadly identified: human capital, supply chain, environmental impact, and opportunities created in various sectors. It's very good to have some opinions from employees about the working environment, regarding issues such as diversity and health and safety. However, to help assess the company's sustainability, there should also be details about governance, including corporate structure and responsibilities. There is a lack of description of corporate vision and strategy and how CSR fits into these: to what extent is CSR part of TDK's DNA? I would like to see targets related to CSR and understand where responsibility lies (should be at the board level). I would like to see how TDK deals with risks and opportunities, how this relates to corporate strategy, and the key metrics used to assess progress in this area.



Justin Bakule

Executive Director, Shared Value Initiative

Justin Bakule is the inaugural executive director of Shared Value Initiative, responsible for the overall strategic direction and management and works closely with all major Initiative stakeholders.

### TDK identified major social concerns and achieved impressive carbon neutrality, but has an opportunity to further develop their CSR strategy

The report identifies at least six social issues that TDK can address. Of its impact to date, it is impressive that TDK has achieved enterprise-wide carbon neutrality. The proposed future contributions, through technology, promise significant social value as they meet the health needs of a global aging population and support efficient energy use and conveyance. TDK has diverse CSR activities and goals, but it needs to develop a more coherent strategy and prioritize efforts. The report does not indicate how TDK's business growth strategy relates to identified social needs or how TDK can make progress toward addressing those needs. TDK has the opportunity to create organizational structures that support strategic CSR and social innovation by, for example, creating centers of excellence with staff expertise in socially relevant areas, and establishing social innovation labs for product innovations that address the needs of underserved populations.



Dr. Wong Lai Yong

First Penguin Founder

Experienced CSR consultant; founded First Penguin for socially responsible capacity development; advises corporations and educational institutions on effective CSR operations across Asia

### Positive efforts in human resource development and supply chain management, more focus needed on human rights

TDK utilizes and enhances group synergy by sharing practices, educational tools, and programs across its sites and subsidiaries. Throughout the Group, TDK consolidates its human resource management system. Study meetings are held by invited experts on non-financial information disclosure. TDK has clearly detailed its dual roles as supplier and buyer. The CSR Internal Auditor Training program is an effective initiative. TDK is proactively engaged in its CSR management system, but it needs to improve cross-cultural communication training. TDK should introduce a standard code of conduct and corporate governance training as well as employee volunteer programs. There are the following needs: a code of conduct for the supply chain; greater attention to human rights; details of traceability and due diligence regarding human rights and environmental issues; and clear numerical goals for suppliers.



Adrian Henriques

Independent Advisor

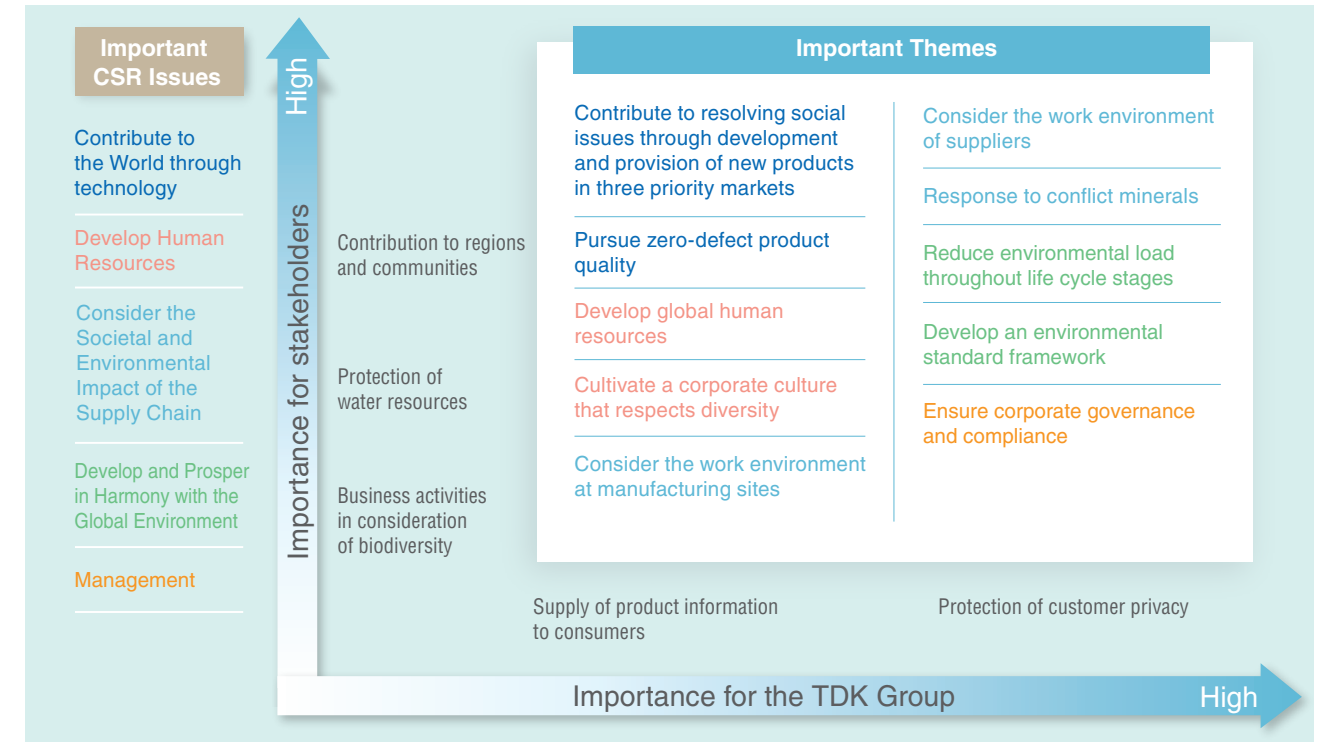
Advisor on corporate responsibility, social accountability and sustainability; provides research and advisory services for global companies; served as GRI steering committee member

### Commitment to responsible operations and sustainability governance demonstrated, but need for greater details and figures

The report clearly states TDK's commitment to responsible operations and sustainability governance and shows how TDK considers its role within the value chain. The report documents TDK's achievement in carbon neutrality, but it would be helpful to see an assessment of carbon produced in the supply chain. It is not clear what protocols were used to assess the carbon figure. The auditing program looks comprehensive, presenting overall findings. It would be helpful to see direct energy consumption figures. The report should detail water use and emissions from production, and it is almost silent about consumption of rare earth and conflict minerals. Greater detail about audit findings for suppliers would be helpful. The absolute environmental performance should be accompanied by reporting of relevant intensity metrics, such as carbon performance per unit revenue.

For detailed comments by the experts, please refer to the following URL: <http://www.global.tdk.com/csr/recognition/csr07400.htm>

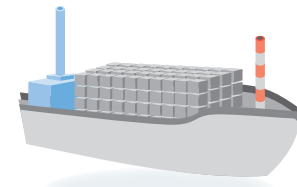
The prioritization in Steps 2 and 3 was conducted on the basis of 46 items chosen in consideration of items required by the GRI-G4, and 19 material issues were identified. These issues were further sorted and classified and finally condensed into the following 10 important themes for the promotion of activities from now on. After approval has been received from the Executive Committee, the competent departments in the TDK headquarters will take the initiative in setting key performance indicators in coordination with TDK Group companies in order to promote related activities in the future.



Important CSR Issues	Important Themes	Main Points
Contribute to the World through Technology	Contribute to resolving social issues through development and provision of new products in three priority markets	TDK aims to solve social issues, such as the realization of energy saving, storage, and renewal, through original technological development and supply of products in markets, especially the ICT, automotive, industrial equipment & energy markets.
	Pursue zero-defect product quality	On the basis of our high level of technology, we will pursue zero-defect product quality through uniformly managed production processes from materials to manufacturing.
Develop Human Resources	Develop global human resources	Toward the promotion of genuine globalization, we will strive to develop the human resources that will serve as its foundation.
	Cultivate a corporate culture that respects diversity	In order to continue generating innovative creativity, we will build a tolerant corporate culture that respects the diversity of human resources.
Consider the Societal and Environmental Impact of the Supply Chain	Consider the work environment at manufacturing sites	In light of the latest requirements, we will gauge considerations for the labor environment at production sites, which we need as a supplier, and if necessary implement education and guidance toward improvement.
	Consider the work environment of suppliers	In light of the latest requirements, we will gauge considerations for the labor environment at suppliers, which we need as a buyer, and if necessary implement education and guidance toward improvement.
	Response to conflict minerals	We will execute our social responsibility as a midstream company appropriately through the continued implementation of required efforts and an understanding of the latest requirements.
Develop and Prosper in Harmony with the Global Environment	Reduce environmental load throughout life cycle stages	We will promote environmental activities on the basis of the TDK Environmental Vision 2035.
	Develop an environmental standard framework	Through the setting of common environmental standards in the industry, we will promote social understanding of TDK's environmental contribution value.
Management	Ensure corporate governance and compliance	Through the development of appropriate corporate governance and thorough implementation of compliance, we will aim to enhance our corporate value.

# Consideration for Society in the Value Chain and TDK's Initiatives

The TDK value chain extending from procurement of raw materials to development, manufacturing, logistics, and sales extends throughout various regions of the world and involves numerous social issues. Here we present the things we consider for society in each stage and TDK's initiatives for important CSR issues.



## Procurement

TDK procures raw materials from around the world. Consideration for human rights and the environment by suppliers is also a part of TDK's role.



## Development

The development process of technology and human resources hold the key to how TDK products can contribute to society and the environment.



## Manufacturing

The environment and human resources will be priority areas, including reduction of the environmental load at the time of manufacturing, the eradication of defective products, and labor health and safety.



## Logistics

The mission of logistics is the stable, reliable, and timely supply of TDK products to customers.



## Sales

We seek to maintain high product quality while providing products that satisfy customers through contribution for society and the environment issues.

[Important CSR Issues]

### Contribute to the World through Technology

- Contribute to resolving social issues through development and provision of new products in three priority markets
- Pursue zero-defect product quality

- Ensure the quality of purchased products

### New product development through sustained research and development

- Product assessments
- Building of upstream-management-type quality assurance structure

- Manufacturing process capable of reproduction without variation

- Ensure logistics quality

### Promote sales of products that solve environmental and social issues

- Customer satisfaction

[Important CSR Issues]

### Develop Human Resources

- Develop global human resources
- Cultivate a corporate culture that respects diversity

### Technological innovation

### Innovative craftsmanship training

[Important CSR Issues]

### Consider the Societal and Environmental Impact of the Supply Chain

- Consider the work environment at manufacturing sites
- Consider the work environment of suppliers
- Response to conflict minerals

Use CSR check sheets and implement CSR audits  
Conflict minerals survey

Implement CSR self-checks and internal CSR audits

Appropriate responses to CSR surveys and other inquiries from customers

[Important CSR Issues]

### Develop and Prosper in Harmony with the Global Environment

- Reduce environmental load throughout life cycle stages
- Develop an environmental standard framework

- Green procurement

### Creation of products contributing to the environment

- Product assessments

### Reduce the environmental load of plants

- Reduce the environmental load in logistics

### Promote sales of products that contribute to the environment