

The importance to our company

TDK is a midstream company group that functions as both a supplier and a buyer. Along with avoiding risk by taking steps to protect the environment and social interests by way of our supply chain, we also boost the competitiveness of our supply chain through training and guidance.

Expectations by stakeholders

At TDK, we not only comply with and observe the relevant laws and global industrial regulations, we also fulfill our social responsibilities by providing assistance to our suppliers. Additionally, we work to ameliorate the social impact of corporate activities including issues such as conflict minerals.

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Important CSR Issues

Consider the Societal and Environmental Impact of the Supply Chain

Important Themes

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

Basic Policy

Consider the Societal and Environmental Impact of the Supply Chain represent extremely important issues for the TDK Group as a midstream company. In light of the latest related laws and ordinances as well as global industrial regulations, as part of our responsibilities as a supplier we take note of the labor environment at TDK Group production sites. Similarly, as a buyer, we ascertain the labor environment conditions of our business partners. We then implement training and guidance as required with a view to improvement. In this way we forge a solid supply chain — from upstream to downstream — to fulfill our social responsibilities.

Summary of Fiscal 2016 and Outlook Going Forward

Fiscal 2016 also saw implementation of CSR self-checks and CSR self-audits by third party organizations TDK Group manufacturing sites. Likewise advanced were CSR procurement initiatives targeting customer companies keyed to the conditions at each Group company, replies to conflict mineral surveys, the setting of global key performance indicators (KPI) and clarification of the status of the various efforts to advance measures with a sense of solidarity. In each and every case, workshops, customer briefings, and other steps were advanced in recognition of the critical need to earn the understanding and collaboration of our stakeholders. For action on conflict minerals, TDK continued its participation in the JEITA's Responsible Minerals Trade Working Group, while also promoting programs on an industry-wide basis.



Implementation Date: April 14, 2017

Targeting Human Rights Responses at the Supply Chain

The United Kingdom passed the Modern Slavery Act in March 2015—a clear indication of rising global moves toward human rights related legislation at the supply chain level. In such an environment, and with the overseas production ratio of the TDK Group rising above 80%, the need has definitely emerged for responses keyed to the international trends. To more thoroughly explore the proper approach for TDK in addressing human rights within its supply chain, two outside experts were invited to take part in a study session addressing that very theme.

Learning from Frontline Human Rights Responses

For this study session, welcomed as speakers were Mr. Takeshi Shimotaya of Sustainavison Ltd., a figure with penetrating insight in the field of global human rights issues, and Mr. Masaki Wada of Energetic Green Co., Ltd., a man with a long history of promoting CSR procurement at corporate frontlines. Five TDK employees also took part, including two corporate officers in charge of procurement and CSR. TDK clearly declares its posture of respect for human rights within the Group's Code of Conduct, moving to fulfill those social responsibilities rooted in close consideration of human rights, workplace environments, and other crucial matters in all procurement transactions as well. In fiscal 2016, three important themes were established within one of our CSR issues: Consider the Societal and Environment Impact of the Supply Chain. This was a move to bolster the Group stance on that front. In the wake of passage of the UK Modern Slavery Act, the TDK Group Policy on Human Rights was formulated in August of 2016, followed by regular disclosure of the status of approaches under the guidelines.

This study session was positioned to further expand the depth of initiatives advanced to date to more closely zero in on the future. The idea was to acquire outside perspectives to help determine specific areas demanding keener attention, rethinking our conventional approaches to widen the channels of mutual understanding. The talks by Mr. Shimotaya and Mr. Wada were both presented from their respective specialized viewpoints. They sought to profile international moves toward human rights friendly legislation, the status of forced labor, child labor, and other illicit practices confirmed worldwide, the rising global attention to Japan and the supply chains of Japanese companies in the run-up to the 2020 Tokyo Olympic and Paralympic Games, and other relevant developments. At the opinion exchange following the main session, brisk discussions ensued with TDK personnel in attendance. Key queries included how to establish more pronounced awareness of CSR throughout the Group as a whole, and what approaches to adopt upon difficulties in achieving the understanding of such matters from suppliers.

Opinions and Proposals from the Experts 1



Takeshi Shimotaya
President & CEO
Sustainavison Ltd.

Highly transparent supply chain management through communication with industry groups, suppliers, and newly acquired companies

The United Nations Human Rights Council approved its Guiding Principles on Business and Human Rights in 2011. Since then a steady stream of international guidelines addressing the need to respect human rights have been announced. Related moves include disclosure of human rights related intelligence in many different nations, passage of laws to confirm and report upon human rights issues within supply chains for companies to take action in this area. International initiatives have also picked up steam at the Electric Industry Citizen Coalition (EICC) and other industrial bodies. Clearly, TDK can also expect to face demands for global collaboration with other companies in its field from here on. Being viewed with particular importance these days are moves to engineer effective CSR procurement approaches through cooperation with suppliers. To further heighten transparency, more and more companies are also choosing to publicly disclose their specific suppliers. Going forward, it will grow increasingly important to maintain a firm grasp of one's own company's international business structure and supply chain, followed by the use of country risk and other publicly available information as references in clarifying risk, establishing priorities and otherwise advancing human rights due diligence. In the promotion of CSR procurement as well, active communication with firms acquired through M&A promises to be indispensable. If progressive precedents are available, the know-how from such cases should be constructively infused and developed within the sphere of the corporate group.

Opinions and Proposals from the Experts 2



Masaki Wada
CEO
Energetic Green

Proactive human rights initiatives, followed by management infusing the voices of frontline workers

Laws and regulations for corporate compliance in adoption of supply chain based labor management are emerging with the focus on Europe and the U.S. They include bans on imports and exports of products for which forced labor is detected along supply chains, with substantial impact on business practices already being reported. The consequences of related problems will inevitably be felt on stock prices, not to mention prompting comments from the media and NGOs. In advancing procurement, therefore, it is critical to constantly put yourself in the position of the stakeholders. Moreover, while laws and guidelines are naturally important, being content to simply satisfy such demands can generate mistaken impressions of what truly needs to be done. With supplier audits, although detailed checks of documents must be performed, it is more critical to directly listen to the voices of workers. Potent methods on that front include setting up hotlines with supplier employees and other schemes to speedily identify problems. When understanding with suppliers is slow in coming, communication as an extension of "5S" activities or other initiatives already widely used in the manufacturing sector offers the potential for progress. Workplace-based human rights problems are prone to lead to quality defects in sectors characterized by human operation, with efforts to promote understanding of the linkage between such dynamics and quality control suggesting one potentially effective countermeasure.

Reflections on the Expert opinions



Atsuo Kobayashi
Executive Vice President
General Manager
SCM & Management System HQ
TDK Corporation

This session provided the opportunity to inquire about global trends and specific examples, underscoring the severe risks posed by forced labor within the supply chain. Grasping the nature of such risks makes it easier to mount countermeasures in advance, enabling rapid responses to actual issues occurring at the supplier level. I also felt that appropriate human rights responses play an extremely important role in raising competitive strength as a progressive company, and otherwise transforming risk into opportunities. We must avoid becoming overly preoccupied with laws, guidelines, and other administrative rules. Instead, we need to set our sights on moving beyond that domain with initiatives capable of realizing the ideal process at a higher dimension of understanding.



Takakazu Momozuka
Corporate Officer
Chief Compliance Officer &
General Manager
Legal & Compliance HQ
TDK Corporation

While confirming the status of supply chains that reach around the world is obviously no easy task, this exchange reconfirmed that the first step in that direction is to develop a firm grasp of the overall schemes in place. After that, we need to prioritize the risks to target, formulate policies and then work through the PDCA cycle to promote effective initiatives. As we move to advance aggressive M&A, companies with different cultures and labor practices will also join the Group. This creates the need for solid human rights due diligence, proper sharing of the TDK corporate philosophy and DNA throughout the Group as a whole, thereby paving the way to genuine growth as a combination of financial and non-financial operations alike.



Efforts as a Supplier

(Consider the work environment at manufacturing sites)

As a supplier from which customers procure products, TDK channels tireless efforts into fulfilling its social and environmental responsibilities at all of our sites.

Fiscal 2016 Goals	<ul style="list-style-type: none"> Perform 100% self-checks at manufacturing sites Secure 100% opportunities for third-party CSR audits once every two years (China and ASEAN region)
Activity Details	<ul style="list-style-type: none"> TDK CSR Checksheet at 78 targeted sites during fiscal 2016 Third-party auditing companies CSR self-audits at four of the 38 targeted sites in the region in question. (In fiscal 2015, CSR audits by customers and CSR self-audits by third-party auditing companies were performed at 25 sites; in fiscal 2016, CSR audits by customers were performed at 13 sites) CSR internal auditor training sessions in China (courses completed by 198 persons through fiscal 2016)

Efforts at TDK

TDK has compiled the TDK CSR Self-Check Sheet, based on the Electronic Industry Citizenship Coalition (EICC) Code of Conduct, with the aims of identifying issues in CSR activities and replying speedily to customers. This self-diagnosis is implemented at all production sites every year. Furthermore, TDK responds to requests from customers for CSR audits, which have been increasing in recent years, seeing them as a good opportunity to further raise the level of CSR activities.

Regarding production sites in high-risk regions of China and ASEAN, including these customer CSR audits, once every two years we conduct CSR self-audits by third-party auditing companies. Since 2013 TDK has also been implementing CSR internal auditor training every year with the aims of conveying a systemic understanding of the requirements of these CSR audits to employees and upgrading CSR activities at production sites.

CSR Workshops in China and Malaysia

CSR workshops were held in China in September and Malaysia in November. The objective was the use of information exchanges between Group bases to further raise the caliber of CSR activities. In China, 21 persons participated in the session, which included explanations of activities conducted in various locations nationwide, as well as exchanges of views on audit initiatives, work environment troubleshooting, and other topics. The Malaysia workshop attracted 15 participants, who joined with experts in discussing how to deal with issues related to foreign workers.



CSR workshops in China

Voice



Tang Xiao Yan
EHS
Amperex Technology Limited

The frequency of customer CSR audit has been trended up year by year, and ATL has received a lot of CSR audits in this trend. ATL had no significant nonconformity in these audits, and established strategic partnership with customers, also shared our best practice with our customer's suppliers. Besides, ATL has contributed to the Industry through participating in compiling the international standards and guidelines. ATL and partners are willing to assume corporate social responsibility, and grow together on the path of ATL.



Efforts as a Buyer

(Consider the work environment of suppliers)

As a buyer procuring materials, TDK engages in CSR procurement emphasizing communication and builds solid relationships of trust. We believe that these efforts enhance the corporate value of both suppliers and TDK.

Fiscal 2016 Goals	<ul style="list-style-type: none"> Set global-scale key performance indicators (KPI)
Activity Details	<ul style="list-style-type: none"> Perform CSR procurement and audits at each Group company Set group-wide shared KPI based on the results of actual CSR procurement

Efforts at TDK

TDK treats CSR as a key component of its purchasing policy, while striving to earn understanding of the importance of CSR from suppliers and encourage increased awareness in that area. We incorporate provisions into contractual agreements keyed to the specific conditions at each of our Group companies, while industriously advancing evaluations based on CSR check sheets, CSR audits, and other efforts. When problems are found in the details, individual requests for improvements are issued. As one example of such a request from a CSR audit, the detection of defects in wastewater treatment equipment led to improvements by the supplier involved.

Supplier Meeting in Zhuhai

Zhuhai FTZ invited some 50 of its suppliers to improve their understanding of the plant's CSR requirements, among others. The factory, which produces film capacitors, varistors, PTCs and temperature sensors, presented the company's CSR organization and summarized its CSR situation in 2016: of course no child labor, 0 employees work more than 6 consecutive days, 0 employees work more than 60 hours a week, and the plant fully complies with the ISO 14001 and OHSAS 18001 standards for environmental and occupational health and safety management systems. Zhuhai FTZ selects only suppliers that likewise comply with the UN Global Compact's Ten Principles for human rights, labor, environment and anti-corruption. Compliance is a knock-out criteria in the procurement process. Supplier representatives confirmed that the Supplier Day greatly increased their awareness of CSR.



Supplier Day at the Zhuhai FTZ plant

Voice



Helen Ye
Head of Sourcing
EPCOS (Zhuhai FTZ) Co., Ltd.

In 2016, we completed process audits with an integrated CSR focus for 17 suppliers. We also certified 7 experts from our procurement team as CSR internal auditors. In 2017 four of the 20 suppliers to be audited will be selected for an intensive CSR audit. We also take every opportunity to meet with suppliers, either in our plant or theirs, to explain our CSR requirements. It is my goal to further promote CSR compliance throughout the entire supply chain.

Response to Conflict Minerals

Against the backdrop of rising interest in responsible mineral procurement, we act in the capacity of a midstream company to promote problem-solving initiatives throughout the entire supply chain.

Fiscal 2016 Goals

- Set global-scale key performance indicators (KPI)

Activity Details

- Responses to surveys and promotion of DRC conflict-free procurement at each Group company
- Setting of group-wide shared KPI based on the results of survey results
- Promotion of issue solutions in collaboration with industry associations

Efforts at TDK

Human rights issues surrounding mineral procurement have emerged as a crucial social challenge worldwide, prompting keen and rising interest in responsible procurement of such resources. For example, there are cases when minerals mined in the Democratic Republic of the Congo (DRC) and adjoining countries serve as the source of funding for armed groups. This brought notice to how such minerals are used to bankroll conflict, resulting in human rights violations against local residents and other crises. At TDK, conflict mineral countermeasures were launched in 2010, the year of passage for the Dodd-Frank Wall Street Reform and Consumer Protection Act in the U.S. In April 2013, the TDK Group Policy on Conflict Minerals^{*1} was issued. This prompted each company to set up survey response systems based on the new rules, along with efforts in compliance with the OECD due diligence guidelines. Moreover, with growing awareness that resolutions to the conflict mineral problem require that initiatives be incorporated throughout the supply chain, such efforts are being promoted through close cooperation with industry organizations.

^{*1} Details of the TDK Group Policy on Conflict Minerals, please refer to the following website: http://www.global.tdk.com/corp/en/csr/supplier_responsibility/csr02210.htm

Participation in Work to Revise Conflict Mineral Data Exchange Standards

The Conflict-Free Sourcing Initiative (CFSI)^{*2} CMRT,^{*3} a shared tool for investigating conflict minerals, is formulated from the contents of the Conflict Mineral Data Exchange Standard (IPC-1755). In view of the potential impact on survey responses throughout its entire supply chain, TDK collaborates with activities advanced by the Japan Electronics and Information Technology Industries Association (JEITA)'s Responsible Minerals Trade Working Group^{*4} to join in formulating and revising the IPC-1755 standard. The actual studies began from 2014, with the focus on clarifying interpretations of Securities and Exchange Commission (SEC) regulations and the handling exchanges of smelters information, with revisions made in 2017. In recognition of its contributions to this standard revision work, TDK was honored by IPC with the Distinguished Committee Service Award.

^{*2} An organization addressing conflict mineral issues established by the Electronic Industry Citizenship Coalition (EICC) and Global e-Sustainability Initiative (GeSI)

^{*3} Conflict Minerals Reporting Template

^{*4} For details on JEITA's Responsible Minerals Trade Working Group, please refer to following website: http://home.jeita.or.jp/mineral/eng/index_e.html

Comment



Kazuko Andersen

Washington DC Office
Japan Electronics and
Information Technology
Industries Association (JEITA)

The JEITA Washington DC Office collaborates with CFSI in its quest to find solutions for the conflict minerals problem. JEITA joined CFSI soon after it was inaugurated, working from the perspective of Japanese companies within CFSI, a body comprised almost exclusively of OEM firms, particularly to share opinions with companies located along the supply chain. We make every possible effort to propose balanced solutions designed to avoid unfair burdens. CFSI meetings are convened weekly, with discussions of CMRT, IPC Data Exchange Standards, methods for companies to effectively respond, and other topics. In the event of specific proposals or demands, prompt responses are a must. From TDK, we always receive timely feedback on the technical and practical application fronts in our work of preparing industry standards focused on supplier surveys, with that intelligence reflected in the IPC and CFSI. As the scope of our activities expands through the formulation of EU regulation on conflict minerals, the vital importance of leadership and commitment will steadily grow. Joining with top-caliber companies like TDK, we look forward to continuing to team up with all stakeholders in a rigorous push to hammer out resolutions for human rights problems.