

# Financial Review

## Analysis of Business Results for the Fiscal Year

### 1. Overview of Operating Results

During the fiscal period under review (the fiscal year ended March 2011), the business environment remained quite adverse because of the high value of the yen and rising prices for resources, but there were continued signs of a moderate recovery in developed countries as a result of fiscal stimulus measures and China and other developing countries continued to grow rapidly, largely due to internal demand. The Japanese economy was supported by stronger exports thanks to the improvement in the global economy, and the effects of economic stimulus measures and monetary easing measures resulted in a modest recovery throughout the year. The Great East Japan Earthquake that occurred on March 11, 2011, however, gave rise to considerable uncertainty concerning the Japanese economy, and there are concerns about the effects on the global economy.

Electronics markets, which directly affect the Company's consolidated financial results, have different production levels according to the set (finished product). Rapidly-increasing production of smart phones and tablet PCs drove the market, and production of automotive and industrial products remained strong.

In contrast, there were adjustments to production in response to changes in demand for certain final products including flat-screen televisions, notebook PCs, and hard disk drives (HDDs).

The TDK Group's results are closely related to the electronics market. In the passive components segment, while orders for products in the high-priority communications, automotive, industrial equipment fields were strong, orders for magnetic application products, particularly in consumer segments including notebook PCs and HDDs, have been affected by the market downturn. Nonetheless, the market has made a strong recovery since the global recession set off by the financial crisis in the fall of 2008, and thanks to the reinforcement of business in high-priority areas and ongoing structural improvements, the TDK Group has improved income even further.

The Great East Japan Earthquake and the subsequent aftershocks and planned power outages caused a temporary suspension of operations at some of the TDK Group's manufacturing and production bases in the Tohoku and Kanto regions. Thanks to the concerted efforts of all personnel as well as the understanding support of trading partners and others, however, TDK has resumed normal operations at all sites.

In the fiscal year under review, TDK's consolidated net sales were ¥875,737

million, up 8.3% from ¥808,858 million in fiscal 2010. Operating income was ¥63,842 million, up 147.7% from ¥25,774 million in fiscal 2010, and income before income taxes was ¥60,065 million, up 174.2% from ¥21,907 million in fiscal 2010. Also, net income attributable to TDK was ¥45,264 million, up 234.8% from ¥13,520 million in fiscal 2010, and net income attributable to TDK per common share was ¥350.90, compared to ¥104.82 in fiscal 2010.

### 1-1. Overview of Net Sales by Product Segment

The TDK Group has two reporting segments: "Passive Components" and "Magnetic Application Products." Businesses not corresponding to these segments are classified under "Other."

#### Passive Components

The Passive Components segment is comprised of capacitors, inductive devices, and other passive components. Consolidated results in the passive components segment were as follows: Net sales of ¥431,111 million, up 18.2% from ¥364,805 million in fiscal 2010, and segment income of ¥24,722 million, up by ¥34,973 million from a loss of ¥10,251 million.

An overview of sales results by business for this segment is provided below.

The capacitor business is comprised of ceramic capacitors, aluminum electrolytic capacitors, and film capacitors. Sales in this business were ¥145,393 million,

up 9.2% from ¥133,108 million in fiscal 2010. Sales of ceramic capacitors for use in communications devices such as mobile phones as well as for automotive use increased, and sales of aluminum electrolytic capacitors and film capacitors for the industrial equipment market rose.

Net sales in the inductive devices business were ¥135,762 million, an increase of 21.3% from ¥111,958 million in fiscal 2010. Sales to the communications device market for use mainly in smart phones were up sharply, and sales for use in home information appliances, automobiles, and industrial equipment were strong.

Other passive components are comprised of high-frequency components, piezoelectric material products, circuit protection components, and sensors. Sales were 149,956 million, up 25.2% from ¥119,739 million in fiscal 2010. Sales of high-frequency components for the communications device market were up sharply. In addition, sales of piezoelectric material products and circuit protection components for the communications device and industrial equipment markets increased, as did sales of sensors for the automotive market.

#### Magnetic Application Products

The Magnetic Application Products segment comprises recording devices and other magnetic application products. In this

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segment, net sales were ¥368,481 million, down 4.0% from ¥383,740 million in fiscal 2010, and segment income was ¥46,931 million, up 0.4% from ¥46,746 million.

An overview of sales results by business for this segment is provided below.

Sales in the recording devices business, which is comprised mainly of HDD heads and HDD suspension products, decreased by 8.0% from ¥280,001 million in the previous fiscal year to ¥257,522 million. The sales volume of HDD heads increased slightly, but income fell because of falling prices and the high value of the yen against the U.S. dollar.

Other magnetic application products are comprised of power supplies, magnets, and recording media. Sales were ¥110,959 million, an increase of 7.0% from ¥103,739 million in the previous fiscal year. Sales of power supplies and magnets for the industrial equipment and automotive markets increased, but sales of recording media were down.

### Other

The other segment, which includes businesses not included in the two reporting segments, comprises energy devices (rechargeable batteries), mechatronics (production equipment), and other products. Sales in the other segment were up 26.2% from ¥60,313 million in the previous fiscal year to ¥76,145 million. Segment income was

¥5,492 million, up 5.8% from ¥5,190 million.

### 1-2. Sales Performance by Region

With respect to sales by region, net sales in the Passive Components and the other segments increased in all regions.

In the Japan region, sales were up 6.7% from ¥103,984 million in the previous fiscal year to ¥110,930 million.

In the Americas region, sales increased 9.2% from ¥82,065 million to ¥89,627 million. Sales in the magnetic application product segment were down.

In the Europe region, sales were ¥128,614 million, a 14.7% increase from ¥112,167 million in the previous fiscal year.

In the China region, sales were up 4.7% from ¥263,558 million in the previous fiscal year to ¥275,960 million. As in the Americas, sales in the magnetic application products segment decreased.

In the Asia and others region, sales were ¥270,606 million, up 9.5% from ¥247,084 million in the previous fiscal year.

As a result, total overseas sales increased 8.5% from ¥704,874 million to ¥764,807 million. Overseas sales accounted for 87.3% of consolidated net sales, an increase of 0.2 points from 87.1% in fiscal 2010.

### 1-3. Effect of Foreign Exchange Fluctuations

During the fiscal year under review, overseas sales accounted for 87.3% of consolidated net sales, an increase of 0.2 percentage point

from the previous fiscal year, and the yen increased in value against the U.S. dollar by 7.7% and against the euro by 13.8% based on average exchange rates in markets for the fiscal year. These changes in foreign exchange rates caused decreases in net sales of approximately ¥57,400 million and in operating income of approximately ¥18,000 million.

By geographic area based on the location of TDK entities, foreign exchange fluctuations decreased sales in Japan by approximately ¥9,600 million, in Asia (excluding Japan) and Oceania by approximately ¥48,900 million, in North and South America by approximately ¥6,000 million, and in Europe by approximately ¥33,300 million. The effect of foreign exchange fluctuations on consolidated net sales after the elimination of intersegment transactions between and among TDK and its consolidated subsidiaries was approximately ¥57,400 million.

As one method for reducing the impact of exchange rate fluctuation, the TDK Group is increasing the share of business activities conducted overseas. Such overseas activities comprise not only manufacturing and sales but also R&D, design and procurement.

During the current fiscal year, the ratio of in-region production to in-region sales was 105.6% in Asia (excluding Japan) and Oceania, 69.1% in the Americas and 75.8% in Europe. The ratio of overseas production

to net sales rose from 80.6% in fiscal 2010 to 83.6%. The ratio of overseas production to overseas sales rose from 92.4% in fiscal 2010 to 95.7%.

TDK and its certain overseas consolidated subsidiaries hedge exposure to foreign exchange fluctuations by entering into forward foreign exchange contracts and currency swap contracts. Foreign exchange risks arising from operating activities are hedged by using forward foreign exchange contracts. In principle, TDK's policy is to hedge up to 50% of expected foreign currency-denominated accounts receivable for each month for the next six months to follow. Due to the global nature of its operations, the management realizes that currency fluctuations continue to have the potential to exert a material influence on consolidated performance.

### 1-4. Costs and Net Income

The cost of sales during the current fiscal year was ¥657,600 million, up 6.4% from ¥617,776 million in the previous fiscal year due primarily to higher net sales. However, the cost of sales ratio to net sales decreased from 76.4% to 75.1% of net sales. The substantial improvement in the cost of sales ratio is due to streamlining and cost reduction efforts to counter a drop in sales prices and effects from discounts on raw materials costs, as well as an increase in capacity utilization rate following a hike in orders received due to

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the economic recovery. As result, gross profit increased to ¥27,055 million (14.2%), and gross profit ratio to net sales became 24.9%.

Selling, general, and administrative expenses during the fiscal year under review were ¥154,295 million, down by ¥6,091 million from ¥160,386 million in the previous fiscal year. This represented a decrease in the ratio to net sales from 19.8% to 17.6%. The main factors behind the change include a ¥9,659 million decrease in foreign currency translation following the appreciation of the yen, a ¥2,429 million decrease of a loss on impairment and disposal of fixed assets and a ¥406 million decrease in amortization cost for intangible assets that were valued at the time EPCOS AG shares were acquired. However, the sales expenses increased due to a hike in production volume. Research and development expenses included in selling, general, and administrative expenses were ¥52,973 million, down by ¥969 million from ¥53,942 million in the previous fiscal year as a result of higher development efficiency achieved through careful selection of development topics, and the ratio to net sales declined from 6.7% in the prior fiscal year to 6.0%.

Other income (deductions) improved by ¥90 million from the prior fiscal year. This is primarily because of a ¥1,250 million improvement in impairment loss on investment securities, a ¥1,768 million

decrease in interest received because of lower cash and cash equivalent balances, a ¥1,161 million decrease in interest paid because of lower loan balances resulting from the repayment of loans, and a ¥1,168 million deterioration in foreign currency translation losses resulting from the rising value of the yen.

The ratio of income taxes to income before income taxes (effective tax rate) fell from 41.2% in the prior fiscal year to 25.1%.

TDK posted net income attributable to TDK of ¥45,264 million, resulting in diluted net income attributable to TDK per common share of ¥350.57. Return on Equity (ROE) ameliorated from 2.5% to 8.4%.

### 2. Financial Position

#### 2-1. Assets, Liabilities, and Equity

Total assets amounted to ¥1,060,853 million as of March 31, 2011, down ¥30,605 million from ¥1,091,458 million at the end of fiscal 2010.

Ready liquidity fell, with cash and cash equivalents down by ¥3,893 million, short-term investments by ¥17,070 million, and marketable securities by ¥4,669 million all of which declined as a result of foreign currency exchange fluctuations and other factors. Also, inventories increased by ¥16,610 million in conjunction with higher production of products for which orders were strong, but intangible assets fell by ¥10,299 million.

Total liabilities decreased by ¥20,702 million from ¥541,789 million in fiscal 2010 to ¥521,087 million.

This was the result mainly of a ¥25,085 million decrease in short-term and long-term debt, due mainly to the repayment of long-term debt.

Total TDK stockholders' equity within equity fell by ¥9,483 million from ¥543,756 million at the end of the previous fiscal year to ¥534,273 million.

Retained earnings increased by ¥36,580 million as a result of higher income. The value of the yen against the U.S. dollar and euro at levels higher than anticipated caused a significant decrease in the value of overseas assets translated into yen, resulting in the deterioration of foreign currency translation adjustments, and consequently, accumulated other comprehensive loss increased by ¥45,887 million.

#### 2-2. Cash Flows

Cash flows from operating activities decreased by ¥16,368 million from the previous fiscal year to ¥101,879 million. Net income before minority interests increased by ¥32,122 million to ¥45,004 million, and depreciation and amortization decreased by ¥6,194 million to ¥77,594 million. With respect to changes in assets and liabilities, trade receivables of recording device production subsidiaries located mainly in Asia decreased by ¥40,536 million, trade

payables of recording device production subsidiaries located mainly in Asia and the domestic capacitor manufacturing subsidiaries decreased by ¥26,720 million, and inventories of TDK, energy device (rechargeable battery) manufacturing subsidiaries located mainly in Asia, EPCOS AG, and other subsidiaries increased by ¥20,835 million.

Cash flows from investing activities decreased by ¥44,622 million in the previous fiscal year to ¥61,341 million. Factors contributing to an increase in cash flows included ¥14,268 million for capital expenditures, primarily in the passive components segment, and a ¥6,912 million decrease in repayment of deposits for investments. Factors contributing to a decrease in cash flows included a ¥47,820 million increase in proceeds from the sale and maturity of short-term investments and a ¥7,867 million decrease in payment for purchase of short-term investments.

Cash flows from financing activities decreased by ¥6,509 million in the previous fiscal year to ¥31,860 million. Net repayments after deducting new financing from debt increased by ¥3,461 million and interest-bearing liabilities were reduced. Also, acquisition of noncontrolling interests decreased by ¥7,232 million.

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### 3. Liquidity and Fund Resources

#### 3-1. Demand for Operating Funds

The TDK Group's operating funds are primarily used for the purchase of raw materials and parts for use in the manufacture of its products and are recorded as manufacturing expenses. The payment of personnel costs and selling, general, and administrative expenses such as marketing fees and distribution-related expenses incurred in conjunction with sales promotion activities are also significant disbursements from operating funds. In addition, personnel expenses relating to R&D are also significant. The funds necessary for these disbursements were provided mainly from cash generated by operations.

#### 3-2. Capital Expenditures

The TDK Group made capital expenditures of ¥78,638 million in the current fiscal year to respond to rapid technological innovations in the electronics markets where the Group is active and to intensifying sales competition.

Of this amount, capital investments of ¥38,219 million were made for passive components. The main objectives were increasing and streamlining production of multilayer inductors and high-frequency module products.

Also, capital investments of ¥27,781 million were made in the magnetic application products segment. SAE Magnetics (H.K.) Ltd. introduced HGA

processing facilities, and Magnecomp Precision Technology Public Co., Ltd. installed HDD suspension manufacturing facilities. This investment was for development and production of high-precision, next-generation HDD heads.

In the other segment, capital investments of ¥8,365 million were made. The primary investments were for increasing and streamlining the production of lithium-polymer batteries by Amperex Technology Limited.

In addition to the above, ¥4,273 million was invested in the R&D divisions at TDK headquarters. Also, investment was made for the development of internal IT infrastructure and for fundamental R&D.

The funds necessary for these capital expenditures were provided from cash generated by operations.

#### 3-3. Procurement of Funds

The TDK Group uses cash, cash deposits, and the like (cash, deposits with banks, short-term investments, and marketable securities) as liquid funds and strives to maintain liquidity of at least 2.0 months of consolidated monthly sales over the long term. The balance of liquid funds at the end of the fiscal year after conversion to yen was ¥197,630 million, equal to approximately 2.7 average months of annual sales.

Cash of ¥61,341 million was used in the investing activities of the TDK Group

during the fiscal year under review. At the end of the previous fiscal year, TDK's had total long-term debt of ¥97,770 million, total straight bonds of ¥84,000 million, and total short-term debt of ¥66,500 million, and during the fiscal year under review, ¥42,760 million in long-term debt was repaid. In addition, TDK took out an additional ¥19,500 million in short-term debt. Additional details concerning debt can be found in Note 5. short-term and long-term debt to the consolidated financial statements in the Annual Securities Report.

#### 3-4. Funds Management

As a general rule, operating funds and funds for capital expenditures are provided from cash generated by operations. In order to improve capital efficiency, TDK introduced a cash management system (CMS) in Japan, the U.S., and Europe to centrally managed funds from its headquarters to the maximum extent possible. When subsidiaries are unable to independently secure operating funds or funds for capital expenditures, TDK utilizes funds from within the Group to the greatest possible extent. In addition, TDK manages on-hand funds by placing priority on stability and liquidity.

#### 4. Basic Policy on Dividends and Dividend Payments during the Current Fiscal Year

Based on a recognition that achieving growth in corporate value over the long

term ultimately translates to higher shareholder value, TDK's basic policy is to strive to consistently increase dividends through growth in earnings per share. By actively investing for growth, mainly in the development of new products and technologies in key fields so as to respond precisely to rapid technological innovation in the electronics industry, TDK aims to increase long-term corporate value. Accordingly, TDK actively reinvests profits in business activities and sets its dividends taking into consideration comprehensive factors such as return on stockholders' equity and the dividends on TDK stockholders equity on a consolidated basis as well as changes in the business environment.

Cash dividends per share paid during the fiscal year under review were ¥70. This dividend was the sum of the year-end dividend of ¥30 paid out in June 2010 and the interim dividend of ¥40 paid out in December 2010. A 40-yen per share dividend will be paid at the end of June 2011 to shareholders of record as of the end of March 2011.

#### 5. Significant Accounting Policies

Significant accounting policies are those that involve estimation of uncertain matters in their application and require management's most subjective, complex, and high-level judgments.

The following is not intended to be

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an exhaustive list of all of TDK's accounting policies. Significant accounting policies are more fully described in Note 1 to the consolidated financial statements in the securities report. In many cases, the accounting treatment of a particular transaction is specifically dictated by U.S. generally accepted accounting principles without the need for management's judgment in their application. There are also cases in which management's judgment in selecting an available alternative would not produce a materially different result.

The TDK Group has identified the following as key accounting policies: impairment of long-lived assets, valuation of inventories, accounting for business combinations, goodwill and other intangible assets, pension benefit costs, and deferred tax assets.

### 5-1. Impairment of Long-Lived Assets

As of March 31, 2010 and March 31, 2011, the aggregate of TDK's property, plant, and equipment and amortized intangible assets was ¥390,097 million and ¥380,186 million, respectively, accounting for 35.7% and 35.8% of total assets, respectively. TDK believes that impairment of long-lived assets is crucial to its financial statements because the recoverability or the lack of recoverability of those amounts could materially affect its business performance.

TDK reviews impairment of tangible

fixed assets and certain identifiable intangibles with specified amortization periods when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Reviews are performed using estimates of future cash flows. If impairment of an asset is recognized, an impairment charge is recorded for the amount by which the carrying value of the asset exceeds its fair value. Management believes that the estimates of future cash flows and fair values are reasonable, but unforeseeable changes in business assumptions may result in lower future cash flows and fair values, and adverse effects on the value of long-lived assets may have a material impact on TDK's financial position and results of operations. TDK makes investments with due prudence, fully taking into consideration the future profitability of products and the recoverability of investments.

### 5-2. Valuation of Inventories

Inventories are stated at the lower of cost or market value. The carrying value of inventory is reduced for estimated obsolescence by the difference between its cost and the estimated market value based on assumptions concerning future demand. TDK evaluates inventory carrying values for potential excess and obsolete inventory exposure based on historical and projections of future demand. In addition, inventories

are evaluated for potential obsolescence resulting from the effect of known and anticipated engineering change orders. Since changes in estimates, which are a basis for recognizing adjustments in the carrying values of inventory resulting from expected obsolescence, have an impact on TDK's business results, valuation of inventories is deemed to be a significant accounting policy. Effectual demand were to be substantially lower than estimated, additional inventory adjustments for excess or obsolete inventory may be required, which could have a material adverse effect on TDK's business, financial condition, and results of operations.

Regarding the appropriateness of estimates used in the past, TDK does not use a method based on various scenarios, but employs a method of quarterly reconsideration by comparing estimates and actual results. For example, in the operational management of a product sector with rapid development in technological innovation such as the recording devices sector, TDK revises estimates of valuation of obsolete inventories arising from the timely response to customer demands for high-efficiency products on a quarterly basis.

### 5-3. Business Combinations

TDK accounts for business combinations using the acquisition method. The acquisition method requires that the assets

acquired and liabilities assumed through business combinations be recorded at their fair values as of the date of acquisition or assumption. The judgments made in determining the estimated fair value assigned to each class of assets acquired as well as asset lives can materially impact net income of the periods subsequent to the acquisition through depreciation and amortization, and in certain instances by impairment charges, if the assets become impaired in the future.

When determining the estimated fair value of intangible fixed assets, TDK generally utilizes the income approach. This approach discounts projected future net cash flows using an appropriate discount rate that reflects the risk factors associated with the cash flow streams.

When determining the useful lives of intangible fixed assets, different types of intangible fixed assets have different useful lives, and those assets within indefinite useful lives must be excluded from depreciation. Intangible fixed assets with indefinite useful lives are periodically reassessed based on the factors set forth in FASB Accounting Standards Codification 350 as well as the use of the assets by TDK, legal or contractual provisions that may affect the useful life or renewal or extension of the asset's contractual life without substantial cost, and the effects of demand, competition, and other economic factors.

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### 5-4. Goodwill and Other Intangible Assets

Goodwill and other intangible fixed assets that have indefinite useful lives are not amortized, but are tested for impairment on an annual basis and between tests if an event occurs or circumstances change that would more likely than not reduce the fair value of those assets below their carrying amount. Fair value of these assets is determined using a discounted cash flow analysis based on an authorized business plan. Management believes that the estimates of future cash flow and fair value are reasonable, but unforeseeable changes in business assumptions may result in lower future cash flows and fair values, adversely affecting the valuation of those assets.

### 5-5. Pension Benefit Costs

Employee pension benefit costs and obligations are dependent on assumptions used by actuaries in calculating such amounts. These assumptions include discount rates, retirement rates, mortality rates, salary growth rates, long-term expected returns, and other factors. When actual results differ from the assumptions, the differences are accumulated and amortized over future periods and therefore, generally affect TDK's recognized expense and recorded obligations in future periods. While TDK believes that its assumptions used are appropriate, differences in actual results and changes in assumptions may

affect TDK's benefit obligations and future expenses.

When preparing the financial statements for fiscal 2011, TDK established discount rates of 2.0% and 5.1% for domestic and overseas pension plans, respectively, and set long-term rates of return of 2.5% and 6.3% for domestic and overseas plan assets, respectively. When setting the discount rates, TDK uses available information concerning rates of return on highly-stable long-term corporate bonds currently available and expected to be available during the period to the maturity of the pension benefits. TDK set the expected long-term rates of return on plan assets based on management's expectations concerning the long-term returns of the various plan asset categories in which it invests. When setting those rates, management took into consideration projections of future returns and actual historical returns for each plan asset category.

Decreases in discount rates lead to an increase in pension benefit obligations that could result in an increase in net pension costs through amortization of actuarial gains or losses.

An increase in long-term expected rate of return may decrease pension costs in the current year as a result of higher investment returns. However, a difference between the expected return and the actual return on

those assets could negatively affect income in future years.

### 5-6. Valuation of Deferred Tax Assets

TDK has significant deferred tax assets based on realizability assessments. When assessing the realizability of deferred tax assets, TDK considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent on the generation of future taxable income during the periods in which those temporary differences become deductible. TDK considers the planned reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based on the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, TDK believes that it is more likely than not that all of the deferred tax assets less a valuation allowance will be realized. However, in the event future projections of income are not realized or are realized in lesser amounts or in cases where TDK revises the assessment of the potential for realization of deferred tax assets based on other factors, deferred tax assets may be determined not to be realizable, which then would require TDK to increase a valuation allowance against the deferred tax assets resulting in additional income tax expenses.

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### Business Risks

Listed below are items relating to the review of operations, accounting, and so on stated in the Annual Securities Report that may significantly influence investor decisions. The following includes forward-looking statements determined on the filing date of the Annual Securities Report (June 29, 2011).

#### 1. Risks Concerning Changes in Economic Trends

The electronics industry, the TDK Group's field operations, is highly susceptible to influence from economic trends in the U.S., Europe, Asia (mainly China), and Japan, which are the main markets for its end products. In addition, markets in these countries and regions are constantly exposed to various risk factors such as international issues and economic fluctuations. If changes beyond our expectations occur in such business environments, those changes could significantly affect the TDK Group's business results.

#### 2. Risks Concerning Fluctuations in Currency Exchange Rates

The TDK Group conducts business in numerous countries around the world, and a sudden fluctuations in foreign currency exchange rates affect company transactions among regions and the prices of our products and service costs at overseas bases,

which consequently has effects on the TDK Group's business results including net sales and income and losses. In addition, such fluctuations in exchange rates result in conversion differences with respect to overseas investment assets and liabilities, which are converted into Japanese yen in financial statements. TDK implements measures to hedge against changes in exchange rates, but the sudden fluctuations that exceed expectations could have a significant adverse effect on the TDK Group's business results.

#### 3. Risks Concerning Overseas Operations

The TDK Group's operations extend to many countries around the world, and overseas sales account for more than 80% of total sales on a consolidated basis

In many of TDK's target markets, the TDK Group may be exposed to international political risks such as war and terrorism, economic risks such as fluctuations in currency exchange rates and trade imbalances, and social risks including labor problems stemming from differences in cultures and customs as well as diseases. Such risks may occur at levels of far greater magnitude than anticipated. In addition, there may be unexpected risks in building relationships with trading partners due to differences in commercial and business practices. If elicited, these risks could result in reduced or a suspension of production

activities or impede sales activities, which could have a significant adverse impact on business results.

The TDK Group has numerous production bases in China, a country in the midst of rapid economic growth, and the Group has established a system for supplying customers and local companies that have established operations in China. Unexpected events in China resulting from political factors (such as changes in laws and regulations), economic factors (such as the continuity of rapid growth and the status of infrastructure development including electric power supplies), or the social environment could have a significant effect on the TDK Group's business results.

#### 4. Risks Concerning Price Competition

The TDK Group supplies electronic components in a broad range of fields of the electronics industry, which is experiencing an intensification of competition. These fields include information technology and communications devices such as digital home appliances, PCs, and mobile phones. Price is one of the main competitive factors differentiating us from other companies in the industry in which leading companies in Japan, South Korea, Taiwan, and other Asian countries are fueling intense price competition.

As a downward pressure on prices from the market continues to intensify, if prices fall substantially beyond our

expectations or become protracted, there could be a significant effect on the TDK Group's business results.

#### 5. Risks Concerning Technological Innovation and New Product Development

The timely launch of new and valuable products contributes to raising the profitability of the TDK Group, and we firmly believe that ongoing new product development is crucial to TDK's survival. We also believe that the ability to increase sales by developing appealing and innovative products plays an important role in our growth, and we place considerable importance on this in our management strategies. However, TDK may not be able to predict future demand in the rapidly-changing electronics industry and to develop and continuously supply in a timely manner appealing new products created through technological innovation to meet that demand. In this case, lost opportunities may result in lower sales and income and current and future markets may be lost, resulting in a significant adverse impact on business results and growth prospects.

#### 6. Risks Concerning Product Quality

The TDK Group manufactures various products at domestic and overseas manufacturing bases in accordance with the International Organization for Standardization (ISO) quality management standards (ISO 9001) and the

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strict standards required by customers in the remarkably technologically innovative electronics industry.

The TDK group cannot be fully certain, however, that all of its products are free from unforeseeable defects (including cases where products contain restricted substances) and immune from recalls at some later date. If a recall of TDK products occurs or a product liability claim is made against TDK, significant recall costs and compensation for damages could be incurred and sales volumes may decline. In addition, quality defects in TDK brand products could result in loss of confidence in the TDK brand and put TDK's survival as an ongoing firm at risk. The occurrence of such a major quality problem could have a substantial effect on the TDK Group's business results.

### 7. Risks Concerning Intellectual Property

The growth of the TDK Group depends to a great extent on patents, licenses, and other intellectual property rights concerning the functions, designs, and manufacturing processes of our products (collectively referred to as "Intellectual Property Rights"), and the Group makes active efforts to acquire and manage Intellectual Property Rights.

There are instances, however, where TDK's Intellectual Property Rights cannot be fully protected in a particular region for reasons unique to that region. TDK may

incur losses resulting from manufacture by a third party of products similar to TDK's through the unauthorized use of our Intellectual Property Rights.

It is also possible that TDK will be subject to claims of infringement by TDK Group products on the Intellectual Property Rights of third parties that may sue for damages as a result of such alleged infringement. This would require either settlement negotiations or legal processes. If our defenses against such claims are not accepted in such disputes, the Group may incur losses including the payment of compensation for damages and royalties and loss of market.

In this way, major disputes concerning Intellectual Property Rights could have a significant effect on the TDK Group's business development and business results.

### 8. Risks Concerning Recruiting and Training Personnel

In order to prevail against the fierce competition in the electronics industry, the TDK Group believes that it is necessary to recruit and develop personnel who possess advanced technical skills at global levels. The TDK Group makes significant efforts to enhance even further the abilities of outstanding human resources with excellent business strategy and organizational management skills.

However, competition to recruit

globally outstanding employees is extremely fierce, and in Japan the employment environment is changing rapidly because of the falling birthrate, the aging population, and the decline of the workforce population. Employment environments are also undergoing rapid changes in overseas bases in China and other countries, and there are no guarantees that TDK will be able to recruit skilled employees on an ongoing basis. The inability to recruit and develop personnel as planned could have a significant effect on the TDK Group's business development, business results, and growth prospects over the long term.

### 9. Risks Concerning Raw Material Procurement

The TDK Group's manufacturing system is premised on securing raw materials and other supplies in appropriate volumes in a timely manner from numerous external suppliers. TDK may rely on certain irreplaceable suppliers for key raw materials. Because of this, there may be cases where supplies of raw materials and other products are interrupted by accident or other event at a supplier, supply is suspended because of quality or other problems, or there is instability in or shortage of supply because of a rapid increase in demand for finished products. If any of these situations becomes protracted, there could be an impact on production systems and TDK

may not be able to fulfill its responsibilities to supply products to customers. If the balance between supply and demand in the market breaks down, prices for raw materials may increase drastically and prices for energy including oil may rise, pushing up manufacturing costs and having significant adverse impact on business results.

### 10. Risks Concerning Government Regulations

The TDK Group is subject to various regulations in Japan and other countries where we conduct business concerning approval for conducting business and making investments, laws and regulations governing the safety of electric and electronic products, laws and regulations relating to national security among countries, export/import laws and regulations, and laws and regulations relating to commercial practices, antitrust, patents, product liability, environment, consumers, and taxes.

In the event these laws and regulations are made more stringent in the future, TDK's business development could be affected and may incur various additional expenses. In addition, if we are unable to respond appropriately to these laws and regulations, we may be forced to withdraw in part from certain businesses or take other actions.

The tightening of various laws and regulations by government agencies could have a significant adverse effect on the TDK Group's business results.

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### 11. Risks Concerning Interest Rate Fluctuations

The TDK Group has financial assets and liabilities that are exposed to the risk of interest rate fluctuations. Interest rate fluctuations in excess of expectations could affect interest income, interest expenses, and the value of financial assets, which could have a significant impact on the TDK Group's business results.

### 12. Risks Concerning Business-To-Business Transactions

The TDK Group conducts business-to-business transactions on a global scale for the supply of diverse electronic components to numerous electronics manufacturers, personal computer makers, and other customers.

The supply of products to these customers is significantly affected by various factors beyond our control such as changes in individual customer's business results and management strategies. A drop-off in purchasing demand due to poor business results by major customers, changes in customers' purchasing plans and policies, the unexpected termination of contracts and other occurrences could result in TDK process profit margins being reduced due to discounting pressure from customers or excess inventories.

In addition, corporate reorganizations through mergers and acquisitions by customer businesses including acquisition of firms in different industries and

competitors in Japan and other countries could have a substantial effect on TDK's sales. In particular, if a specific customer on which TDK relies for substantial sales is acquired by a competitor, orders may drastically decline or transactions may be entirely terminated.

In this way, customers' business results, changes in management strategies, and other factors could have a significant adverse effect on the TDK Group's business results.

### 13. Risks Concerning Natural Disasters and Pandemics

The TDK group has numerous production plants and research and development facilities in Japan and other countries. These facilities and plants have implemented disaster-protection and infection-control measures in preparation for unexpected natural disasters and infection outbreaks. However, a major earthquake, tsunami, typhoon, flood, volcanic eruption, other unavoidable natural disaster, or outbreak of an unknown infectious disease such as a potent new strain of influenza that substantially exceeds assumed levels in business continuity plans could cause extensive damage or losses. In the event of interruption of manufacturing, disruption of transportation routes, damage to or disconnection of information and communications infrastructure, or significant damage to customers, orders and supplies

may be slowed for an extended period, and this could have a significant effect on the TDK Group's business results.

### 14. Risks Concerning Environmental Regulations

The TDK Group is subject to various environmental laws and regulations in Japan and other countries governing industrial waste, emissions to the atmosphere, and water generated from production processes and a certain hazardous chemical substances contained in products. From the perspective of global environmental preservation, we anticipate that environmental regulations will become more stringent in the future and that the cost of compliance with those regulations will increase.

The TDK Group complies with environmental laws and regulations and conducts a wide range of environmental preservation activities, but if compliance with environmental regulations exceeds our capabilities, we may be forced to withdraw from certain business activities and responses may be delayed, resulting in loss of trust in the TDK group, which could have a significant effect on the TDK Group's business results.

### 15. Risks Concerning M&A

The TDK Group implements mergers and acquisitions (M&A) to create business entities that can pursue higher competitiveness and profitability in a highly-competitive electronics field. However, if higher profitability cannot be obtained through the initially-expected synergy effects because of the Group's management policies or management strategies failing to adequately permeate throughout the target company of such M&A activity or for other reasons, there could be a significant effect on the Group's business results, growth prospects, and business development.

### 16. Risks Concerning Information Security

In its business operations, the TDK Group holds confidential information and personal information relating to customers and trading partners as well as confidential information of the Group and personal information of employees. The Group has established a group-wide control system to prevent this information from being leaked to outside parties, tampered with, or otherwise manipulated, and we implement comprehensive management and IT security, reinforce facility security, and conduct employee training. However, there is still a risk that such information could be leaked or falsified through negligence or theft.

If such information were leaked or falsified, the TDK Group could suffer a loss of credibility and be liable for substantial

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costs relating to compensation for damages to injured parties, and that this could have a significant effect on the TDK Group's business results.

### 17. Risks Concerning the Great East Japan Earthquake

The March 2011 Great East Japan Earthquake caused direct harm to the TDK Group as a result of the damage to buildings and facilities and reduced operations caused by power outages. At this time, all affected sites have been fully restored, and all domestic business sites are reviewing their business continuity plans and adopting measures in anticipation of power shortages during the summer. Nonetheless, power shortages beyond expectations or large-scale power outages could have a substantial impact on production activities (reduced operations or suspension of operations) and sales activities (delay in the recovery of orders and so on).