

President's
Interview



We are determined to complete structural reforms and focus management resources on growth areas and core businesses, aiming for further growth.

Takehiro Kamigama
President & CEO



Q1 How were business results in the past fiscal year?

Q2 How are the structural reforms progressing?

Q3 Please tell us about TDK's growth strategy for the future.

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President's Interview



How were business results in the past fiscal year?

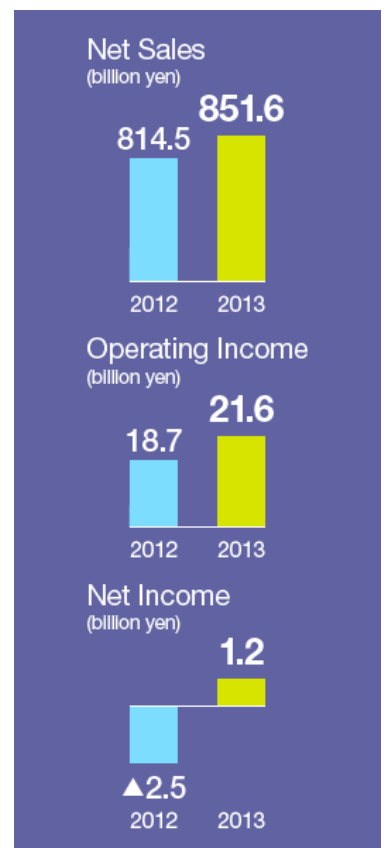
For the second term in a row, we had to adjust our expected earnings downwards, due to factors such as slack demand for passive components in the communications sector and stagnation in the industrial equipment sector.



In the past fiscal year (ended March 2013), TDK endeavored to build a solid operating base and, continuing from the previous term, to take measures regarding unprofitable businesses and optimize our business locations and personnel system. Through such measures, we were aggressively implementing our business structure reform plan. In spite of these efforts, however, I regret to say that it was necessary to again significantly correct our financial forecast downwards.

One of the major reasons for this correction is the fact that sales of passive components for the communications sector fell far short of projections, as the smartphone market underwent an adjustment of supply and demand. The second reason can be seen in the stagnation of the industrial equipment market, which led to reduced demand for passive components, magnets, power supplies and similar products. As a result, net sales were down in the area of industrial equipment and some other categories. A third reason is an appraisal loss due to the fall in rare earth prices which is the main raw material for metallic magnets. In addition, the spread of smartphones and tablet devices has led to reduced sales of PCs, resulting in significantly lower demand for hard disk drives (HDDs). Consequently, business results in this market were also much lower than initially projected.

As a result, our consolidated net sales for the year ended March 2013 were 851,575 million yen, with operating income of 21,648 million yen, income from continuing operations before income taxes of 18,858 million yen, and current term net income of 1,195 million yen. Average exchange rates for the U.S. dollar and euro during fiscal 2013 were 83.03 yen



and 107.05 yen, respectively, as the yen depreciated 5.0% against the U.S. dollar and appreciated 1.8% against the euro year on year. This increased net sales by approximately 32,400 million yen and operating income by approximately 4,100 million yen.

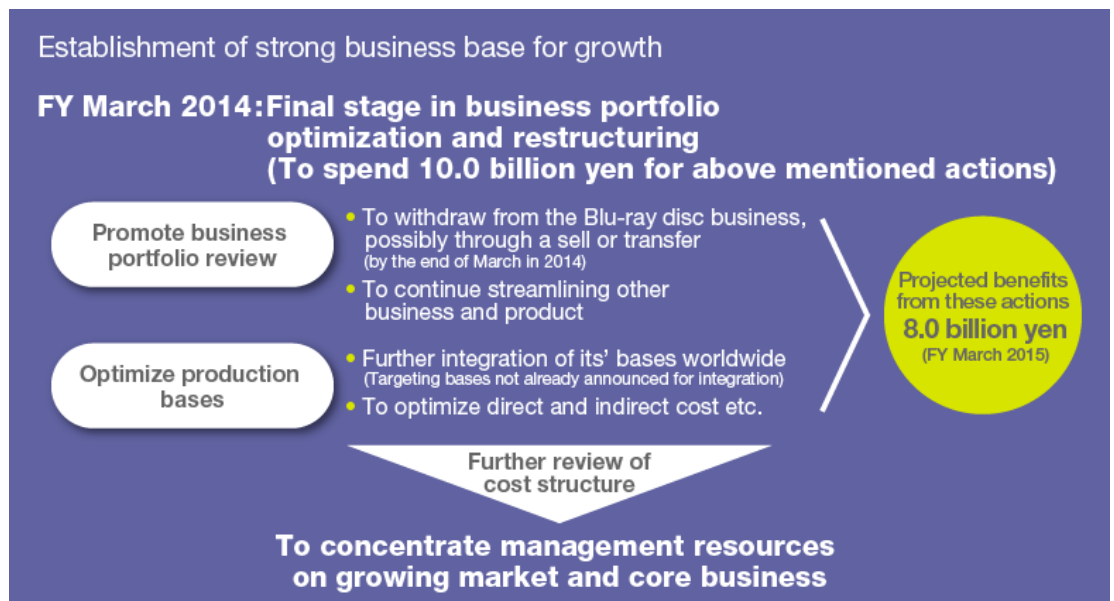


How are the structural reforms progressing?

We have completed structural reforms in the passive components business as planned. In the coming term, which will be the last fiscal year of structural reform, we are concentrating on optimizing the adaptability of our business portfolio.

In fiscal 2013, we restructured the category of passive components, ceramic capacitors in particular, by optimizing production bases and creating an integrated system of production from raw material to the finished product. As a result, productivity and profitability in the sector have significantly improved, and we achieved some positive results. We will be able to draw on these experiences when optimizing our business portfolio in the coming term. In concrete terms, we intend to withdraw from the Blu-ray disc business, possibly through a sell or transfer, and will also review our product lineup in other areas as well. The optimization of production facilities, besides already announced measures, will include the consolidation of plants both in Japan and overseas, and a strengthening of business cost structures.

The budget for structural reforms in fiscal 2014 is 10,000 million yen, with expected benefits of 8,000 million yen for fiscal 2015.





Please tell us about TDK's growth strategy for the future.

We shall promote the development of new products and new technologies targeted at accurately identified market needs, with a strong focus on expanding our presence in growth markets.



Responding to changed circumstances, and in view of the evolving business environment and technical innovation, we have reorganized our growth sector categories of Communications, Home Information Appliances, Automobiles, and Industrial Equipment and Energy into two key areas, namely "Next-generation Information and Communications" and "Energy-related."

Although the PC market is still languishing, the market for smartphones and tablet devices continues to grow, which is vital for the Next-generation Information and Communications sector. The functionality and performance of mobile devices are rising at a rapid pace, made possible by the availability of a large number of extremely small yet high-performance electronic components incorporated in these devices. The TDK Group boasts a wide lineup of products ideally suited for such mobile devices. Various types of inductors and ceramic capacitors, SAW filters that are indispensable for multiband support for several communication standards in a single device, and other high-frequency components are prime examples. Lithium-ion rechargeable batteries are also crucial parts for smartphones and tablet devices, contributing to smaller dimensions and reduced weight. The TDK Group will allocate its development, marketing, and organizational resources in a targeted manner that will allow us to capture significant businesses in these growth markets.

Due to the spread of cloud computing and related developments, the amount of information carried on the Internet is steadily increasing. This in turn results in a growing demand for data centers to store the immense data volumes involved. A single HDD such as found in a personal computer usually has two or three magnetic heads. By contrast, the type of HDD used in data centers currently has about 10 heads, expected to increase to 14 in the near future. TDK is prepared to reliably meet the increasing demand for magnetic heads for such data center applications. Furthermore, data centers are concerned about power consumption and therefore are looking towards HDDs with further increased recording density. The TDK Group is hard at work to achieve further breakthroughs in the field of recording head technology, for example by bringing thermal-assist magnetic heads closer to the product stage.

In the Energy-related category, global warming and increasingly severe energy problems are prompting us to further intensify our technological development efforts towards improving energy use efficiency, both in the automotive sector and in the power generation field.

With regard to automobiles, increasing the fuel economy of cars with internal combustion engines hinges on two key aspects: vehicle weight reduction and increased combustion efficiency. The TDK Group is contributing to both of these aims, through ground-breaking electronic components for automotive use. To name an example, ferrite magnets are used extensively in the small electric motors that energize functions such as the power windows and remote-controlled outside mirrors of a car. Through a new manufacturing technique, we were able to reduce the weight of such magnets by some 60 percent, thereby making a significant contribution to reduced vehicle weight.

Our broad lineup of products for hybrid electric vehicles (HEV) and electric vehicles (EV) includes DC-DC converters for converting the voltage of the battery, current sensors for monitoring the condition of the battery, neodymium magnets for drive motors, as well as many other electronic components that help take performance and fuel economy of next-generation automobiles to a new level.

Electronic control systems for brakes, power steering, airbags and other areas that are crucial for driving safety also require the compact and highly reliable and durable electronic components that we can supply. For such electronic control applications, we are intensively marketing capacitors, noise-eliminating common mode filters, and other products developed by us specifically for the automotive environment.

In the electric power generation sector, a concept currently attracting immense interest is the smart grid. This approach applies information and communications technology to optimize the supply and demand of energy on the regional level and thereby provides a significant boost to the utilization of renewable energy sources such as solar power and wind power. The TDK Group is active in this field too, providing neodymium magnets for wind power generators, as well as passive components for power conditioners that adjust the power supply in general households. The lineup for such applications includes aluminum electrolytic capacitors, film capacitors, transformers, etc. In addition, we are also marketing electronic components for battery management systems designed for storing electrical energy in a smart grid environment.



What is the growth scenario by business segment?

We are pursuing an aggressive growth strategy centered on the passive components business.



Among our three business segments, the Passive Components category plays a crucial role, and we are bolstering this sector as a main driver of revenue growth.

In the area of high-frequency components for example, we plan to set SAW devices and modules for smartphones and other communication devices again on the path for growth. We are currently in the process of optimizing the allocation of development resources and strengthening the structural framework for this purpose. By more closely linking fundamental development overseas to process development technology and production technology in Japan, the efficiency of both development and production will be enhanced, and the integration of technologies in which the TDK Group excels will enable us to respond quickly to next-generation market needs and requirements.

With regard to inductive devices, we will expand the lineup of power coils, aiming for continued growth in the communications and automotive markets. We will also intensify the development and marketing of high frequency coils. TDK has the expertise and advanced know-how required to develop and manufacture a wide range of inductive devices, of various structural designs, using different processes. This includes wound types for large currents, multilayer types for high density mounting, and thin film types applying process technology developed for the manufacture of HDD heads. We intend to harness these advantages in technology and know-how also in future, to offer products that meet the detailed needs of customers.

Consolidation of ceramic capacitor production sites in Japan and overseas has been completed, and we expect to stabilize earnings by drawing on the effects of these structural reforms. Capacitors for automotive applications are the most important segment where we are aiming for a further expansion in sales. Lateral application of elemental technology and methods to ensure high reliability, originally developed for the automotive sector, enables us to pursue the development of application-optimized products in other areas as well. Technological know-how gained with inductive devices, together with coil and capacitor technology is being applied in a collaborative manner to the development of other products such as ultra-compact power supply modules.

In the second segment, Magnetic Application Products, we are leveraging our unique position as a manufacturer specializing in magnetic heads to

develop the recording devices business comprising HDD heads into a stable source of revenue. We are promoting the development and approval of high-performance heads for data center applications, and are accelerating the process of getting next-generation thermal-assist magnetic heads ready for mass production. We are also engaged in the development of electronic components that apply manufacturing process techniques perfected for HDD heads.

In the third segment, Film Application Products we are concentrating mainly on expanding sales of rechargeable battery related products. Efforts in this area are not limited to expanding the separators business. Rather, we are aiming to open up new business opportunities for growth by pursuing a vertically integrated business model. This encompasses the materials side through in-house development of electrode materials, and extends to cells and packaging. Application areas other than smartphones and tablet devices are also being explored.



Can you give us an outline of R & D activities with a view to the future?

Building on our strength in materials as a core technology of TDK, we are further intensifying our research and development framework oriented towards higher added value of electronic components.



Ever since the founding of TDK, originality has been a driving force. It refers to the power of creating things that are not within the grasp of other companies. This has enabled us to earn the trust of society and has allowed us to contribute things of value. Building on the core competence of the TDK Group, which is materials technology in the field of magnetics and related areas, we are concentrating on the development of products that benefit from our strengths. One of these projects is the development of rare earth free magnets. We already have developed a dysprosium free magnet which has won the approval of major HDD manufacturers for use as HDD material. Furthermore, magnets with neodymium use reduced by half and cobalt free ferrite magnets have also been successfully developed.

Research on the materials level is continuing to allow power supply units and power devices to become even more compact, low-profile, and efficient. As a new technology for next-generation energy systems such as the smart grid, we are also pursuing the development of digital power supplies incorporating intelligent functions.

Of course, research and development in the area of passive components

such as the high-frequency components that I already mentioned, as well as into next-generation HDD heads is also continuing.



What is TDK's outlook for fiscal 2014?

Due to growth in passive components, film application products and others, we expect net sales of 930,000 million yen.



For fiscal 2014, we are using an exchange rate of 90 yen to the U.S. dollar and 118 yen to the Euro. We anticipate a rise in sales of passive components by about 15 to 20 percent over the 379,614 million yen of the current term. Sales of high-frequency components, inductive devices, and circuit protection devices mainly for the Information and Communications market are expected to grow, and we also expect a soft recovery of aluminum electrolytic capacitors and film capacitors for industrial equipment. Sales in the automotive market should continue their steady growth.

With regard to magnetic application products, factors such as the maturation of the HDD market may lead to results ranging from leveling to a drop of about 2 percent over the 337,947 million yen of the current term. For the Film Application Products segment, an increase by some 15 to 20 percent over the 112,621 million yen of the current term can be expected, driven by increased activity in rechargeable batteries for information and communications devices, as well as in functional films.

During the current fiscal year, we have been steadily pursuing structural reforms, but as mentioned in the beginning, we will continue to push for a growth-oriented operating base also in fiscal 2014 by reviewing our business portfolio and optimizing our production bases. We plan to allocate 10,000 million yen to the cost of structural reforms.

Taking all of these aspects into consideration, our consolidated performance estimates for the year ending March 2014 are 930,000 million yen in sales, 30,000 million yen in operating income, 28,000 million yen income from continuing operations before income taxes, and 13,000 million yen net income. Dividends are expected to be 30 yen per share for the first half of the term, and 40 yen for the second half, reflecting an expected recovery in earnings and amounting to a total yearly dividend of 70 yen per share.

The TDK Group now has become a truly global organization, with overseas sales making up a high percentage of total sales, and the ratio of overseas staff amounting to more than 80 percent of the entire group. The power of creativity that has pervaded the company since the beginning must be harnessed effectively throughout the entire

organization. By mobilizing management resources in every possible aspect, we intend to further enhance the efficiency and competitiveness of the TDK Group.

