Attracting Tomorrow

TDK

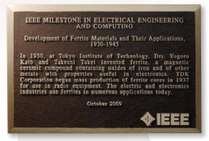
UNLIMITED POTENTIAL

ANNUAL REPORT 2016

English Version

1930

Invention of "Ferrite"



IEEE Milestone plaque

The electronic material "ferrite" is a unique Japanese invention, born out of research done in 1930 by Dr. Yogoro Kato and Dr. Takeshi Takei of the Tokyo Institute of Technology. Seventy-nine years later, in 2009 the discovery and application of ferrite was designated as an IEEE Milestone, an award that recognizes key historical achievements in electrical and electronic engineering, which have had a sustaining and significant impact on the industry and on society.

1935

Spirit of Originality

Kenzo Saito,
TDK's first president

"Genuine industries are original industries"; this pronouncement by Dr. Kato inspired Kenzo Saito to found TDK (originally known as Tokyo Denki Kagaku Kogyo K.K.) with the purpose of turning ferrite into a commercial product. At the time, ferrite was still an unknown quantity, and its first application was a so-called "ferrite core." In 1937, before coming into use in other countries, ferrite cores became part of wireless transmitters and radios in Japan. The spirit of "creating value that does not yet exist in the world on a material level" has characterized TDK from the beginning, and it still defines the DNA of the company today.

MAGNETICS TECHNOLOGIES

DNA

Magnetics Technology

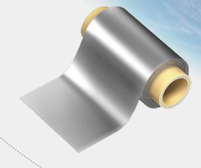
Ferrite—An original Japanese magnetic material, while pursuing and expanding the possibilities of ferrite, TDK's own scope of activities grew ever more varied, advancing with ferrite into various sectors of the industry. Magnetic tape technology that dramatically altered the patterns of musical enjoyment, fine multilayering technology that resulted in much smaller and lighter electronic devices, HDD magnetic head technology that produced astoundingly high data recording densities—these are some of the TDK innovations that have had a lasting worldwide impact. The history of TDK is closely interwoven with magnetics technology. By continuously improving, perfecting, and innovating in this field, TDK continues to bring forth extraordinary and unique products.

Magnetic tape

HDD magnetic head

Magnetics technology leads to improvement in product performance

High permeability IFL16 noise suppression sheet



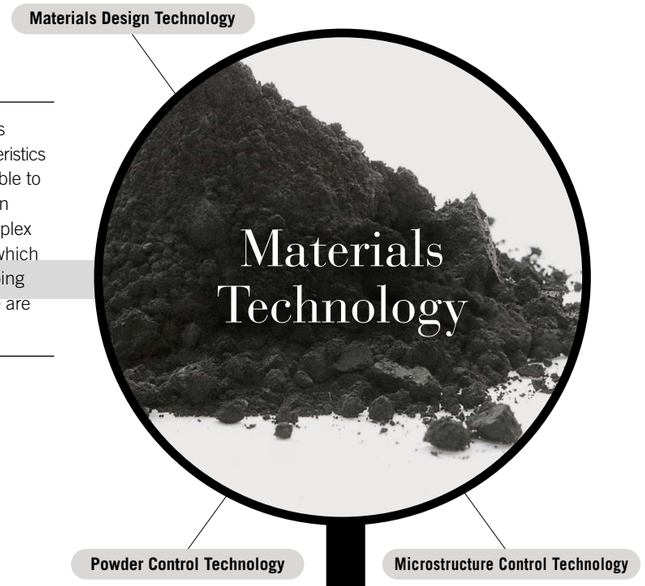
This magnetic shielding material used in electronic components in smartphones and similar devices is made of a magnetic material combined with resin. A magnetic sheet capable of absorbing the noise of a wide frequency range and turning it into thermal energy is highly useful, both for preventing internally produced noise from being reflected and affecting other components inside a device and from leaking outside the device and affecting other devices.

STRENGTHS

1

STRENGTH

The driving factor behind TDK's product power is superior materials technology. Shaping the characteristics of the material at the atomic level makes it possible to achieve exactly the targeted properties for a given product. This approach requires mastery of complex composition processes and control of additives which cannot be easily copied by competitors. By keeping intellectual property and know-how in-house, we are establishing a competitive advantage.

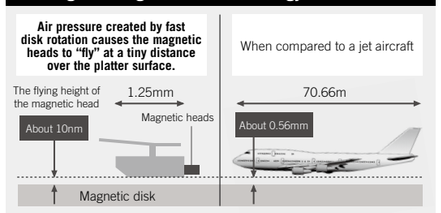


2

STRENGTH

TDK's famous process technology can be defined as the art of realizing products that maximize the characteristics of the raw materials used in them. Operating on the nanometer level, the technology has enabled breakthrough developments such as chip capacitors and chip inductors with amazingly small dimensions and low profiles. TDK process technology is a versatile key competence that meets a multitude of advanced needs.

Amazing HDD magnetic head technology



In order to read and write the information in a very small area of the disk, the head must approach the surface at an extremely close limit but without making contact. The clearance between the head and the disk is less than 10 nanometers, which could be compared to a large passenger jet flying at only 0.56 millimeters above the ground.

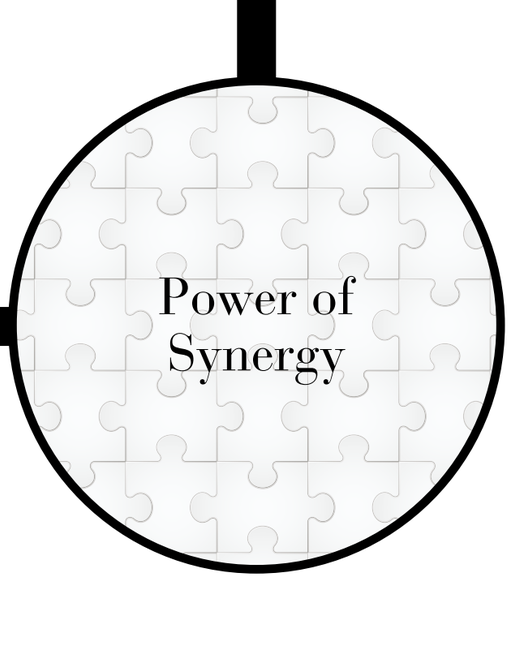
3

STRENGTH

TDK has absorbed and integrated various technologies and value on a global scale. We consider acquired companies as valuable partners to whom we actively give the leading initiative for technology development in their areas of expertise. This complements our own resources and expertise, opening up new avenues of sustained growth and strengthening both sides through the power of synergy. That is the rationale behind our M&As and technology alliances on a global level.

Representative Acquisitions and Strengthened Business Fields

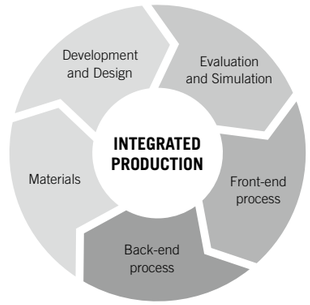
1986	SAE Magnetics (Hong Kong)
2000	Headway Technologies (USA)
2003	Innoveta Technologies (USA)
2005	Amperex Technology (Hong Kong)
2005	Lambda Power Group (United Kingdom)
2007	Magnecomp Precision Technology (Thailand)
2008	EPCOS (Germany)
2016	Micronas Semiconductor (Switzerland)
2016	Hutchinson Technology (USA)



4

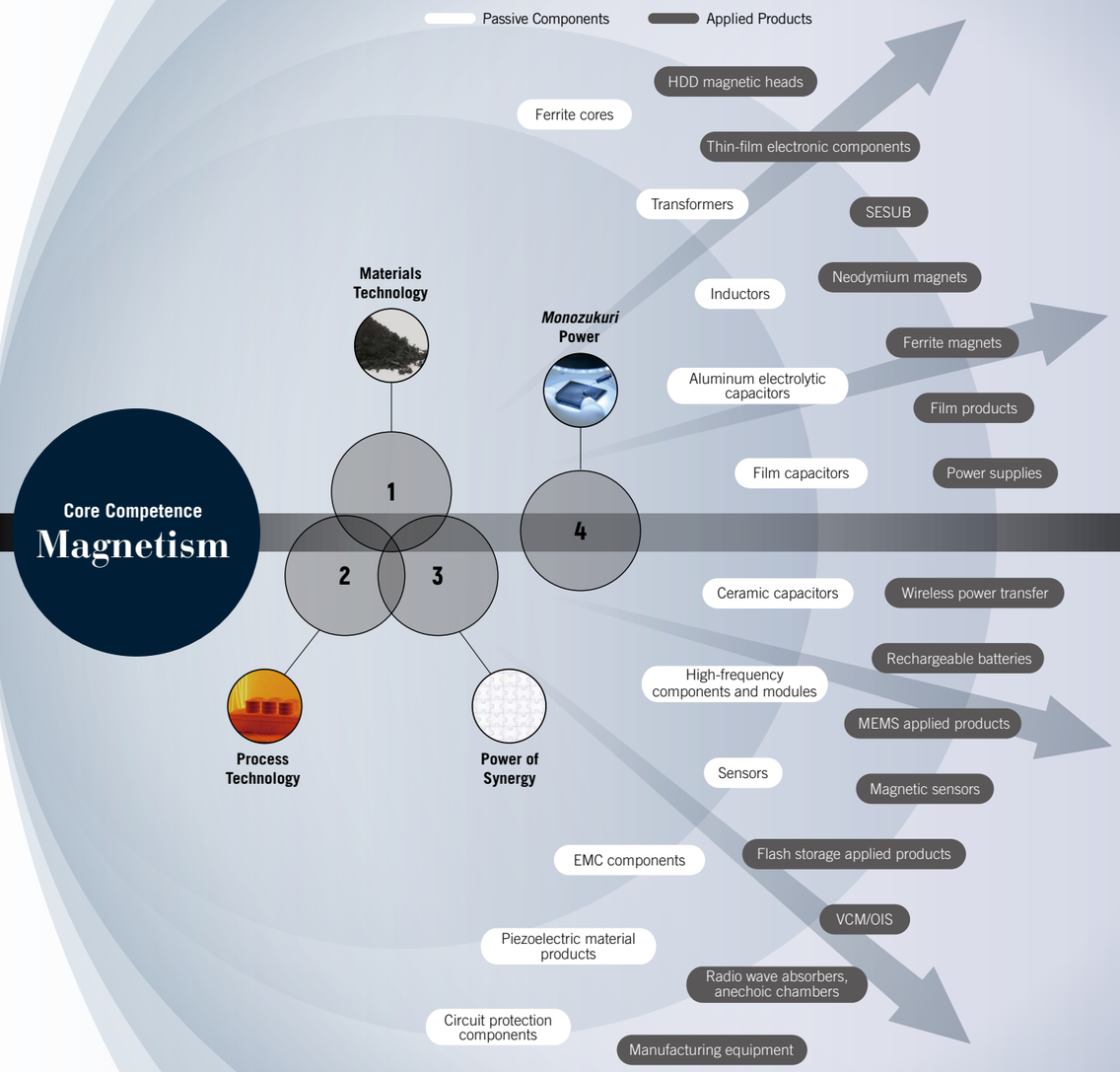
STRENGTH

TDK handles the *Monozukuri* process of manufacturing in a unified in-house framework, ranging from materials to the final product. One of the reasons why TDK's spirit of craftsmanship oriented manufacturing, i.e., *Monozukuri,* works so well is the fact that we develop our own methods and then build the equipment to implement them. In order to create products that truly meet the demands and expectations of customers, we have established optimized processes for materials composition and we develop and design products based on thorough materials analysis, as well as simulation analysis of such aspects as structure, heat, electromagnetic fields, among others. At the same time, we also establish an optimized framework for mass production.

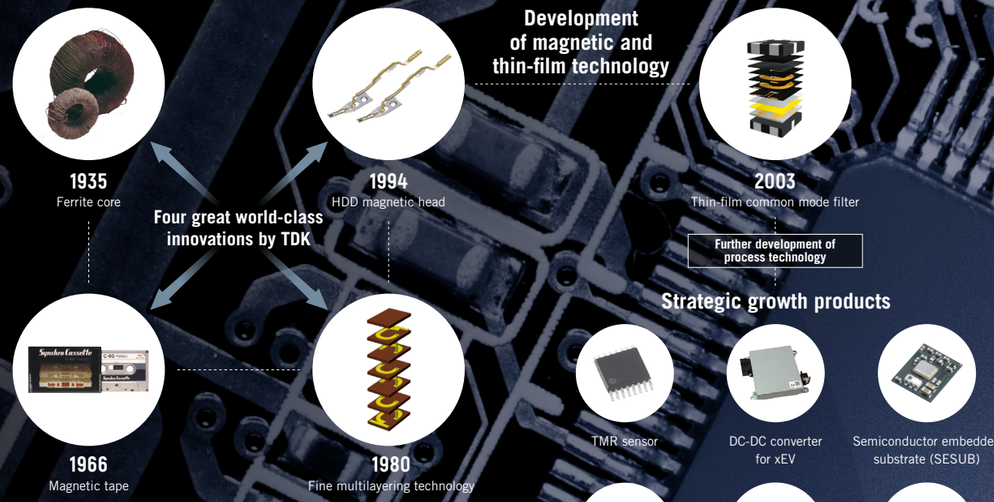


Business Model

Tireless Innovation through Application and Diversion



Core Competence
Magnetism



INNOVATION

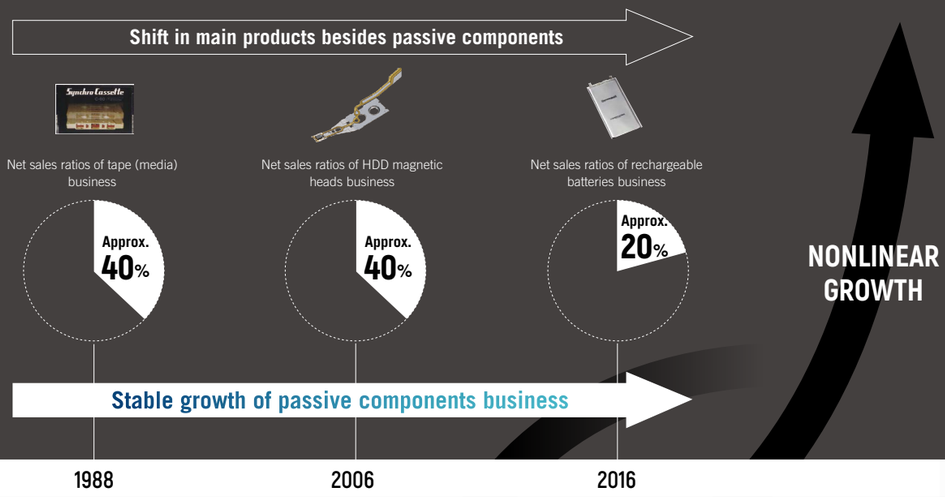
MAGNETICS TECHNOLOGIES

Using its core competence in magnetics technology as an axis, TDK has been harnessing materials technology for shaping the characteristics of a material already at the atomic level, in conjunction with process technology that maximizes its potential. This has enabled us to consistently deliver products at the leading edge of technology. Taking aboard ideas under the "Industry 4.0" concept and combining them with our zero defect quality approach that uses upstream management to eliminate quality variations, we are further strengthening our *Monozukuri* power.

The pace of change in the electronic components industry is very rapid. To remain competitive in this field, a company needs to continuously evolve and innovate. Looking toward the future, TDK will leverage its core competence in magnetics for the development of next-generation technology, and we will further elevate the sophistication level of our integrated production to ensure utmost reliability. In this way, we will continue to deliver products that contribute to the evolution of society.

Our Past Nonlinear Progress

In the rapidly evolving world of electronic components, simply doing "business as usual" is out of the question. Aiming to contribute to society and create true value, TDK has devised various strategies and tackled a number of difficult challenges so far. Guided by a long-term and environment-oriented perspective, we have continued to vary our business portfolio to meet the needs of the times. Accordingly, our key products also underwent significant changes along the way.



Ongoing Governance Reform

Number of Foreign Corporate Officers

2004 1 person

2016 **7** people

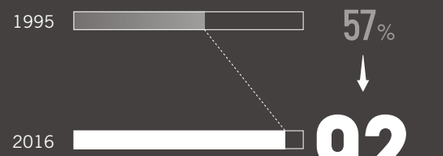
Number of Outside Officers

2002 1 person

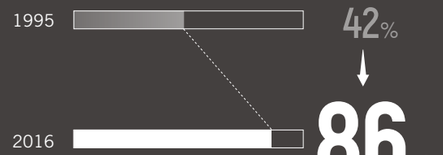
2016 **6** people

High Level of Globalization

Overseas Sales Ratio



Overseas Production Ratio



Nonlinear Progress to Come

In anticipation of the coming IoT society, we are building a strategic portfolio centered around the development of "sensors and actuators," "energy units," and "next-generation electronic components."

Demand for HDD magnetic heads, which used to be a driver for TDK's growth, is currently stagnating and the smartphone market has also matured. The creation of new areas of business therefore is paramount. We will be aggressively expanding our activities in the automotive and industrial equipment and energy markets. We intend to reach or surpass the goals set for the fiscal year ending March 2018, boosting both the operating income ratio and ROE by at least 10% each, as we advance toward the 100th anniversary of the company in 2035.

Sensors and Actuators

Energy Units

Next-Generation Electronic Components

Recent major M&As and business alliances with a view toward the IoT market

- Business alliance with Qualcomm Incorporated (USA), and agreement to establish joint venture company RF360 Holdings Singapore Pte. Ltd.
- Acquisition of Micronas Semiconductor Holding AG (Switzerland)
- Acquisition of Hutchinson Technology Inc. (USA)
- Agreement to take over the Tsuruoka Factory of Renesas Semiconductor Manufacturing Co., Ltd.
- Acquisition of Tronics Microsystems SA (France) announced
- Joint venture with Advanced Semiconductor Engineering, Inc. (Taiwan) established
- Business cooperation with Trigence Semiconductor, Inc.

CORPORATE MOTTO

Contribute to culture and industry through creativity

CORPORATE PRINCIPLES

“Vision”

Always take a new step forward with a vision in mind.
Creation and construction are not born without vision.

“Courage”

Always perform with courage.
Performing power is born by confronting contradiction and overcoming it.

“Trust”

Always try to build trust.
Trust is born from a spirit of honesty and service.

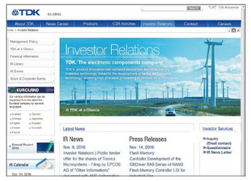
MAGNETICS TECHNOLOGIES

Cautionary Statements with Respect to Forward-Looking Statements
This report contains forward-looking statements, including projections, plans, policies, management strategies, targets, schedules, understandings, and evaluations about TDK and/or its group companies (“TDK Group”). These forward-looking statements are based on the current forecasts, estimates, assumptions, plans, beliefs, and evaluations of the TDK Group in light of information currently available to it, and contain known and unknown risks, uncertainties, and other factors. The TDK Group therefore wishes to caution readers that, being subject to risks, uncertainties, and other factors, the TDK Group’s actual results, performance, achievements, or financial positions could be materially different from any future results, performance, achievements, or financial positions expressed or implied by these forward-looking statements, and the TDK Group undertakes no obligation to publicly update or revise any forward-looking statements after the issue of *Annual Report 2016* except as provided for in applicable laws and ordinances.

CONTENTS

Editorial Policy
Annual Report 2016 provides financial data, including information on business results, business and marketing activities, the Medium-Term Plan, and related topics. In addition, it also contains general information on environmental (E), social (S), and governance (G) topics. For further information on financial topics not covered here, as well as on corporate social responsibility (CSR) related topics, and for product Information, please visit the TDK website.

Financial Information
http://www.global.tdk.com/ir/



Investor Relations (IR)
- Securities Report
- Quarterly Financial Statements
- Operational Risks

Non-Financial Information
http://www.global.tdk.com/csr/

- TDK CSR REPORT 2016
- CSR Activities

TDK Product Information and Services
https://product.tdk.com/info/en/index.html

Product Center

TDK's future: Not simply an extension of the past but creating a new TDK by unleashing the unlimited potential of magnetism

As TDK steadily moves toward becoming a "centennial company," I will focus the energy of the Group's approximately 100,000 personnel to achieve further strategic growth firmly rooted in magnetics technology.

MAGNETICS TECHNOLOGIES

Shigenao Ishiguro
President & Chief Executive Officer

Keynote

Harnessing both "dynamic" and "static" attack strategies

Greetings. I am Shigenao Ishiguro, the appointed president of TDK by approval of the shareholders at the Ordinary General Meeting of Shareholders on June 29, 2016. I intend to work hard and devote all of my abilities toward further development of the company's business, to reward the trust placed in me by the shareholders and all other stakeholders. In this endeavor, I ask for your continued guidance and support.

After joining TDK in 1982, I spent 22 years in the magnetic tapes business, followed by 12 years engaged in the HDD magnetic heads business, so I have always been involved in the field of magnetics. For 17 years, about half of my time with TDK, I worked on overseas assignments. At plants both in Japan and abroad, I was able to gain experience in the areas of production management and corporate planning. While taking the helm of a number of projects including starting new production bases, I learned how important it is to create a tangible framework that motivates staff to work toward the realization of a concept. This is something that I have dedicated myself to ever since. With this in mind, I told all employees that they are the key players in my speech just after taking office as president.

The concept that I now intend to solidify is the TDK growth strategy built around our core competence in magnetics technology. This strategy was put in place by my predecessor, now-Chairman Kamigama, when he threw the TDK rudder around and changed course from a mere strengthening of our existing capabilities to an aggressive policy. I will inherit his dynamic management approach and continue in the offensive. If we define this as a "dynamic" attack strategy, there is also a "static" attack strategy to which I will give weight as well. During the time when TDK created the golden age of the cassette tape, high profits were our hallmark. In the current day, however, our profitability unfortunately is at a lower level than that of competitors in the electronic components sector. I see it as my mission to engage with this fact and to raise the baseline of our profit capability. By harnessing both the "dynamic" and the "static" attack concepts, I intend to create a framework that is easy to grasp and that will strongly motivate all members of our organization as we go about the task of turning strategy into reality.

"Dynamic" approach

Creating TDK's future through nonlinear advancement

Until about the end of the 1980s, TDK was known as the magnetic tapes company. After the start of the new millennium, we led the world in HDD magnetic heads, and in recent years, we have expanded into high-frequency components and rechargeable batteries. Remaining alert to the demands of society and the evolution of technology, TDK has demonstrated the capability to boldly switch to new strategic products before existing ones enter their declining phase.

Ever since TDK was founded in 1935 with the aim of pioneering the industrial application of a new magnetic material called "ferrite," the DNA of the company has been magnetics technology. While becoming ever more proficient in this field, we have achieved a long series of innovative breakthroughs for 80 years. Magnetics technology doubtlessly is a major underpinning of our competitive advantage. But we have other strengths as well, such as "forming technology" for working materials into complex shapes and "sintering technology" for creating highly precise microstructures.

These are just two examples of the sophisticated "process technology" that TDK has perfected over the years. While having magnetics technology as its core competence, TDK was able to develop many innovative products through repeated applications of process technology. For example, core technology of magnetic tapes has enabled us to create film application products such as rechargeable batteries with superior performance. Thin-film process technology applied to HDD magnetic heads has contributed to an amazing jump in recording density and will also be instrumental in the next-generation of thin-film electronic components. This kind of framework has resulted in what could be termed the non-sequential advancement of TDK, which in turn has supported the company's sustainable development.

TDK has been promoting globalization since the 1950s and has fostered a corporate culture that naturally accepts a wide range of values. This not only means that TDK respects the philosophy of acquired

companies, it has also inspired us to give such companies the leading initiative in areas where they have technological resources that are lacking in TDK. By partnering with companies and people from other nationalities and backgrounds to pursue the realization of shared visions, the strength of diversity has become one of TDK's hallmarks that also acts as a driver of change. For example, the starting point of TDK's expansion into the HDD magnetic heads sector was the acquisition of Hong Kong's SAE Magnetics (H.K.) Ltd. in 1986. In 2005, the acquisition of Amperex Technology Ltd., also based in Hong Kong, contributed greatly to the expansion of our market share in lithium polymer batteries (rechargeable batteries). And in 2008, the acquisition of the major electronic components manufacturer EPCOS Group of Germany had many beneficial effects. Our group gained a leading position as a supplier of high-frequency components for smart devices. Our business portfolio and customer base for aluminum capacitors, film capacitors, piezoelectric materials, and other products for the automotive and industrial equipment sectors expanded significantly. Synergy was also created in packaging technology and other technical areas. High-frequency components in particular have become a strong driver of profit growth in recent years.

Products in our industry do have a "use by" date. Both HDDs and smartphones have reached a phase of maturity and are bound to eventually go on a decline. But technologies such as magnetics technology and process technology will endure indefinitely. And the strength of diversity that comes from a combination of cultures and different backgrounds also has unlimited potential. By harnessing these strengths, TDK will shape its future course and move toward new frontiers in what I consider to be the dynamic attack strategy.

MAGNETICS TECHNOLOGIES

Magnetic sensors: a pillar of change

Believing in the vast potential of TMR elements

Around 2009 when I was overseeing the domestic operations for HDD magnetic heads, I went together with then-President Kamigama to visit a closed-down site that had previously been a manufacturing base of cassette tapes. As we overlooked the area, Mr. Kamigama sternly said to me: "Have a good look at this desolate place now overgrown with weeds. This is a part of your responsibility! Were you able to take cassette tape technology and make something else of it?" These severe words still remain with me today because they became the basis for my resolve. He continued: "Don't let the same thing happen to HDD magnetic heads. Think of the next step while we still have the advantage!" Above, I mentioned technologies that will endure indefinitely. One of these is the technology that resides in an industrial plant. When the cassette tape factory was closed down, the accumulated technology and know-how indeed could not be passed on sufficiently. This realization prompted me to begin looking for the next thing after HDD magnetic heads.

The TMR (Tunnel Magneto Resistance) elements used in the HDD magnetic heads are highly accurate and sensitive sensors that are able to catch minute magnetic signals. But at the time, there were practically no other applications for them. Although at first it felt like reaching for the clouds, I did form the belief that in the future, magnetic sensors using TMR elements would prove useful to society. With a tiny team of only three people, including veteran engineers, we set out on the path to realize this dream.

We pursued the project originally in a quite basic and down-to-earth way. Using rough prototypes and hand-made materials, we persisted in showing TMR element sensors at various trade shows and exhibitions, trying to convince people of their potential. Gradually, we found an increasingly interested audience, and by trying to match the aims of customers with our technology, we became more and more convinced that TMR sensors have enormous merit. Six years later, in 2015, TDK began the mass production of magnetic sensors for automotive applications. We are currently in talks with more than 40 companies, and approval activities are steadily progressing.

So it can be said that these sensors, which are expected to become a new pillar in TDK's portfolio, were developed with and by customers.

Growth strategy for the age of IoT

Creating high added value through synergy with partners

The next big technology wave that we will be riding is the IoT (Internet of Things). Sensors, actuators, and communication modules are to be incorporated in all manner of things around us, and mutual interaction will enable data to be created, analyzed, and used for real-world feedback in ways that so far were hardly believed possible. This development has already begun on a society-wide level. A myriad of electronic components will be required, which brings enormous possibilities and expansion opportunities to manufacturers in this field. Within this scenario, TDK has defined magnetics technology and process technology as the cross-points in our matrix of growth areas. We intend to deliver products with high added value that are not within reach of competitors and can only come from TDK.

Electronic components are subject to ever more stringent demands with regard to extreme miniaturization, higher integration, higher functionality, and module integration support. In the age of IoT, these technological demands will certainly become even more severe, and meeting these demands will be a key factor in increasing the power of applications. When TDK recognizes the need for resources reinforcement in order to respond to changes at these cross-points, rather than trying to reinforce our own resources through enormous investments, we put the focus on collaboration with suitable external partners. We have already carried out some initiatives in this area in 2015 and 2016, and the new partnerships are expected to create huge synergy effects.

In May 2015, we established a joint venture company with Taiwan's Advanced Semiconductor Engineering Inc. (ASE) for the fabrication of semiconductor embedded substrate products. TDK's semiconductor embedded substrate (SESUB) technology was developed by the application of micromachining techniques and materials technology gained while manufacturing inductive devices and HDD magnetic heads. ASE brings sophisticated IC packaging technology and test solution technology to the table. The fusion of these mutual capabilities will enable smaller, thinner, and lighter smart devices and will also result in increased production capacity.

At another cross-point, namely automotive applications and magnetic sensors, an initiative that drastically raises added value, is our acquisition of Micronas Semiconductor Holding AG (Micronas) as a subsidiary. Bringing a leading company in the field of Hall sensors for detecting and measuring position information into the TDK fold sets the stage for developing multifaceted synergy. Micronas has accumulated 30 years of experience and know-how in the magnetic sensor market which will be highly instrumental in expanding the scope of product applications. The company also boasts outstanding circuit design technology which in combination with TMR elements from TDK will make it possible to further raise the accuracy of digital output signals of sensors to an extremely high level. Creating hybrid-type products with greater added value is of special strategic importance, as I will explain in more detail below. Having Micronas as a partner drastically increases the degree of freedom we have in coming up with creative ideas that meet the needs and demands of customers. And we will of course follow Micronas' lead in areas where the company has extensive market experience.

TDK has concluded an agreement with Qualcomm Incorporated (Qualcomm), to set up the joint venture RF360 Holdings Singapore PTE, Ltd. for supplying high-frequency components. This joint venture will become a powerful player in the high-frequency solutions market by utilizing the high-frequency component-related technology accumulated by TDK together with advanced wireless technology developed by the Qualcomm subsidiary Qualcomm Technologies, Inc. (QTI). It was also agreed that TDK, Qualcomm, and QTI will deepen their technological cooperation in a wide range of fields, including passive components, batteries, wireless power transfer, sensors, and MEMS for next-generation mobile devices, the IoT, and automotive products. In the world of IoT, sensors to collect data, CPUs for analyzing them, communication chipsets to provide feedback to the real world, as well as actuators, batteries, and power management technology for driving various devices, will be in high demand. Modularization technology for ultracompact devices will also be needed. Qualcomm is a global leader in manufacturing the chipsets that serve as the brain for controlling the communication modules, while actuations and interfaces for the real world are also TDK's strengths. The collaboration between these companies creates an ideal complementary relationship that can satisfy many pressing technology requirements. Our aim is to create synergy effects that will grow and spread beyond a single cross-point to multiple intersecting areas.

Monozukuri in the age of IoT

“TDK Industry 4.5”— Zero defect quality sets us apart

TDK is exploring the possibilities of the impending IoT age also with regard to our *Monozukuri* approach to making things. “Industry 4.0” is an IoT-oriented concept currently being promoted by the German government in cooperation with industry and academia, aimed at achieving autonomous production lines and drastically increasing manufacturing efficiency. TDK is adding quality to the equation with the “TDK Industry 4.5” concept that takes things even further. New production lines that were completed in October 2016 at the Honjo Factory and the Inakura Factory in Akita Prefecture in Japan will use a monitoring network comprising cameras and sensors to enable the line to autonomously detect any process problems in real time. Big data analysis is then applied to provide feedback and implement upstream control. While being aimed at zero defect quality, this innovative approach also facilitates inventory control and helps to increase energy efficiency. Using the sites in Japan as pilot plants, the approach will eventually be expanded to other plants and bases around the world, with the aim to realize “location free” operation whereby the same quality can be achieved regardless of the actual production location. In this way, we are taking our quality-oriented *Monozukuri* to a whole new level.

Profit growth scenario

Toward resuming profit growth from fiscal 2018

TDK holds an option to sell 49% of the joint venture shares held after 30 months from the contract date to Qualcomm. If this option is exercised, the transfer price is expected to be about US$3 billion. We are defining our Medium-Term Plan until the fiscal year ending March 2018 on the assumption that the option shall be exercised. The key aspect of this plan is the placement of “sensors and actuators,” “energy units,” and “next-generation electronic components” as strategic growth products, aiming for expansion at the cross-points of these product categories with our three priority markets, namely “automotive,” “ICT,” and “industrial equipment and energy.” We are actively pursuing strategic investments with the aim of increasing sales of strategic growth products by ¥100 billion by fiscal 2018. When releasing our financial results for fiscal 2016, we also announced an increase in capital expenditure from the originally budgeted ¥350–¥400 billion to ¥430–¥480 billion, demonstrating the intent to accelerate our strategy.

In fiscal 2016, the first year of the plan, the drop in demand for personal computers and the shift from HDDs to solid state drives (SSDs) proceeded more quickly than anticipated, causing shipments of HDD magnetic heads to fall below our initially planned numbers. However, the slack was taken up by passive components and film application products, resulting in record net sales and a year-on-year increase in operating income of 29%. As for the future, due to our policy of focusing on growth investments for the business structure conversion until fiscal 2017, and also taking into account the influence of a stronger yen as compared to the previous fiscal year, we expect sales and net income to decline in the current fiscal year. From fiscal 2018 onwards, investments in strategic growth products are expected to produce results and lead to profit growth, and for fiscal 2019 we are anticipating a scenario of further expansion in strategic growth products. (For details, please see the section on the Medium-Term Plan on page 20.)

HDD magnetic heads, which so far have been a pillar of our revenue, will continue to face a difficult situation. Along with efforts to improve the company’s profitability by right-sizing and consolidating our own production base, we also will be aiming to transcend conventional frameworks and contribute to the right-sizing of the industry at large. Product services powered by advanced technical capabilities as well as controlled investments are further means by which we intend to ensure profits as a remaining player in the industry.

Expansion plan for strategic growth products

The “four-stage rocket” for sensors and actuators

Among the strategic growth products, our policy for sensors and actuators targets non-optical sensors in general, with magnetic sensors at the center, for which we have drawn a growth scenario that can be likened to the launch of a four-stage rocket.

The first stage is angle sensors, pressure sensors, and humidity sensors for automotive applications. In keeping with the trend towards the increasing electrification of automobile, we will be working towards an expansion of applications as well as the customer base.

The second stage relates to expected consumer product demand. Using advantages such as high accuracy and low power consumption as sales points, we will develop applications for TMR sensors also in the huge B2B2C market. Because sensors in this area will be about 10 times smaller than automotive-use sensors, more sensors can be produced per wafer, which should lead to increased business efficiency.

After pursuing expansion in the first and second stages, the third stage will consist in maximizing the synergy effect with Micronas, as mentioned previously. For automotive sensors, redundancy is normally required, because they may be involved in life-threatening situations. Even if two identical sensors are used, there is still a possibility that both may fail at the same time. This risk can be further minimized by combining a TMR sensor and a Hall sensor in a hybrid configuration. By harnessing ASIC and packaging technology from Micronas as well, we intend to significantly enhance the added value of sensor products.

Finally, the fourth stage consists of modular sensor systems. By offering systems that incorporate multiple parts including the sensor and processor, organized module, transmitter, etc., we will be able to provide customers with even more useful solutions.

In the field of actuators, we are providing optical image stabilizers (OIS) for prevention of camera shake and voice coil motors (VCM) for auto-focusing in camera modules of smartphones. Along with strengthening our sensor offerings, we will harness proprietary and new technologies to develop products with even higher accuracy and lower power consumption.

As the term “energy unit” implies, our policy will be to shift the focus from selling single devices such as lithium polymer batteries (rechargeable batteries) to units that combine hardware and software, offering high added value. By packaging functions such as wireless power transfer, power conversion, energy storage, and energy control together with various sensors, we will aim for expanding the application scope in the area of industrial equipment and automobiles.

Synergy with Qualcomm will be a major driver for growth in next-generation electronic components. Starting with SESUB, IC-embedding technology, thin-film technology, and materials technology will be joining forces to enable a broad portfolio of next-generation electronic components and modules that offer exceptional value. In November 2015, we agreed on the acquisition of the Tsuruoka Factory of Renesas Semiconductor Manufacturing featuring sophisticated clean room facilities to strengthen our production capacity. We intend to position it to play a central role for thin-film products, a product category where demand is expected to grow further.

"Static" attack strategy for increased profitability

Accelerating the cycle of overall corporate activities

In the past, I undertook a project at a factory manufacturing HDD magnetic heads to cut the lead time in half. Thanks to the entire staff of the factory—some 600 people—working together, the goal was achieved in about a year, but there was even an unexpected by product, in so far as the overall business cycle was improved as well. This had wide-ranging effects. First of all, inventory stocking requirements were reduced and production efficiency significantly increased. Samples of new products could also be delivered much quicker. This in turn enabled us to receive customer feedback and requests regarding the sample at an earlier point, so that the development and manufacture of new products overall could move in a faster cycle. By getting cutting-edge products to customers faster, added value was created which eventually resulted in a lower cost rate. This experience is at the root of my current ideas for improving our earnings structure.

The "static" attack concept aimed at improving profitability also involves drastic measures for improving efficiency on the cost side, but only a review of the cost structure will eventually hit a limit, and the organization may become fatigued. On the management level, simply looking at management indexes and waving the flag will not result in thorough structure reform. As I mentioned, my own stance is to involve all production sites and work tenaciously, with both feet on the ground, toward drastic change of the overall earnings structure of TDK. With this in mind, we need a structure and KPIs that make each and every employee realize that putting things into practice is what enables profitability improvement. Taking the different characteristics of functions such as development, manufacture, marketing, and administration, as well as differences in each business division into consideration, I intend to put in place easy-to-understand and practice-oriented KPIs, for example, for production, design, prototyping, assessment lead time, etc. If every member of our organization fulfills their roles on their own volition, the speed of TDK's various business activities as well as cash and information flow will increase naturally, which in turn makes it possible to raise the marginal income ratio. This approach to gradually but fundamentally effect change is somewhat similar to Chinese herbal medicine. It will not bring results overnight but strong and determined efforts change things in a positive direction. Current management targets call for an increase in the operating income ratio and ROE by at least 10% each. Through an improvement in earnings structure and expansion of strategic growth products, I intend to bring about a realization of these targets. But with regard to both, 10% of course is not necessarily enough, and I intend to aim toward higher figures.

Toward creating a "centennial company"

Continuing the challenge in the spirit of the company's founder

TDK's corporate motto, "Contribute to culture and industry through creativity," is an expression that fully reflects the strong and determined spirit of Kenzo Saito, the company's founder. At the time of the company's founding, the special material ferrite that had been invented in Japan was still a totally unknown quantity, so the decision to try and explore its possibilities for industrial use was by no means an easy one. Mr. Saito was motivated by the spirit of originality, aiming to create something of value that had not existed before, and to do so by starting at the fundamental level of the material. He also had the implications for society in mind, and was confident that "where there's a will, there's a way."

I strongly believe that we need to follow these tenets today and in the future as well, as we move towards the 100th anniversary of the company. In 2015, TDK newly formulated its Corporate Vision and TDK Value in order to properly interpret what our corporate motto means in the current age. I feel it is part of my mission to make sure that the message gets across. We always need to deepen our curiosity and creativity, so that we continue to be a company that contributes through technology to solve the challenges that society is facing. The social aspect is also very important in terms of *Monozukuri*. As an enterprise with 90 percent of net sales derived overseas and bases in some 30 countries around the world, we are conducting business in close contact with many different local communities, both in Japan and abroad. Without proper consideration for these communities, the continuity of our business would not be assured. Furthermore, in manufacturing products we use many natural resources. To ensure a stable supply, it is absolutely essential that our way of making things, i.e., our *Monozukuri* culture, is fully oriented toward protection of the environment. For a business to be truly sustainable, it must respect the interests of all its stakeholders.

The most important issue to be addressed by our company in anticipation of the 100th anniversary in 2035 is the recruitment and training of human resources, i.e., the people to put our strategy and plans into action. As the age of IoT arrives, opening up vast new opportunities for us to shine, finding and nurturing a greater variety of human resources is essential. Gender, nationality, or creed are irrelevant when looking for talented staff. What we need are people who have potential and who will take up a challenge. In order to bring out the best in them, I also intend to revise our human resource management and compensation schemes.

As an early adopter and proponent of globalization, TDK is also actively engaged in strengthening its governance structure. Since 2002, we have brought in outside directors. The chairman of the Board of Directors as well as the chairs of the Compensation Advisory Committee and the Nomination Advisory Committee are outside directors. We actively recruit foreign corporate officers. Since 2015, we have had an evaluation of the Board of Directors performed by a third party. And this was not simply a pro-forma exercise. We thoroughly discussed all issues that had been identified and applied the results toward strengthening our governance. Following a recommendation made in the third party assessment, a new finance and accounting officer was appointed to the Board of Directors, commencing duties from fiscal 2017.

In order to continue sustainable development, we are implementing corporate governance code principles to build an effective, practice-oriented governance structure.

Firmly adhering to the company's founding spirit, I intend to continue the challenge to unleash the unlimited potential of TDK in the realm of electronics and magnetism. The continued trust and support of all our stakeholders will enable us to march strongly onwards to become a centennial company.

October 2016

Shigenao Ishiguro
President & Chief Executive Officer

MAGNETICS TECHNOLOGIES

Reflections on the past 10 years, and my gratitude to our stakeholders

Takehiro Kamigama
Chairman

Returning to the essentials of *Monozukuri*

Over the past 10 years, TDK has encountered many difficulties. During the global economic crisis triggered by the Lehman Brothers collapse in September 2008, a swift decline in demand led to the bitter decision for large-scale downsizing. In 2011, our business infrastructure suffered severe damage from the Great East Japan Earthquake and the flooding in Thailand. The yen exchange rate's climb to as high as ¥75 to the U.S. dollar also had a grave impact on revenue. In 2013, a fire accident caused by a TDK humidifier resulted in the loss of precious human life. That prompted intense consideration of our heavy responsibilities as pertains to quality. These shifts in the business environment underscored the weakened state of our *Monozukuri* strength. One major reason for that was the diminished strength of our traditional *Monozukuri* of "integrated production."

In my view, TDK has forged *Monozukuri* through integrated production since its beginnings. We have succeeded in evolving our products by refining materials from the atomic level, effectively preventing their easy duplication. Quality assurance must be implemented from the downstream stage, with the move to integrated production essential in paving the way for rationalization of the manufacturing process. However, with the application of our conventional success model of the horizontal labor division production system for magnetic tapes to electronic components, we lost sight of the optimal production scheme for those components. From the fiscal year ended March 2013, TDK embarked on sweeping structural reform. The focus of the plan was on returning to integrated production. Besides consolidation of domestic manufacturing bases, including the transfer of certain outsourced production back to in-house operations, another phase of the effort was improvements in our global R&D structure with four key bases. This emerged from the thinking that the genuine key to fully realizing integrated production is striving through joint development with our customers to instill thorough knowledge of applications.

After 10 years, we have at last managed to regain the proper stance for integrated production. Today, we are moving toward a higher dimension of *Monozukuri* based on integrated production. This refers to "TDK Industry 4.5," a major reform seeking distinctive "location free" and "zero defect" *Monozukuri*, all part of the mission to lead the world in same quality.

The right road to the 100th anniversary

There are times when our electronic components business earns praise for its high international competitiveness. However, if we insist on becoming a "comprehensive" components manufacturer and decentralize our management resources, there are no guarantees that the competitiveness can be maintained. With 20 years left to our 100th anniversary, I recognized the need to clearly discern the technology needed to retain our competitive edge, and utilize that know-how as the focus for guiding the company's management. I am talking about "magnetics technology." TDK was established in 1935 to commercialize the magnetic material of "ferrite." Ever since, the company's history has been a saga keenly tied to "magnetism." The road ahead must take us on the further quest for magnetic technology, the true DNA of TDK, to shine in business domains mobilizing magnetic technology. Our dream is to establish a position in which the TDK name is synonymous with magnetism. This is something we must go all out to achieve.

Moving forward with magnetism at the core, TDK must zero in on highly advanced growth fields for use in customization and modularization to raise high entry hurdles for our competitors, and establish dominating positions in those markets. Indeed, we are already witnessing new progress in sensors and actuators, energy units, next-generation electronic components and other new businesses that will support TDK in the future. The market environment for HDD magnetic heads, the engine of our revenue growth to date, has become severe. Nevertheless, we must continue to fulfill our responsibilities as the leading independent company in the industry. I am confident that if we move forward from a renewed perspective, with a commanding view of the entire supply chain, we can generate solid profit as a marketplace survivor. On the other hand, in product areas where commodification is rapidly advancing, we must revitalize our approaches. For fields in which TDK is weak or where major investment is required, we must aggressively study the feasibility of collaboration with other companies. Such strategic directions form the thinking behind the corporate acquisitions and mergers carried out from 2015 through 2016.

The "spirit of originality" included in our corporate motto of "Contribute to culture and industry through creativity" is also a quality to regain in moving toward the 100th anniversary of our founding. In 2015, as we celebrated our 80th anniversary, I channeled these sentiments into our new "Corporate Vision" and "TDK Value." Determined to set a positive example, I have personally labored to earn acceptance for these principles throughout the TDK Group.

I felt confident in my definition of the road to be traveled toward our 100th anniversary. Therefore, following discussions this year at the Nomination Advisory Committee, I made the decision to pass the baton of leadership to our new President—Mr. Shigenao Ishiguro. Besides entering my milestone 10th year as President, I also feared that remaining on the job too long would create a climate difficult for those around me to speak their minds. Above all else, however, my conviction that incoming President Ishiguro is a man to whom we can consign the management of TDK with full peace of mind fueled my support of that decision.

Realizing the reputation of "Magnetism = TDK"

Seven years ago, I joined President Ishiguro to inspect a closed factory of magnetic tapes. I remember scolding him at that time: "With your background in magnetic tapes, you are also responsible for the closure of this facility. Now, while our HDD magnetic heads business is still in good shape, you need to consider what comes next." It was from that time that Mr. Ishiguro embarked on the development of magnetic sensors—products in which he truly believed. That wisdom is alive and well today. Based on his strong insights about the next pillars of growth, I am sure that he will pilot TDK ahead with great strength. Therefore, we also decided to appoint President Ishiguro as CEO from the start, empowering him to fully manifest his distinctive speed, energy, and global perspective. I will serve exclusively in a supporting capacity. As chairman of our Board of Directors, I will also exercise governance to keep TDK on the proper path from here on as well.

In closing, I wish to take this occasion to profoundly thank our shareholders, and all our other valuable stakeholders, for your prized patronage over the past 10 years, which included some very difficult times as well. I look forward to your heightened understanding and support for President Ishiguro, as we carry on the quest to truly make the TDK name synonymous with magnetism.

Medium-Term Plan

Starting from fiscal 2016, TDK has enacted the Medium-Term Plan that covers the three-year period to fiscal 2018, and actively targets further enhanced corporate value through sustainable growth. In accordance with its basic policy of fostering collaboration within the group to realize further growth, the TDK Group is pursuing "zero defect quality" based on superior technological competence, and promoting true globalization through swift and efficient management.

POINT 1

Focusing on Five Priority Businesses and New Businesses

The Medium-Term Plan defines a growth strategy for five priority businesses in the three priority markets "Automotive," "ICT," and "Industrial Equipment and Energy," and also shines a spotlight on new businesses.

Increasing automotive sales to 30% of total net sales

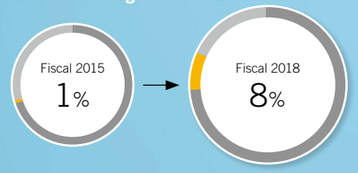
As automobiles rely more and more on electrical and electronic equipment, demand will rise not only for conventional parts such as capacitors and inductors, but also for customized products including magnetic sensors and automotive chargers. The markets for wireless power transfer systems are also on the horizon, which will further stimulate demand. We aim to raise the share of the automotive sector in our total net sales to 30% by fiscal 2018.

POINT 2

New Businesses in Growth Fields

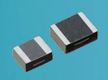
On the strength of our strategic global R&D framework, we are making full use of the rich and varied technological resources that the TDK Group has built up over time. In particular, advanced thin-film technology gained from the development of HDD magnetic heads is being adapted to thin-film components, magnetic sensors, SESUB modules, energy units, and other products. The target figures for these new businesses by fiscal 2018 are sales in excess of ¥100 billion and a sales ratio of 8% of our total net sales.

Sales Ratio Target of New Businesses



Thin-Film Components

Fusion of thin-film technology and materials technology derived from the passive components field enables expanded marketing of new products.



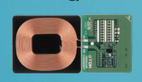
Thin-film power inductor

Thin-film capacitor (TFCP) for embedding in substrate

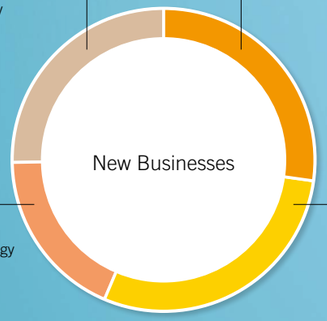
Wearable and Health Care Devices

Expand the sales of power management units utilizing semiconductor embedded substrate (SESUB) technology and miniature module technology.

Semiconductor embedded substrate (SESUB)



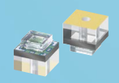
Wireless power transfer coil unit



Sensors for Automobiles and Industrial Equipment

Expand the sales of TMR/GMR sensors and pressure sensors utilizing sophisticated sensing technologies.

TMR sensor



MEMS pressure sensor die

Energy Units for Automobiles and Industrial Equipment

Expand the sales of high-efficiency bidirectional DC-DC converters for renewable energy and wireless power transfer systems for industrial equipment.

Wireless power transmitting and receiving coil unit for wireless power transfer

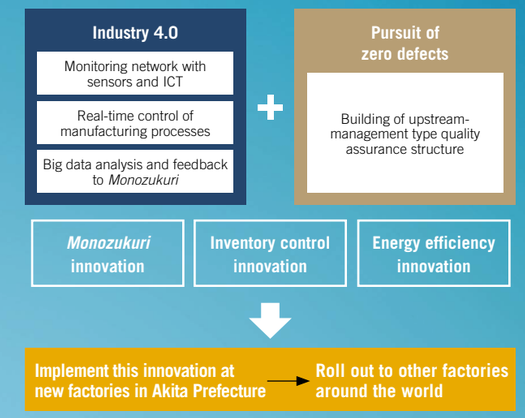
Bidirectional DC-DC converter

POINT 3

Monozukuri Innovation — Zero defect quality based on high technology —

TDK is pursuing a "zero defect quality" policy, based on the "Industry 4.0" concept. This is a collective term for an approach currently being promoted by the German government, aimed at revolutionizing the way things are made, by greatly raising the levels of digitization, automatization, and virtualization. At TDK, we are incorporating "Industry 4.0" concepts such as sensor based monitoring and real-time control of manufacturing processes, and we are combining these with upstream management, narrowed tolerances, and other aspects of our quest for zero defects, leading to TDK's unique *Monozukuri* revolution.

In 2016, we plan to implement these at new factories in Akita Prefecture. Subsequently, the approach will be expanded to other plants and bases around the world, with the aim to achieve "location free," whereby the same quality can be achieved regardless of the actual production location.



POINT 4

Growth Investment and Achieving Management Target in Medium Term

We are actively pursuing facilities investments focused on strategic growth products and existing key products, and we have increased the budget announced in April 2015 by ¥80 billion, to ¥430–¥480 billion. We also have budgeted R&D expenditures at ¥250 billion, an increase of ¥20 billion. These increases both on the investment and the development side will boost our pioneering initiatives in building up various business opportunities.

Returns to shareholders are pursued through the growth of EPS (earnings per share) to achieve a stable increase in dividends. The target for the dividend payout ratio has been set at 30%. We are conducting business with a target of exceeding an operating income ratio of 10% and ROE of 10% by fiscal 2018.

	Total investment over the next 3 years (Medium-Term Plan) Announced in April 2015	Total investment over the next 3 years (Medium-Term Plan) Announced in April 2016
Capital Expenditure	¥350–¥400 billion	¥430–¥480 billion
R&D Investment	About ¥230 billion	About ¥250 billion
Contents of Investment	• Acceleration of strategic growth product expansion • Strengthening of overseas R&D base • Acceleration of existing core businesses expansion • Acceleration of *Monozukuri* Innovation	

Achieving Management Target in Medium Term

Growth Investment	• Investment in new products, new businesses, and M&As • Increase production capacity of existing businesses
Return to Shareholders	• Stabilize or increase dividends through EPS growth • Target a 30% dividend payout ratio

	Fiscal 2016 results	Fiscal 2018 target
Operating Income Ratio	**8.1%**	**Over 10%**
ROE	**9.2%**	**Over 10%**

"Location Free" at New Factories in Akita Prefecture

SPECIAL FEATURE 1

Opening Up the Future with TDK Technology

A Radical Transformation with an Eye to the IoT Market

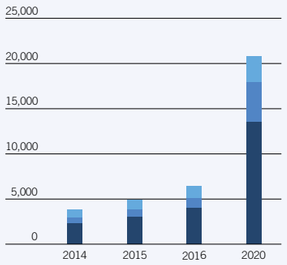
The Internet of Things (IoT) is a structure that offers mutual control through the exchange of information via not only communication equipment, but also automobiles, infrastructure, industrial equipment, and all "things" connected to the Internet. Development of sensor technology designed to accumulate information, such as angles and humidity, on "things," as well as information and communication technology designed to exchange information through the Internet, is picking up steam in the hope that it may be applied to such technology as self-driving cars.

At TDK, we are striving to gain business opportunities in the IoT market by focusing on three priority sectors: "Automotive," "ICT," and "Industrial Equipment and Energy." Technology such as sensors, actuators, and thin-film components are products that exercise the strengths of TDK and will help to usher in future growth. In addition, we are proceeding with development of energy units that combine such features as batteries, power sources, and wireless power transfer systems.

In the approaching age of IoT, TDK aspires to be the company that is society's top choice and is thus pushing forward with bold reforms.

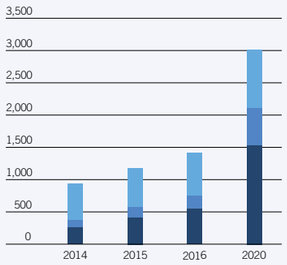
Internet of Things Units Installed Base by Category

Millions of Units



Internet of Things Endpoint Spending by Category

Billions of Dollars



Consumer Business: Cross-Industry Business: Vertical-Specific

Source: Gartner Press Release
"Gartner Says 6.4 Billion Connected "Things" Will Be in Use in 2016, Up 30 Percent From 2015", November 10, 2015 http://www.gartner.com/newsroom/id/3165317
(Created all graphs/charts by TDK on the basis of the Gartner Research.)
Disclaimer: The Gartner Report(s) described herein, (the "Gartner Report(s)") represent(s) research opinion or viewpoints published, as part of a syndicated subscription service, by Gartner, Inc. ("Gartner"), and are not representations of fact. Each Gartner Report speaks as of its original publication date (and not as of the date of this Annual Report) and the opinions expressed in the Gartner Report(s) are subject to change without notice.

FOCUS

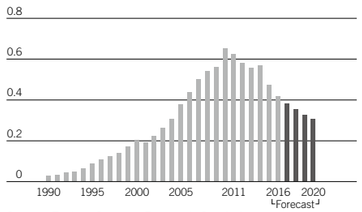
The reason behind such a bold transformation

The drivers of growth for TDK used to be magnetic heads for hard disk drives and electronic components for smartphones, especially high-frequency components. However, the worldwide demand for HDDs peaked in 2010 and the market is showing signs of contracting. The growth in shipping numbers of smartphones is also gradually slowing.

On the other hand, we are devoting more management resources to automotive products. Already more than 40 years ago, TDK took note of the increasing "electrification" of the automobile and expanded its range of products in this area. We are now concentrating on magnetic sensors that will be an important product category, and we also have the configuration of wireless power transfer systems in our sights.

HDD Market Shipments by Year

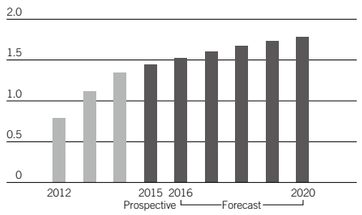
Billions of units



Source: Techno Systems Research Co., Ltd.

Smartphone Market Shipments by Year

Billions of units



Notes: 1. The market size is based on the shipment values at manufacturers.
2. The numerical values of 2015 are prospective and those of 2016 to 2020 are forecast.

Source: Yano Research Institute Ltd.
Global Smartphone Market: Key Research Findings 2015
Released June 23, 2015

Adaptive Strategy Responsive to the Business Environment

Strategy 1 History of withdrawing from non-core businesses

In the past, TDK has successfully implemented strategic withdrawals from non-core businesses in order to optimize its business portfolio. During the previous Medium-Term Plan (fiscal 2012 to fiscal 2015), we terminated operations in areas such as OLED displays, LTO (Linear Tape-Open) media for computers, and Blu-ray discs. This enabled a reorganization of our activities and products. We also closed down or merged some sites both in Japan and overseas, to strengthen our *Monozukuri* power through a return to integrated production. Organizational structures and business processes were streamlined to shorten lead times, and other reform measures were also successfully implemented.

Strategy 2 M&A to accelerate growth and complement products and technologies

With a view toward the IoT market where further growth is expected, TDK aggressively pursued a policy of M&A to complement its own range of products and technologies. For example, aiming to expand our presence in the automotive sensor market, we acquired Micronas, a Swiss manufacturer of Hall sensors. To further energize our SESUB business, we established a cooperative framework with ASE. We also agreed to take over the Tsuruoka Factory of Renesas Semiconductor Manufacturing Co., Ltd. as a production base for thin-film passive components.

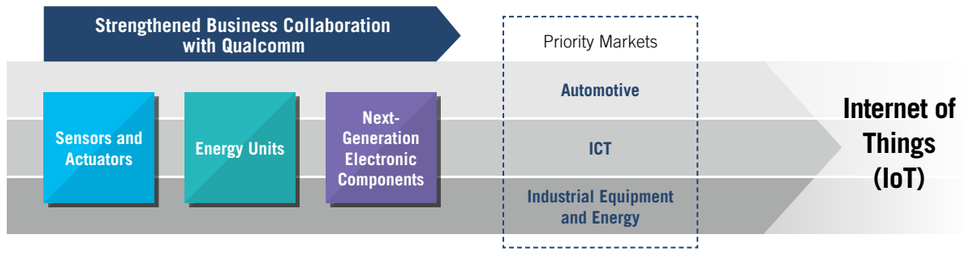
Strategy 3 Business cooperation and joint venture with Qualcomm expected to boost future growth

Of particular importance for TDK's envisioned strong presence on the IoT market is the business alliance with Qualcomm, a global leader in next-generation wireless technology. By expanding cooperation to key technology areas including passive components, batteries, wireless power transfer, sensors, and MEMS, the competitive superiority of both sides is expected to gain a significant boost.

TDK and Qualcomm agreed to establish a joint venture called RF360 Holdings Singapore to supply high-frequency front-end modules and other high-frequency components for use in applications such as mobile devices, IoT products, drones, robots, and automobiles. The aim here is further improved performance and higher integration.

Strategy 4 Remaining an indispensable source in the shrinking market for HDD magnetic heads

We have also taken appropriate measures in the contracting HDD market. For one, we have consolidated the bases for the front-end process from two locations into a single base, and the back-end process in China has also been concentrated and restructured to achieve a reduction in costs. In the Philippines, we have started to manufacture passive components in addition to HDD magnetic heads. With regard to the industry as a whole, we are strengthening vertical collaboration in development and manufacturing, and we are supporting research into leading-edge technology, while promoting horizontal division of labor to avoid overlapping investments and cost increases. Within TDK, significant development efforts are under way, directed at new technology targets such as thermal assisted magnetic heads, two dimensional magnetic recording, and micro DSA.



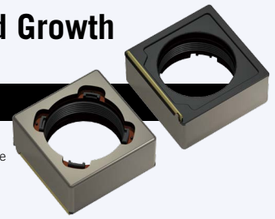
Three Strategic Product Categories to Support Sustained Growth

1 Sensors and Actuators

The magnetic sensors that TDK is focusing on at the moment benefit greatly from thin-film process technology and know-how gained in the HDD magnetic heads sector. The sensors offer high accuracy and dramatically reduced errors, for example, in detecting the steering wheel angle in automobiles, thereby contributing to better fuel economy and lower power requirements. They truly represent the best of magnetics technology perfected over a period of many years.

Starting with automotive applications, we will aim to expand both the scope and our customer base in the magnetic sensor business. Relying on advantages such as high accuracy and low power draw, we plan to explore and develop demand for consumer applications. Integrating TMR elements from TDK and Hall elements from Micronas, we will combine the strengths of both to create sensors with even higher performance. Eventually, these will be offered as modular and system solutions that cover a range of customer needs.

In the field of actuators as well, we will be creating new business opportunities by harnessing proprietary and new technologies to bring products with high accuracy and low power consumption to this market. Optical image stabilizers (OIS) are a strategic growth product mainly used in the camera modules of smartphones to prevent blurry photos. We have established mass production capacities aimed at the Chinese market, and are aiming for further expansion.



Actuator for camera module

Expansion strategy of the magnetic sensors business

Expand automotive TMR sensors business
- Complete development of core product lineup (FY2017)
- Expand application and customer base

↓

Expand business through initiatives to capture demand for consumer applications
- Expand new demand with high-precision, energy-saving characteristics

↓

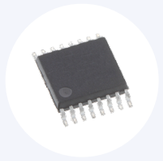
Maximize synergies with Micronas
- Hall and TMR-hybrid sensors for automotive market
- ASIC/ASSP technology development in TDK products

↓

Expand module sensor system business
- Merge sensor assembly technologies
- Expand local business utilizing Chinese production bases

Gear tooth sensor

Position sensor

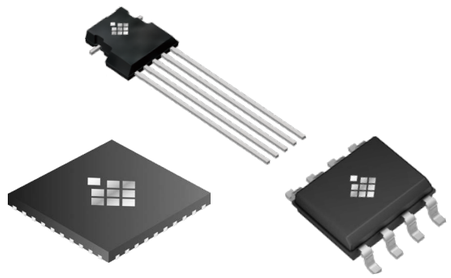


TMR sensor

PICK UP

Micronas and Hall elements

When a magnetic field is applied perpendicular to a flowing current, a force called electromotive force is generated in a direction perpendicular to both the current and the magnetic field. This is called the Hall effect, and an element using this effect to detect a magnetic field is called a Hall element. Micronas, a major Swiss sensor manufacturer also renowned for its circuit design and packaging technology, manufactures Hall sensors used in the power transmissions of automobiles, for engine control, and various other applications. The objective for the future is further business expansion in the automotive sector.



Various sensors developed by Micronas

2 Energy Units

Bidirectional DC-DC converter

An energy unit is defined as a unit that comprises a combination of hardware and software for conversion, storage, and control of electrical energy. TDK plans to combine and link elements that so far have been developed separately, such as DC-DC converters with power conversion functionality, wireless power transfer systems, different types of lithium-ion batteries for storage, and various sensors for energy control applications. With the addition of dedicated software, these will become sophisticated energy units that operate as a system. This is expected to bring a number of advantages, including improved energy efficiency and safety, higher integration, and also lower cost. With regard to automotive inverters, an agreement has been reached with Toshiba Corporation to establish a joint venture.

Energy units will be particularly attractive for the automotive sector and for industrial equipment and energy applications. In the automotive market, vehicles adopting wireless power transfer systems are expected to become practical in the near future, and the number of automated guided vehicles (AGVs) is also expected to grow. In these new areas, we will be offering energy units with sophisticated software technology, destined to become a major pillar of earnings in the future.

DC-DC converter for xEV

Expansion strategy of energy units

"From single products to systems"

Provide units that combine hardware and software with power conversion functions, energy storage functions, and energy control functions

Power Conversion Function
- AC-DC & DC-DC converters • Inverters • Chargers • Bidirectional AC-DC and DC-DC converters (for regenerative energy applications)
- Wireless charging system

Electricity Storage Function
- Industrial lithium-ion batteries • Automotive lithium-ion batteries
- Energy storage system (ESS) lithium-ion batteries
- Electric double layer capacitors (EDLCs)

Energy Management System Function
- Battery management units (BMUs)
- Battery management systems (BMSs)
- Various sensors (Current sensors, Temperature sensors, etc.)

3 Next-Generation Electronic Components

TDK plans to introduce next-generation electronic components and modules through a fusion of SESUB technology, thin-film technology, and materials technology. Moving toward this aim, we have implemented a number of initiatives in fiscal 2016. First, we are taking over the Tsuruoka Factory of Renesas Semiconductor Manufacturing Co., Ltd., a company with extensive experience in automotive products and semiconductor manufacturing processes. The facility will be used as a manufacturing base for thin-film passive components, contributing to expanded production capacity and also providing a technology boost. We also established a joint venture with Taiwan's ASE for the fabrication of semiconductor embedded substrate products utilizing SESUB technology. The target here is expanded orders in the wearable and health care devices sector.

Expansion strategy of next-generation electronic components

Combine SESUB technology, thin-film technology, and materials technology to provide high-value-added products that meet customers' diversifying needs going forward

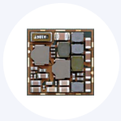
SESUB technology
Thin-film technology
Materials technology

→

Next-generation electronic components
- SESUB
- Compound products
- Thin-film high-frequency filters
- Thin-film capacitors (sheet, discrete)
- MEMS
- Low profile inductors, etc.

IC embedded board

Bluetooth module



Power management unit

MEMS technology

MEMS microphone

MEMS pressure sensor

TDK's Technology Strategy Explained by the CTO (chief technology officer)

Dai Matsuoka
General Manager of Technology HQ (CTO)

The technological building blocks for the conquering of the IoT market are in place. Using a rich arsenal of technology accumulated over a period of 80 years, we will bring value to society.

Strengthening the bond between engineers, along with the outside appeal of technology

TDK is home to some of the best engineering talent around the globe. However, rather than having our engineers work individually on projects, we believe we can energize their potential even further through organization-wide cooperation. This in turn will further enhance the value we provide to customers. One of my roles is acting as a facilitating link for engineers around the world, in order to create various synergy effects. The aim is to establish a framework that fosters innovation and makes it possible to design and offer devices and system solutions of direct merit to the customer.

Until now, former President Kamigama served concurrently as CTO, and the focus of information tended to be more oriented toward a management point of view. I on the other hand intend to convey TDK's competitive superiority from a more technical perspective.

With magnetics technology always at the core of our expertise, we will be enhancing the value provided to customers

TDK's product portfolio has greatly changed in keeping with the times and with customers' needs, and as the age of IoT arrives, there will certainly be further changes. However, we have always maintained continuity in the strong technological basis that supports our operations. In a word, that basis is magnetism. Since the company's inception, we have cultivated magnetics technology, pursuing the characteristics of product materials from the atomic level, achieving the required characteristics through combinations on the order of nanometers.

We also have gained mastery of the art of imparting additives to materials to achieve a targeted functionality, and we possess process technology that enables complete control over thickness or size, again as measured in nanometers. Our arsenal of many different but complementary technologies makes it possible to create just what the customer is seeking. Furthermore, we also develop production equipment in-house to realize mass production of designed products with high quality. This kind of technical resourcefulness is something that companies from emerging countries or other competitors cannot simply copy. We often get requests from customers for next-generation products and are always involved in various research projects aimed at a range of different characteristics.

We therefore believe that by increasing the speed of the cycle from idea to production, we can maximize the value that we provide to customers. To achieve this aim and reduce the distance between the customer and the development base, we are going to establish four new R&D centers around the globe, focused on different product aspects and operating in close proximity to their respective markets.

The founder's spirit inspires engineers to create new things of value

Big strides are currently being made in areas such as sensor technology for obtaining sophisticated information about the state of objects, communication technology for sharing such information, and energy technology for powering them. Other exciting developments as a result of these technologies are automobiles that can drive themselves and wearable devices for health monitoring and management.

TDK is harnessing magnetics technology gained while developing high-precision HDD magnetic heads, along with thin-film technology, sensing technology utilizing fine processing technology, and other advanced methods to create sensors with various characteristics for automotive use, and also for medical and industrial equipment applications. The resulting highly compact and highly capable sensors cannot easily be rivaled by competitors using only standard materials. Within TDK, the building blocks for bringing high added value to the IoT market are in place. Extending to sensors and beyond, we will be creating original high-value-added products for this market.

The pursuit of originality with a strong technological foundation is at the root of all our R&D activities. TDK's founder who formed the company in 1935 to produce ferrite cores believed in creating new products of value with a hands-on approach, and this spirit is still alive in the engineers working here today. I am convinced that this will remain so in the company's future as well.

Next-Generation *Monozukuri*

Building State-of-the-Art Manufacturing Sites to Drive Growth Strategies

In October 2016, TDK completed a building on the site of its Honjo Factory in Akita Prefecture as a new production site for electronic components and a new building at the site of its Inakura Factory in Nikaho City, Akita Prefecture.

Previously, TDK reinforced its business sites in the Akita region as electronic component production sites for global markets, but going forward, we will establish new strategic production sites in Akita to conduct more intensive and efficient production of electronic components as a part of our growth strategy for achieving success in the highly competitive global market. These production sites will encourage the sharing of core technologies, such as magnetic materials technologies, which are part of TDK's DNA, as well as improvements in processes so that we can increase the speed of customer response even further and quickly launch new businesses and new products in the future.

The new plants are also production sites that achieve "TDK Industry 4.5." "Industry 4.0" is a movement promoted through collaboration among German industry, government, and academia with the aim of minimizing costs by greatly raising the levels of digitization, automatization, and virtualization of production processes much higher than those of today.

TDK added "0.5" to this concept to represent the pursuit of zero defect quality based on advanced technological capabilities to create "TDK Industry 4.5," an original TDK initiative. In addition, the two new factories in Akita will support the realization of "location free" production, which will enable TDK to achieve uniform quality on a global level.

▲ Inakura Factory East Site

Location:	4-3 Tateishi Kisakata-machi, Nikaho City, Akita Prefecture, Japan
Floor space:	Approximately 15,000 m²
Building structure:	Two stories in part of the structure
Main business:	Development, design, and manufacture of ferrite materials and ferrite cores
Start of production:	Scheduled for 2016

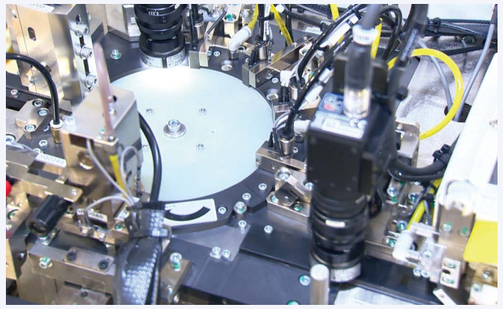
◀ Honjo Factory East Site

Location:	1-6 Manganji, Yurihonjo City, Akita Prefecture, Japan
Floor space:	Approximately 50,000 m²
Building structure:	Two-story building
Main business:	Development, design, and manufacture of high-frequency components, piezoelectric components, and other electronic components
Start of production:	Scheduled for 2016

Features of the New Akita Factories

1 Deploying New Technologies from "Industry 4.0"

Monitoring system networks made up of cameras and sensors in the factories autonomously detect process problems on the manufacturing line in real time and, if a problem occurs, stop the line to prevent products from being released. The system allows for automatic normalization using feedback from analysis conducted through cloud computing. Innovations are also being implemented in inventory management and energy efficiency.



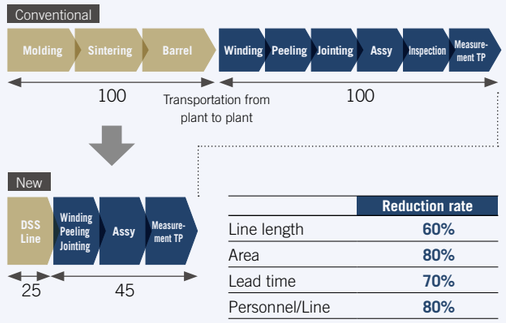
An image of production equipment

2 Achieving Zero Defect Quality through *Monozukuri* Innovation

The key to achieving zero defect quality is establishing upstream control. The aim is to attain zero defect in all areas, including design, materials, processes, and management. To do this, robots and sensors are used, and feedback derived from data is comprehensively applied. Information collected by sensors is utilized as Big data. The information is extensively analyzed and used for temperature, air pressure, and humidity control to link everything for integrated operation.

The use of robots is also important for conducting manufacturing with minimal operations by personnel. This will make it possible to achieve location free production that can maintain uniform quality regardless of the production site. TDK is not simply pursuing full automation or unmanned production but is building ideal lines in all areas, including lead times, production, and logistics, through the optimal placement of people and robots.

Integrated production and location free



	Reduction rate
Line length	60%
Area	80%
Lead time	70%
Personnel/Line	80%

3 Designs for Raising Energy Efficiency

The new buildings were designed to raise energy efficiency through such innovations as storing accumulated snow that falls in the winter to support cold recovery. Solar panels installed on the roof of the Honjo Factory East Site can generate up to 70% of the electric power used for lighting the entire site. In addition, the two buildings were designed with an awareness of creating an employee-friendly environment, such as snow-melting equipment in parking areas and on-site arcades, and the buildings are also expected to play a role as next-generation model environment-adapted factories.

Next-Generation *Monozukuri* for a New Age

Hiroyuki Uemura
Senior Executive Vice President
Electronic Components Business Company CEO,
in charge of Magnet Products

TDK will create a world-leading factory as a platform for state-of-the-art *Monozukuri*

New Akita factories to dramatically change the concept of *Monozukuri*

Strengthening of *Monozukuri* was a major topic for TDK. The concept for the new Akita factories has its roots in the structural reform period that began in fiscal 2012. At the time, the competitiveness of our multilayer ceramic capacitors, which were one of our major products, decreased and the business became unprofitable. This was due to the fact that we were trailing competitors in terms of quality, lead time, and production costs, among other factors. Our factories in the Akita area were aging, and the need to move products between factories at scattered locations was hurting efficiency.

There was discussion whether production should be moved overseas, where costs were more competitive. One possibility would have been to avoid China with its rising labor costs and go to Southeast Asia or a similar location, but we realized that this would eventually lead to a dead end. Furthermore, developments such as the increasing use of electronics in automobiles and the onset of the IoT society are creating a world where electronic components are ever more intricately linked with daily life, and their quality therefore is an increasingly important factor. With the intent to create a vibrant place where the latest techniques could flourish and where products that are competitive in many aspects could be manufactured, construction of two new factories was completed in October 2016.

Giving shape to the "TDK Industry 4.5" concept to realize zero defect quality

The essential ideas behind the "Industry 4.0" concept promoted by the German government in cooperation with industry and academia are the reduction of personnel requirements and lower costs. Making efforts to keep investments of people and capital as low as possible while increasing production efficiency is an approach that does not differ significantly from the direction in which we are headed. But our new plants are adding "0.5" to the equation by aiming to ensure that no defective product is shipped to the customer, thereby providing added value and resulting in "TDK Industry 4.5."

The keywords for creating a framework that does not produce defective goods are "Materials" × "Processes" × "Optimization." In concrete terms, this means that the design already reflects the way the customer's end product will be used, and the material is developed to elevate the quality of the finished product to the ultimate level. Within each process, the conditions for creating a conforming product are clarified and thorough process step design reflecting the methods and intended outcome is harnessed for strengthened quality management. This will enable the realization of zero defect quality.

"Location free" approach to producing the same quality anywhere in the world

Reduction of lead time is also a major factor in creating value for customers. To name one example, the Direct Sintering System (DSS) used in our ferrite production lines results in shorter pressing and firing processes. Stated in simple terms, the ideal is to "insert powder and get a finished coil." We are also increasingly using robots, and we are not limiting ourselves to single-purpose types. Rather, we aim to utilize versatile robots that can perform multiple functions. Combining these efficiently with human labor is the key for increased productivity. By configuring integrated material + product lines, we will be creating a *Monozukuri* paradigm that results in consistent product output that is completely independent of the production location.

SPECIAL FEATURE 3

Boosting Earning Power through Speed

Major Reforms Aimed at Sustainable Growth

In anticipation of the long-term market environment, and with the aim of aggressively expanding the portfolio of strategic growth products for the IoT market and achieving *Monozukuri* reform, TDK is making concerted efforts to speed up development and operations in many areas, including development work to be carried out in close proximity to the customer. We are also aiming for optimization on a global basis by establishing specific KPIs for all processes including sales, manufacturing, and development to enable effective target management. The question of how to turn technological superiority into revenue used to be a challenge for TDK. We are currently building an optimized framework designed for higher profitability to enhance our competitive edge in the electronic components sector worldwide.

1 Speeding Up the Business Cycle through KPI-based Target Management

Sales

Important indicators
- Accounts receivable turnover
- Information network utilization count

etc.

Manufacturing

Important indicators
- Shortening of lead time
- Cost management
- Manufacturing process review
- Optimal inventory management
- Information utilization count

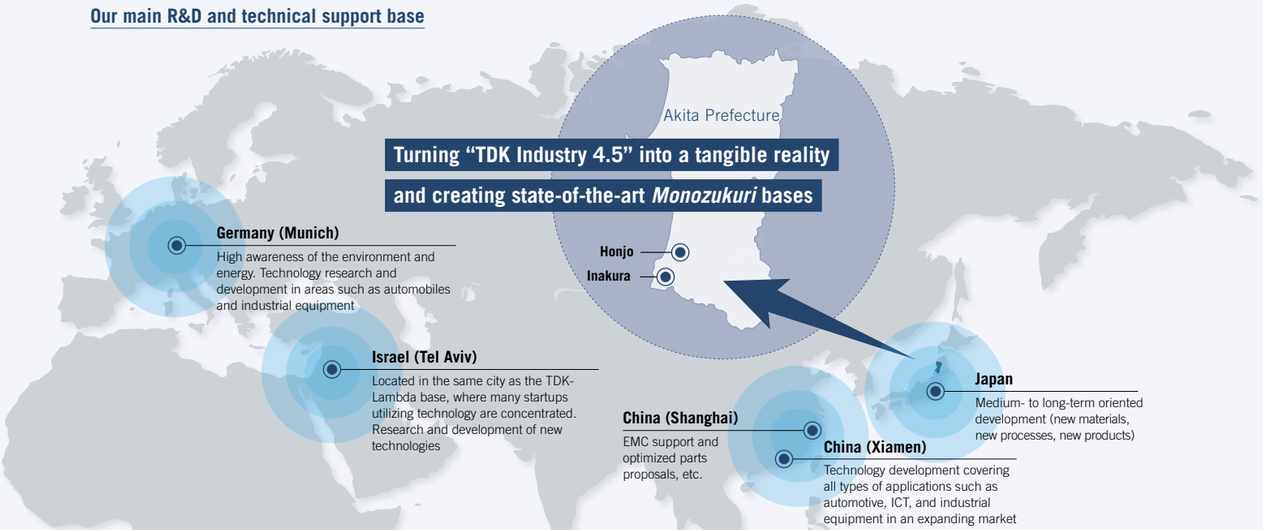
etc.

Development

Important indicators
- Number of R&D themes
- Number of patents
- Number of submitted sample prototypes to customers
- Citations of technologies or products, including newspaper articles

etc.

Our main R&D and technical support base



2 “TDK Industry 4.5” to Speed Up the *Monozukuri* Cycle

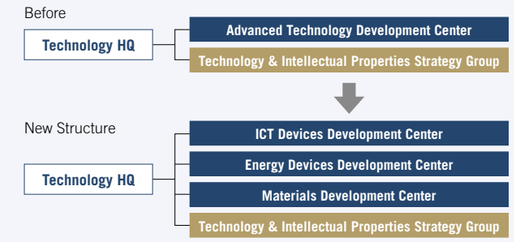
TDK, while pursuing value for its customers, is of course a business operation. Being able to provide customers with a stable supply of high-quality products is important, but having to keep a large inventory is not a desirable situation. In order to increase the speed of inventory turnover, it is essential to create a framework for getting manufactured products to the customer without delay.

“TDK Industry 4.5” is a revolutionary concept intended to solve such issues. Reducing the lead time of products is a key factor for increasing productivity. With the *Monozukuri* approach, an optimized inventory makes it possible to build a highly effective framework that keeps manufacturing processes as short as possible. This will speed up the overall business cycle and determine how quickly we are able to supply the customer with products. Establishing such a framework is a major step toward the intended increase in profitability.

At two new factories in Akita Prefecture, production lines with extremely short lead times are being introduced which will transform the *Monozukuri* process. In order to be successful, many modifications and improvements must come together. TDK intends to turn “TDK Industry 4.5” into a tangible reality without delay to gain the trust of customers.

3 Accelerating the Development Cycle to Bring New Products to Market Faster

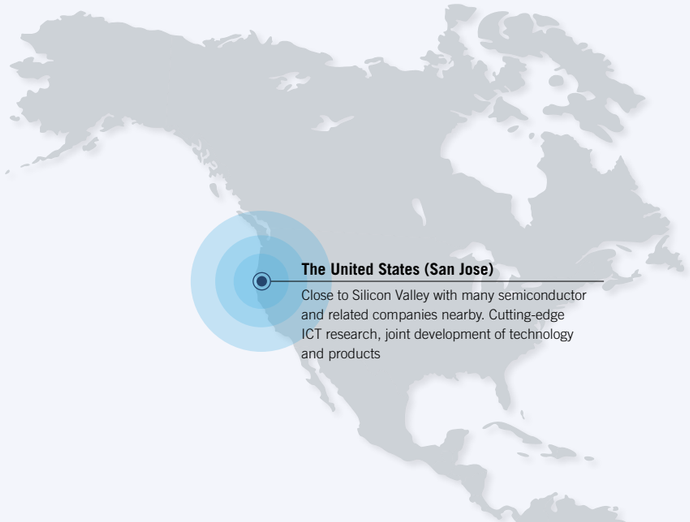
We believe that a sense of speed is important in developing products and bringing them to the market-ready stage. In November 2014, the Technology HQ opened the ICT Devices Development Center tasked with developing high-frequency components and similar products for smartphones, and the Energy Devices Development Center for power-related products intended for automobiles, industrial equipment, and the like. The new facilities are contributing to increased development speed in their respective areas. Furthermore, the newly established Materials Development Center is conducting long-term intensive research aimed at the development of new materials and bringing out the properties of materials.



Development is now structured into three centers, for enhanced specialization

4 R&D at Global Bases Taking Advantage of Different Regional Characteristics

The requirements of customers for electronic components differ greatly depending on the location. In some areas, the pursuit of cutting-edge technology is a top priority, while customers in other areas are more interested in stable supply and available quantities. TDK has established R&D bases in various parts of the globe and is carrying out R&D activities that are matched to local conditions. We rapidly develop new technologies where customers need them, thereby shortening the time until delivery. At the same time, our sales staff is also in close contact with customers, working together with the R&D side to identify emerging needs as early as possible and provide input and feedback. In Japan, research with a medium- and long-term perspective is being carried out, aimed at new structures and new processes that will benefit the entire TDK Group.



Now that TDK's growth strategy has made its way toward the transformative phase, we are going to apply our finance and capital strategies toward giving that growth strategy a formidable push.

Tetsuji Yamanishi
Director
Corporate Officer
General Manager of
Finance & Accounting Group

Belief as director

Fulfilling duties based on the dual aspects of "setting the stage for dynamic attack strategy" and "practicing restraint"

One of my duties as I perceive them is setting the stage for various "dynamic attacking" measures by TDK that steer us in the direction of our growth strategy through such means as verifying investment recovery plans and procuring capital. At the same time, my approach is to look squarely at the act of voluntarily assuming risk amid growing levels of uncertainty, carefully verify the nature of our businesses, and make sure to apply the brakes when reaching the conclusion that we should come to a halt. There are a considerable number of TDK shareholders and investors who expect that our corporate value will grow over the long term. Over time, I have taken the liberty of reflecting the valuable feedback that they have imparted to us in our various strategies. Going forward as well, I intend to continue viewing the act of keeping a dialogue with our shareholders and investors as a key role of mine, listening earnestly to what they say and tying their opinions into the growth of our corporate value.

Finance strategy during business structure transformative phase

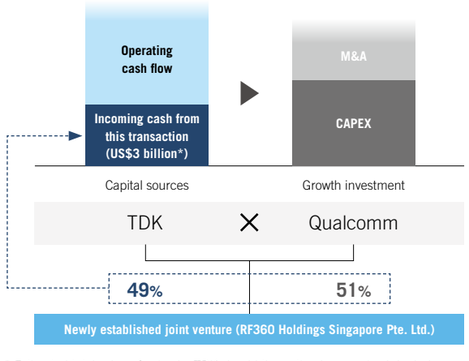
Allocating management resources to new growth fields with a view to sustainable growth

Under our Medium-Term Plan (from the fiscal year ended March 2016 to the fiscal year ending March 2018; see pages 20–21 for details), we are aggressively conducting growth investment that includes between ¥430 billion and ¥480 billion in planned capital expenditure and approximately ¥250 billion in planned research and development expenses. The size of this investment is the amount we anticipate to be necessary in order to achieve an operating income ratio of over 10%, one of our medium-term management targets, without sacrificing our operating income ratio in the immediate term.

Originally, TDK did not undergo any major changes in its business domains. Apart from the case of EPCOS Group, which we acquired in 2008, by and large we kept all the investments that we made, M&As or otherwise, within the limits of our operating cash flow. Conversely, given the large-scale rearrangement of our business structure that we are currently advancing, TDK's policy today is to fund our investments not only through our operating cash flow but also by taking cash that we will acquire through the transfer of our high-frequency components business to Qualcomm and allocate it to our growth businesses.

TDK has the option of selling 49% of its stake in the joint venture that it has with Qualcomm 30 months after the date on which we concluded our agreement with that company. Should this right be exercised, we anticipate that the total value of the resulting gains to us will come to approximately US$3 billion in the end. Based on this, we are in the process of conducting certain investments, such as the corporate acquisition of Micronas, and capital expenditure ahead of schedule to elevate our management speed.

Growth Investment and Capital Sources



* Estimated total value of gains by TDK should the option be exercised. Includes payment upon conclusion of the agreement between TDK and Qualcomm, agreements concerning the sale of high-frequency filters by the JV and mutual cooperation between Qualcomm, QTI, and TDK, and future additional payments to be made to TDK, such as the exercise price of the option.

Optimum capital structure for realizing our long-term strategies

Designing our capital structure while keeping sustainable and stable investment in mind

In the electronic components industry where we base ourselves, the rate of technological innovation is extremely rapid. Additionally, the industry is affected by currency exchange rates and other market conditions, as well as macro-environmental shifts. In order to sustainably elevate our competitiveness amid such a situation, we need to continually make growth investments, particularly those in new products and technologies within key fields, based on long-term prospects. For that reason, TDK designs both its growth strategy and its optimum capital structure around a long-term timeline. Based on the idea that a certain degree of solidity in our shareholders' equity is absolutely necessary in order for us to make stable research and development investments and capital expenditure even as our business performance fluctuates in the short term, we seek to continue maintaining a shareholders' equity ratio in the range of 50%. At present, we are aggressively conducting advance investment in our leading businesses while implementing a structural rearrangement on a business level. For that reason, our debt-to-equity ratio following the resulting increase in the procurement of funds through borrowings reached approximately 0.5 in fiscal 2016. However, our policy is to build a formidable financial constitution over the medium to long term by both expanding the earnings of our existing businesses and ensuring returns on our M&As and other investments.

With regard to dividends, we have set a dividend payout ratio target of 30%. As we endeavor to steadily increase dividends through growth in profit per share, we also recognize the acquisition of treasury stock as one of our policies for returning profits to shareholders. We intend to meet the expectations of shareholders who have supported our long-term strategies.

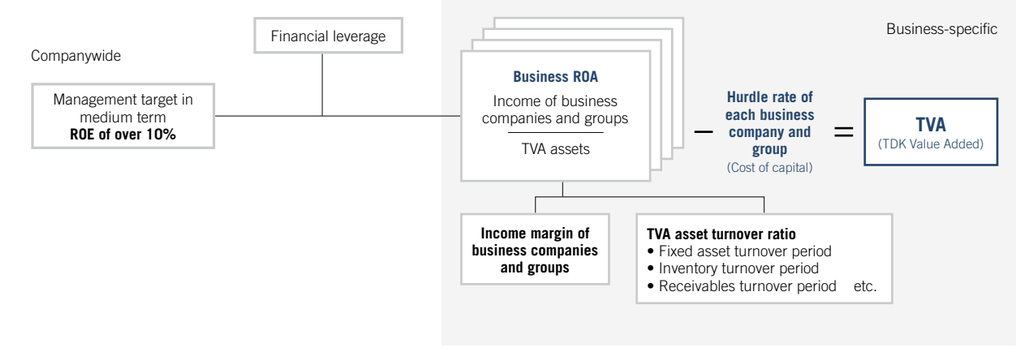
Improving capital efficiency in tandem with control indicators

Managing and controlling "Business ROA" as a KPI and realizing improved ROE

In formulating our Medium-Term Plan, after affirming our awareness of the cost of capital, TDK set its ROE target value at "over 10%." To ensure that we realize improved capital efficiency going forward, we manage control indicators in tandem with ROE that can serve as targets under the business activities of each business group that are responsible for generating earnings.

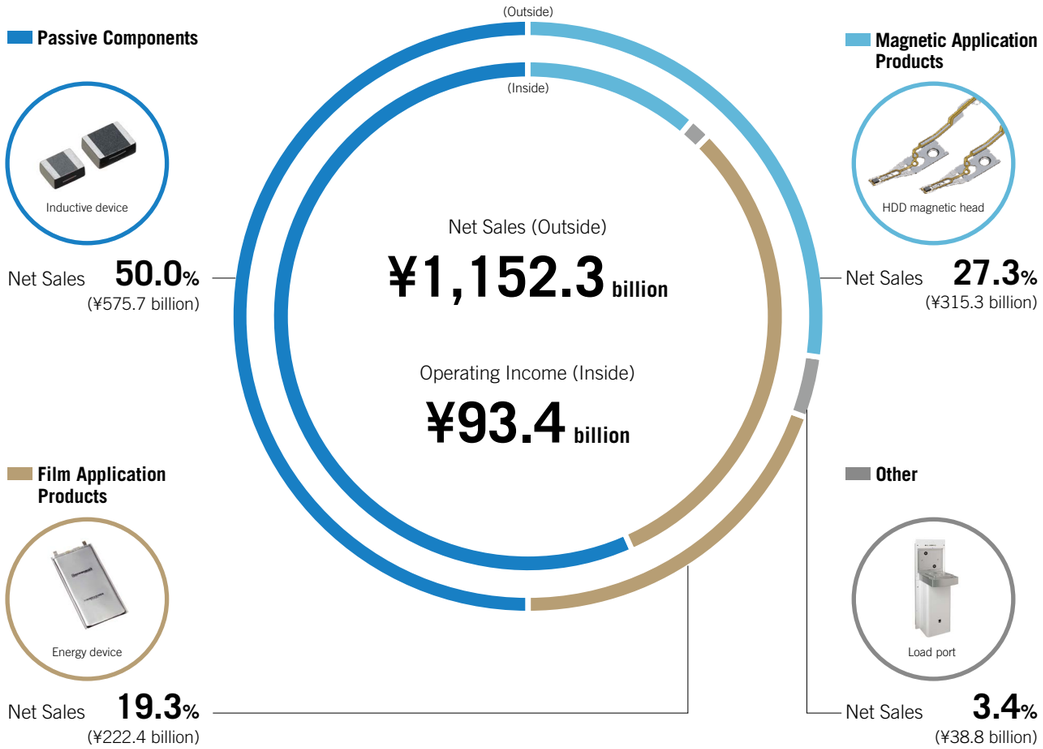
Starting in 1999, TDK set forth an indicator that we call "TVA," or "TDK Value-Added." This indicator serves to compare return (income margin before interest and after taxes) versus the cost of capital (shareholders' equity plus interest-bearing liabilities). From there, we controlled that indicator on a companywide level while remaining mindful of the cost of capital. TVA has also served as the basis for computations of discount cash flow versus capital expenditure, terms of ROI when conducting M&As, and so forth. As an indicator, however, TVA was difficult to manage on a business level due largely to the fact that the concept of "capital" does not tie into business departments directly. As such, under our existing plan, we have elected to manage and control "Business ROA" as a KPI instead. Business ROA represents our profit margin versus inventory, fixed assets, and other assets under each business, which we collectively call "TVA assets." Subtracting the cost of capital from Business ROA yields the added value generated by each business, or TVA. In other words, under this system, pursuing inventory turnover periods, accounts receivable collection periods, and other relatively familiar indicators along with operating income and investment profit ratios causes capital efficiency across our entire organization to go up even without our people on the front lines being directly mindful of ROE. Going forward as well, we will bring together the total capability of the TDK Group and strive to achieve improved Business ROA, and we intend to gradually elevate our companywide ROE by realizing the maximization of the added value of each business.

Companywide and Business-specific Control Indicators



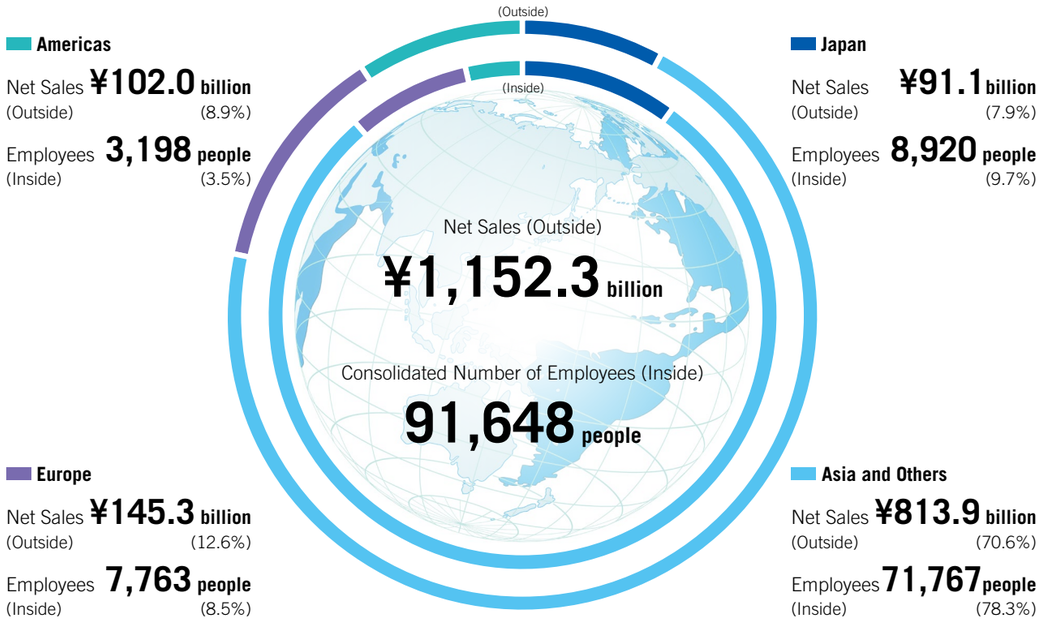
Sales by Segment

TDK is harnessing its proprietary core technologies and *Monozukuri* power, creating innovative products in areas such as passive components, magnetic application products, film application products, and other.



High Level of Globalization

The TDK Group is active in over 30 countries and regions all over the globe, selecting suitable bases for plants, research facilities, and sales offices under the viewpoints of marketability, product range, distribution, etc. TDK has 129 consolidated subsidiaries, including 14 domestic consolidated subsidiaries and 115 overseas consolidated subsidiaries, and employs a total workforce of 91,648 people.



Passive Components

The passive components segment is TDK's mainstay, generating about half of its total net sales. The segment includes the capacitors business, comprising ceramic capacitors, aluminum electrolytic capacitors, and film capacitors, the inductive devices business with coils, etc., and other passive components including high-frequency components, piezoelectric material components, circuit protection devices, and sensors. As mobile devices become more powerful and incorporate a variety of functions, and as automobiles rely ever more heavily on electrical and electronic equipment, the demand for passive components continues to expand, a trend that is expected to remain strong.

Magnetic Application Products

TDK's magnetic application products segment mainly comprises HDD magnetic heads, a field where we hold high worldwide market share. The segment is divided into the recording devices business, comprising HDD magnetic heads and HDD suspensions, and the other magnetic application products business including power supplies and magnets. HDD magnetic heads handle the task of writing information to the magnetic media and reading the recorded information. Our mastery of thin-film process technology on the nanometer level has brought about an amazing increase in storage capacity. High-efficiency power supplies incorporating outstanding ferrite and transformer technology, and high-performance magnets also contribute significantly to the conservation of power and resources.

Film Application Products

The film application products segment covers energy devices such as rechargeable batteries primarily for smartphones, tablets, notebook PCs and other ICT devices, and similar applications.

Other

Products that are not part of the three major segments, such as mechatronics (production equipment), anechoic chambers, and flash memory applied devices, are grouped into this category.

Toward Genuine Globalization

Building Value with Our Global Partners

The TDK Group consists of numerous Group companies conducting business around the world. Group subsidiaries hire exceptional human resources without regard for nationality, race, gender, or other attributes, and some 72% have non-Japanese presidents. In fiscal 2016, overseas sales accounted for 92.1% of the TDK Group's total, and 86.3% of products were manufactured overseas. Thus, overseas production and sales are now a common feature of TDK's business. At the same time, we carry out risk countermeasures in each region in response to effects from changes in the global macro-environment and work to control those risks to the greatest extent possible.


EPCOS Group (Germany)


Headway Technologies (USA)


TDK Xiamen (China)


Technical Center (Japan)

Consolidated Business Results Highlights

Years ended March 31

Millions of yen

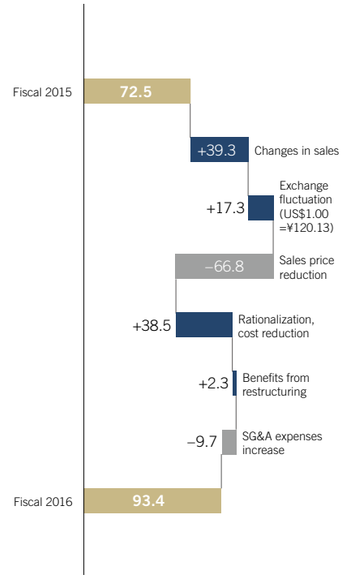
Consolidated Business Highlights	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Net sales	¥ 795,180	¥ 862,025	¥ 866,285	¥ 727,400	¥ 792,624	¥ 862,492	¥ 802,534	¥ 841,847	¥ 984,525	¥1,082,560	**¥1,152,255**
(Overseas sales)	621,522	690,673	714,172	610,944	704,874	764,807	702,469	747,062	890,520	989,348	**1,061,203**
Cost of sales	585,780	622,819	635,529	605,943	604,454	645,514	624,271	668,258	763,572	802,225	**831,123**
Selling, general and administrative expenses	148,877	159,616	143,581	175,762	158,727	149,114	157,724	151,535	184,337	207,876	**227,718**
Operating income (loss)	60,523	79,590	87,175	(54,305)	29,443	67,864	20,539	22,054	36,616	72,459	**93,414**
Income (loss) before income taxes		88,665	91,505	(81,630)						74,517	**91,839**
Income (loss) from continuing operations before income taxes	66,103				25,576	64,519	14,668	19,765	39,772		
Net income (loss) attributable to TDK	44,101	70,125	71,461	(63,160)	13,520	45,264	(2,454)	1,195	16,288	49,440	**64,828**
Capital expenditures	73,911	70,440	84,312	98,425	64,370	78,638	99,653	85,606	68,606	102,525	**160,674**
Depreciation and amortization	58,540	65,337	71,297	89,567	83,788	77,594	80,197	77,938	83,109	80,249	**83,224**
R&D expenses	45,528	50,058	57,387	57,645	53,942	52,973	52,551	53,943	63,385	70,644	**84,920**
Ratio of overseas production to net sales (%)	61.7	62.2	70.1	74.0	80.5	83.6	80.2	81.8	86.7	87.9	**86.3**
Net cash provided by operating activities	89,118	145,483	119,413	59,189	118,247	101,879	55,334	108,942	127,308	142,850	**151,563**
Net cash used in investing activities	(104,782)	(81,488)	(141,892)	(275,410)	(105,963)	(61,341)	(29,898)	(90,156)	(55,438)	(127,312)	**(140,585)**
Net cash provided by (used in) financing activities	(7,125)	(15,862)	(75,941)	223,637	(38,369)	(31,860)	12,929	4,395	(56,118)	(35,243)	**29,305**
Cash and cash equivalents, end of year	239,017	289,169	166,105	165,705	132,984	129,091	167,015	213,687	250,848	265,104	**285,468**
Total assets	923,503	989,304	935,533	1,101,036	1,091,458	1,060,853	1,072,829	1,169,642	1,239,589	1,404,282	**1,450,585**
Stockholders' equity	702,419	762,712	716,577	554,218	543,756	534,273	498,159	561,169	635,327	738,861	**675,361**
Working capital	397,131	449,830	300,859	281,536	286,370	199,186	219,918	232,693	279,504	352,364	**289,760**
Number of shares issued (thousands)	133,190	133,190	129,591	129,591	129,591	129,591	129,591	129,591	129,591	129,591	**129,591**
Per Share Data											Yen
Net income (loss) attributable to TDK (Basic)	¥333.50	¥529.88	¥551.72	¥(489.71)	¥104.82	¥350.90	¥(19.06)	¥ 9.50	¥129.47	¥392.78	**¥514.23**
Net assets	5,311	5,759	5,557	4,297	4,215	4,142	3,957	4,461	5,050	5,865	**5,355**
Dividends	90.00	110.00	130.00	130.00	60.00	80.00	80.00	70.00	70.00	90.00	**120.00**
Payout ratio (%)	27.0	20.8	23.4	—	57.2	22.8	—	737.2	54.1	22.9	**23.3**
Key Financial Ratios											
Overseas sales ratio (%)	78.2	80.1	82.4	84.0	88.9	88.7	89.8	88.7	90.5	91.4	**92.1**
SG&A ratio (%)	18.7	18.5	16.6	24.2	20.0	17.3	19.6	18.0	18.7	19.2	**19.8**
Operating income ratio (%)	7.6	9.2	10.1	(7.5)	3.7	7.9	2.6	2.6	3.7	6.7	**8.1**
ROE (%)	6.6	9.6	9.7	(9.9)	2.5	8.4	(0.5)	0.2	2.7	7.2	**9.2**
ROA (%)	5.1	7.3	7.4	(6.2)	1.2	4.2	(0.2)	0.1	1.4	3.7	**4.5**
Non-Financial Indicators											
Number of employees	53,923	51,614	60,212	66,429	80,590	87,809	79,175	79,863	83,581	88,076	**91,648**
Overseas employees ratio (%)	81.1	80.1	82.8	84.1	87.2	88.5	87.4	88.2	89.1	89.8	**90.3**
CO_2 emissions in production activities (t-CO_2)	874,996	857,213	926,695	909,747	878,303	1,095,462	1,109,926	1,102,989	1,190,458	1,269,086	**1,474,119**
CO_2 emissions reduction in manufacturing (t-CO_2)							321,000	498,000	886,000	1,251,000	**1,580,000**

Notes:

1. In accordance with the provisions of ASC No. 205-20, "Presentation of Financial Statements–Discontinued Operations," operating results relating to the data tape business and the blu-ray business are separately presented as discontinued operations in the consolidated statements of operations for the year ended March 31, 2014. Also, reclassifications are made to the consolidated statements of operations after the year ended March 31, 2010, to conform to the presentation used for the year ended March 31, 2014.
2. Because the TDK Environmental Action 2020 Plan came into effect from fiscal 2011, the "CO_2 emissions through products (environmental contributions) (t-CO_2)" figures are for fiscal 2012 onwards.

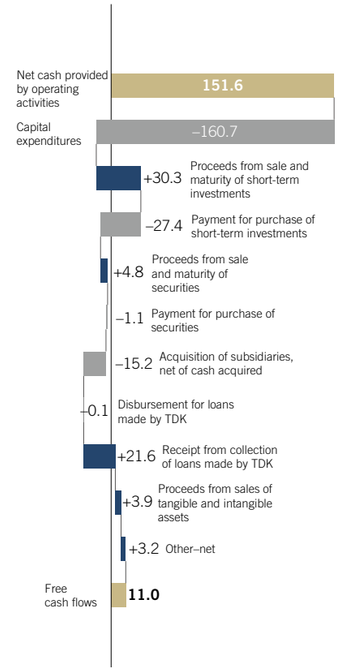
Breakdown of Operating Income Changes

Billions of yen



Breakdown of Free Cash Flows

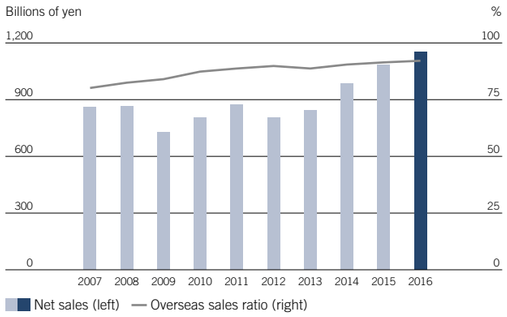
Billions of yen



Business Trends

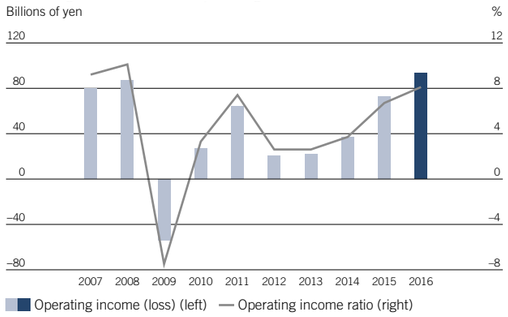
Years ended March 31

Net Sales / Overseas Sales Ratio



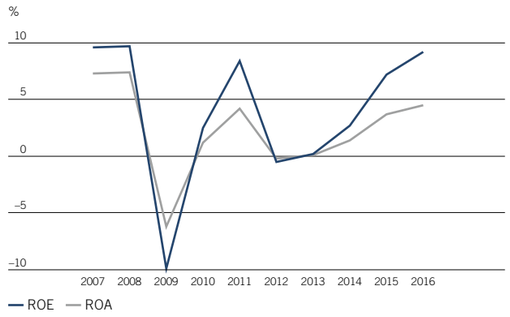
Sales of products for smartphones in the Chinese market and for automobiles in the North American market were strong, and net sales in fiscal 2016 reached ¥1,152.3 billion, a new record high. The overseas sales ratio has increased over the past 10 years, particularly in the United States and Asia; in fiscal 2016, sales outside Japan accounted for 92.1% of total net sales.

Operating Income (Loss) / Operating Income Ratio



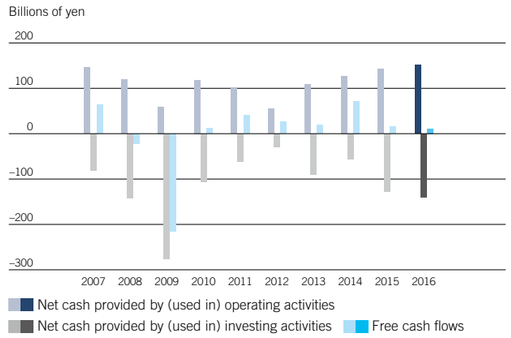
As a result of structural reforms implemented continuously from fiscal 2012, a profit structure with a good balance among the three main segments has been solidly established. In fiscal 2016, operating income was up 28.9% year on year, to ¥93.4 billion, and the operating income ratio increased 1.4 percentage points, to 8.1%.

ROE / ROA



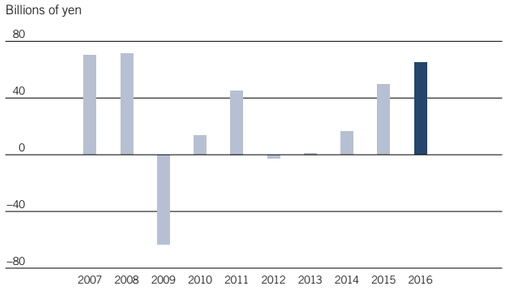
ROE declined sharply in fiscal 2009 as a result of the global economic downturn. But after the implementation of structural reforms, ROE has improved as a result of higher net income and other factors. TDK has set a target for ROE of 10% or more in fiscal 2018 and is working steadily toward achieving this goal.

Cash Flows



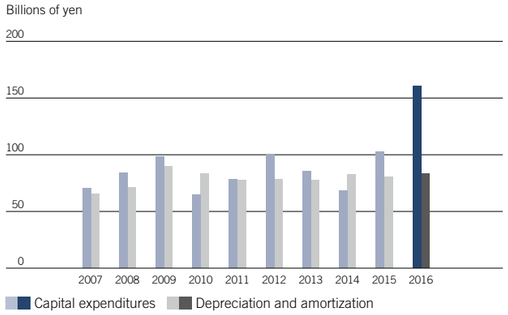
By increasing cash flows from operating activities while making active capital investments, we have maintained positive free cash flows. Free cash flows were positive even in fiscal 2016, when the Group executed large-scale M&A.

Net Income (Loss) Attributable to TDK



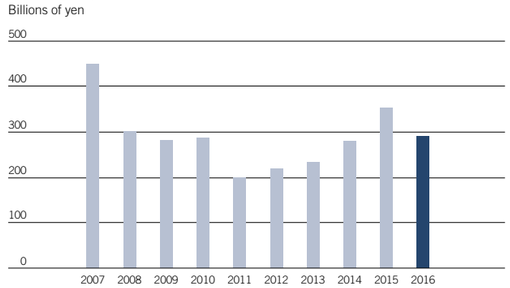
Performance was sluggish from fiscal 2009 due to poor demand for electronic components during the simultaneous slowdown of the world economy, the impact of the Great East Japan Earthquake, and other factors. But after structural reforms were implemented from fiscal 2012, results drastically improved, and net income in fiscal 2016 reached ¥64.8 billion, up 31.1% year on year.

Capital Expenditures / Depreciation and Amortization



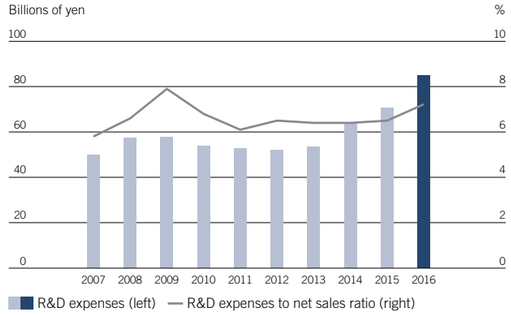
It is essential that we respond to rapid technological innovation in electronics markets and continuously make capital investments to create new products and develop new technologies. In fiscal 2016, TDK conducted active capital investment to further reinforce its position.

Working Capital



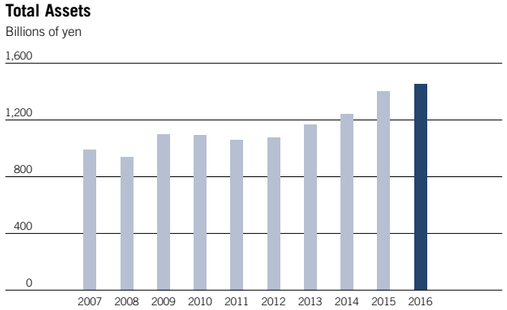
The Group's operating capital was expended primarily for the acquisition of raw materials and components used in manufacturing products, and these expenditures are reported as manufacturing expenses. Necessary capital is provided by funds generated from operating activities; working capital in fiscal 2016 was ¥289.8 billion.

R&D Expenses / R&D Expenses to Net Sales Ratio



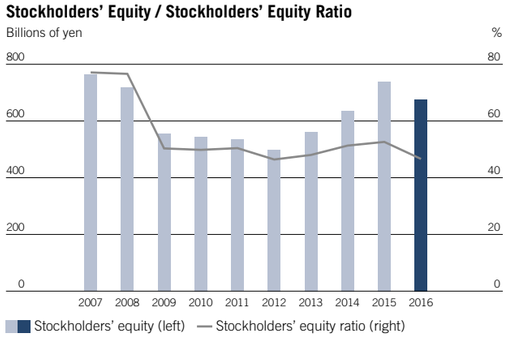
TDK has invested over ¥50 billion in research and development each year since fiscal 2007 so that it can respond to rapid technological innovation in electronics markets and maintain high competitiveness. Going forward, we will continue to actively invest in the development of new technology and further reinforce our R&D structures.

Total Assets



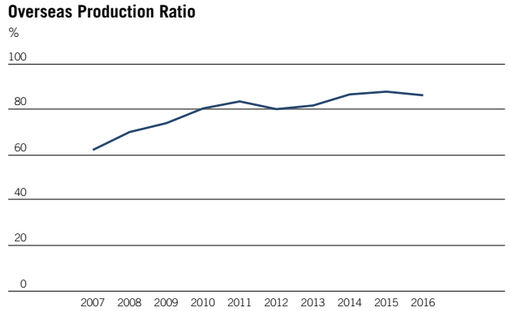
Total assets were up sharply as a result of the acquisition of EPCOS AG in fiscal 2009. Total assets have been gradually increasing since fiscal 2011 as a result of higher tangible fixed assets and investment. In fiscal 2016, total assets reached ¥1,450.6 billion, up 3.3% year on year.

Stockholders' Equity / Stockholders' Equity Ratio



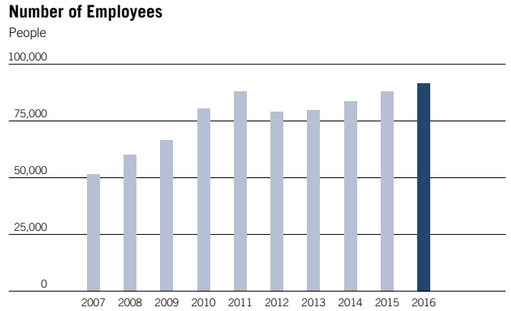
Stockholders' equity and the stockholders' equity ratio have been gradually increasing in recent years, although both figures declined due to the acquisition of EPCOS AG. There were also effects from goodwill depreciation arising from active mergers and acquisitions. As a result, stockholders' equity in fiscal 2016 was ¥675.4 billion, down 8.6% year on year.

Overseas Production Ratio



Compared with fiscal 2007, the overseas production ratio in fiscal 2016 was up 20 percentage points, reaching 86.3%. TDK seeks to establish location-free production systems and is working to establish the ability to supply products with the same high quality from any overseas location.

Number of Employees



Although the number of employees showed an upward trend after the acquisition of EPCOS AG, TDK worked to streamline the workforce during the period of structural reforms undertaken from fiscal 2012. Starting in fiscal 2016, the first year of the Medium-Term Plan, TDK has been increasing personnel in order to bolster competitiveness.

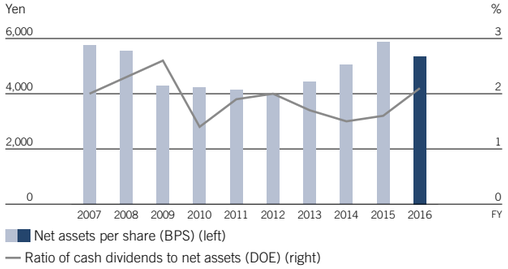
Basic Policy and Prospects for Profit Distribution

TDK's basic policy with regard to dividends is a stable increase through growth in profit per share, based on the understanding that long-term expansion of corporate value is the way to expand value to shareholders. In order to respond to rapid technological innovation in the electronics market, TDK aggressively invests for growth mainly in the priority areas of new products and new technologies. The aim is to further increase corporate value in the long term. We aggressively reinvest profits in business activities, and then base our dividends on a comprehensive evaluation, taking into account consolidated base return on equity (ROE) and dividend on equity (DOE) standards as well as changes to the business environment.

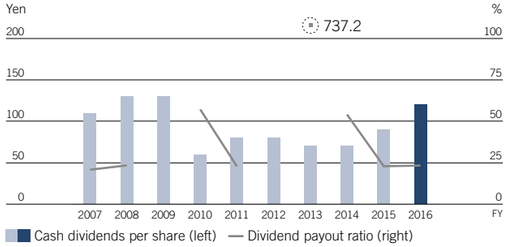
For fiscal 2016, the yearly dividend amounted to ¥120 per common share. Consequently, the dividend payout ratio was 23.3% and the ratio of dividends to stockholders' equity was 2.1%.

For the next term, an interim dividend of ¥60 and a year-end dividend of ¥60 are planned, resulting in an expected yearly dividend of ¥120 per common share.

Net Assets per Share (BPS) / Ratio of Cash Dividends to Net Assets (DOE)



Cash Dividends per Share / Dividend Payout Ratio



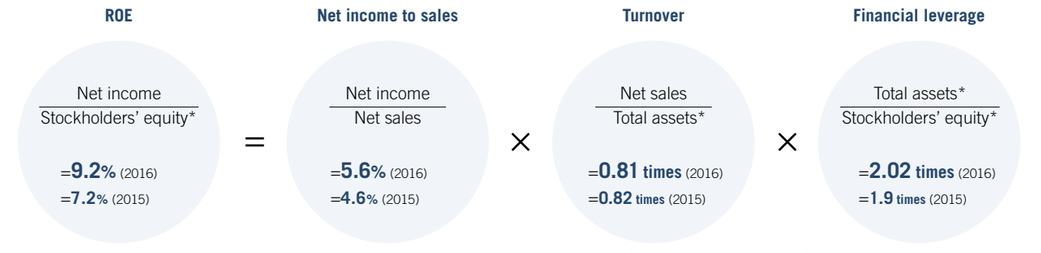
Note: Since the fiscal years 2009 and 2012 recorded a net loss, the dividend payout ratio cannot be calculated. However, a yearly dividend of 130 yen per common share was paid in fiscal 2009 and 80 yen in fiscal 2012.

Strategy for Increasing ROE

The Ito Report released by the Ministry of Economy, Trade and Industry in August 2014 indicated the importance of striving for ROE that exceeds capital costs, raising motivation by incorporating ROE into worksite management indicators, and seeking to increase ROE over the medium to long term.

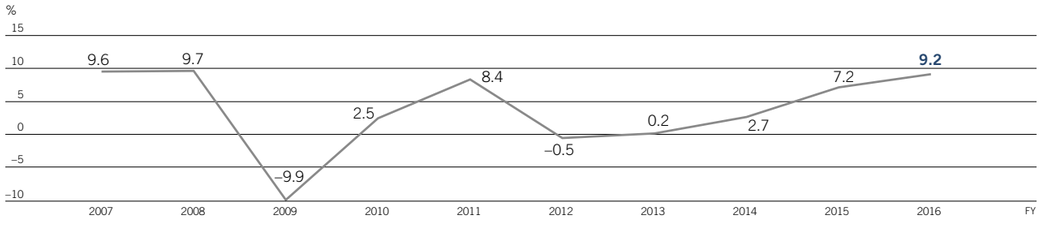
TDK conducts management with an emphasis on ROE which is a global investment criterion. In fiscal 2016, ROE was 9.2%, up 2 percentage points over fiscal 2015. TDK is currently conducting business with a target of achieving ROE of over 10% in fiscal 2018.

Comparison of ROE decomposition element (2016 vs. 2015)



* Calculated based on the average from the beginning to the end of the period

ROE Trend



Key Points for Increasing ROE

POINT 1 Raise Net Income

TDK is working to expand sales of high-added-value products. TDK is focusing on high-added-value strategic growth products (sensors and actuators, energy units, next-generation electronic components) in three priority markets—automotive, ICT, and industrial equipment and energy—to raise profitability.

POINT 2 Improve Turnover

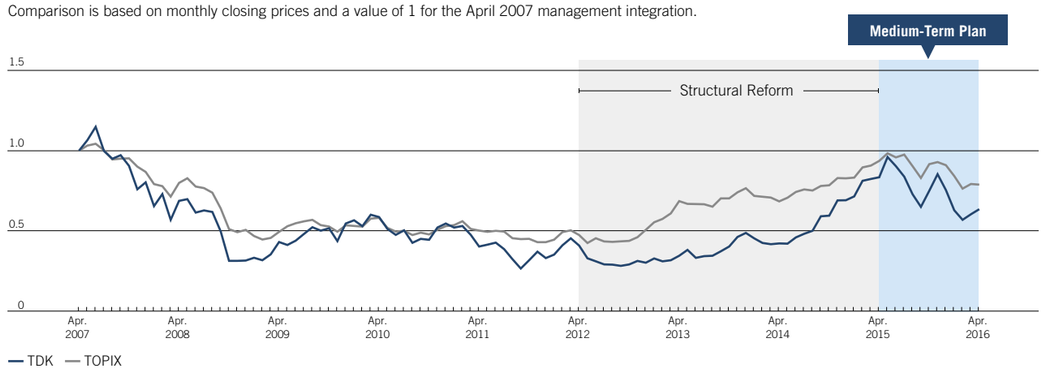
TDK is emphasizing business ROA, an indicator of yield on business division assets. TDK is taking measures to raise investment efficiency, including reducing inventory turnover periods and accounts receivable collection periods.

POINT 3 Stabilize Financial Leverage

In light of the difficult electronics market environment characterized by rapid technological innovation, TDK will seek to maintain the stockholders' equity ratio at approximately 50% and to stabilize management.

Comparison of Share Price and Tokyo Stock Price Index (TOPIX)

Comparison is based on monthly closing prices and a value of 1 for the April 2007 management integration.



Social Recognition by Outside Organizations

At a time when sustainable investment, which promotes investments that take social factors, including environmental concerns, into consideration, is expanding, TDK has been included in the Morningstar Socially Responsible Investment index (MS-SRI) and the Ethibel EXCELLENCE investment register.

TDK's SESUB won the grand prize in the technology innovation division of CEATEC AWARD 2015, presented to products that are exceptional from the perspectives of science and technology as well as future and market potential. In addition, TDK's multilayer diplexer won the Japanese Brand Prize of the 2015 Cho *Monodzukuri* Innovative Parts and Components Award.

TDK Taiwan was presented with the 2015 Innovative Application Partners Award at the 2015 Electronic and Information Global Partners Excellence Awards Ceremony, conducted by Taiwan's Ministry of Economic Affairs. TDK Taiwan has been presented with this award for the third consecutive year. In 2015, TDK also won second prize in the 18th Nikkei Annual Report Awards, which recognizes outstanding annual reports.

Member, Ethibel EXCELLENCE

MS-SRI (Morningstar Socially Responsible Investment index)

MONODZUKURI.Nippon. Conference, Nippon Brand Prize

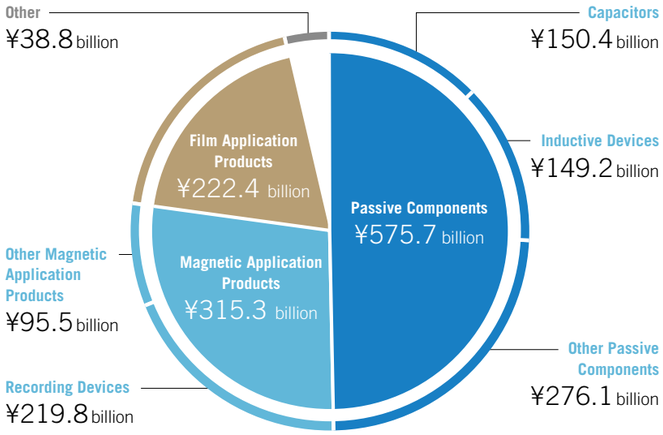
CEATEC AWARD 2015

2015 Electronic and Information Global Partners Excellence Awards Ceremony, conducted by Taiwan's Ministry of Economic Affairs

18th Nikkei Annual Report Awards 2015

Segments at a Glance

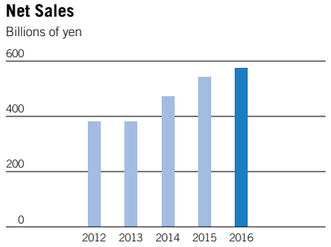
Sales by Segment (Fiscal 2016)



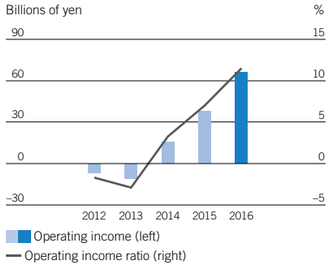
Note: In accordance with the reorganization in the first quarter of fiscal 2016, certain products under Inductive Devices, Other Passive Components, and Other Magnetic Application Products were reclassified into "Other" that was not a part of these three reportable segments. The previous year's sales were also reclassified to conform to the new segmentation.

Passive Components

Net Sales

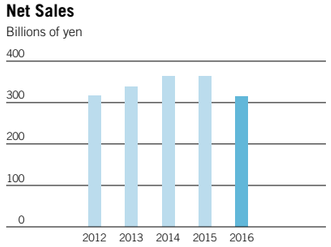


Operating Income / Operating Income Ratio

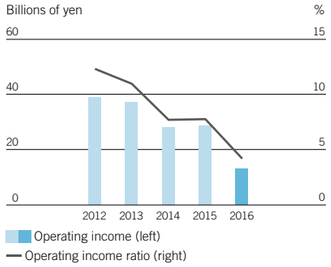


Magnetic Application Products

Net Sales

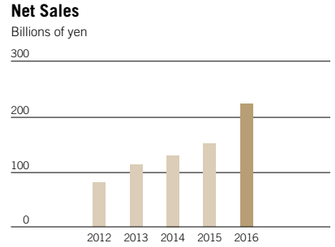


Operating Income / Operating Income Ratio

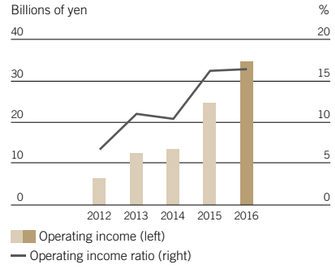


Film Application Products

Net Sales

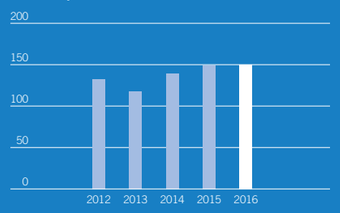


Operating Income / Operating Income Ratio



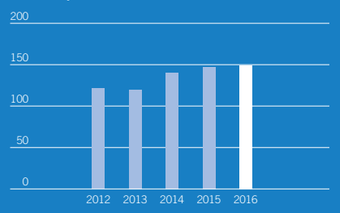
Capacitors

Net Sales



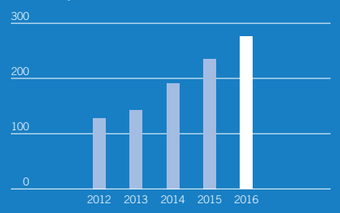
Inductive Devices

Net Sales



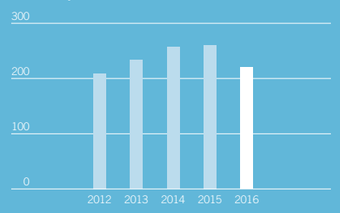
Other Passive Components

Net Sales



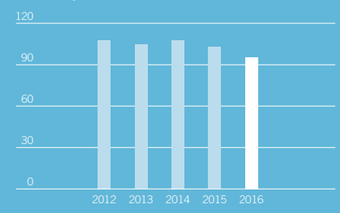
Recording Devices

Net Sales

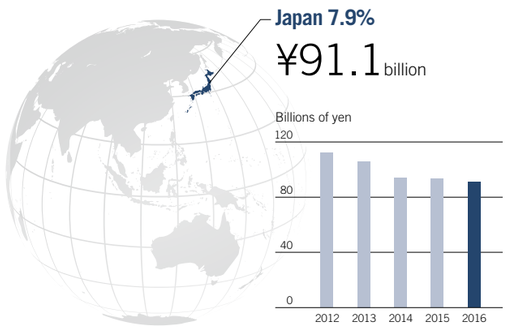


Other Magnetic Application Products

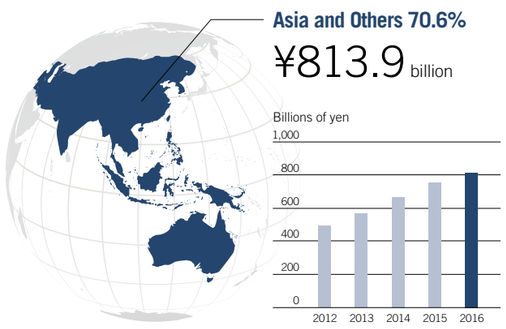
Net Sales



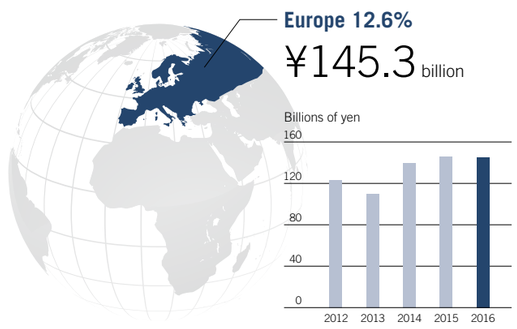
Sales by Region (Fiscal 2016)



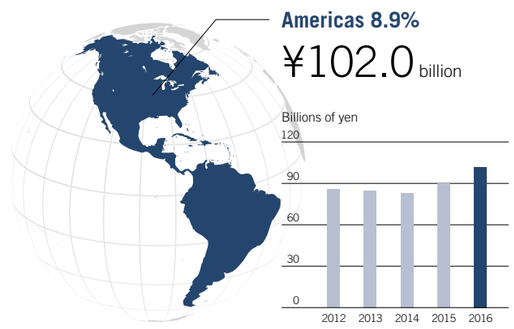
Japan 7.9%
¥91.1 billion



Asia and Others 70.6%
¥813.9 billion



Europe 12.6%
¥145.3 billion



Americas 8.9%
¥102.0 billion

Business Environment of TDK

Market environment and opportunities

For Automotive

- Trend toward lighter weight and electrification of in-vehicle equipment, driven by customers' increased fuel economy awareness
- Development of new technologies such as ADAS and autonomous driving

For ICT

- Increased demand in the Chinese and Indian market and other emerging economies
- Market entry of new terminals
- Mobile terminals with lower profile, more functions, higher performance

For Industrial Equipment and Energy Applications

- Emergence of smart cities in various locations with smart grid (next-generation power distribution network) as energy infrastructure
- Increased demand for renewable energy systems such as wind power and solar power installations

Factors affecting the market

- New environment-related legislation in various countries
- Intensified measures by various governments aimed at saving energy and costs
- Strong pressure on prices due to commoditization of existing products leading to price wars
- Development of new technologies and products by competitors
- Higher prices for source materials due to increased demand
- Fluctuations in sales figures and raw material procurement costs due to exchange rate fluctuations
- General consumer trends in electronics products

Passive Components

Overview of fiscal 2016

Sales of ceramic capacitors, aluminum electrolytic capacitors, and film capacitors increased, and profits rose as well, due to a firmer automotive market. The same was true for inductive devices, with products for automotive applications performing well. Sales of high-frequency components for the ICT market increased significantly, and profit margins were strongly boosted by improved productivity and a better product mix. In the area of piezoelectric material components and circuit protection devices, sales of products for camera modules increased, and sensors for the automotive and industrial equipment markets also showed an increase.

Net sales in the passive components segment rose by 8.2% year on year to ¥575.7 billion, and operating income rose by 81.4% to ¥66.4 billion. The fact that sales for the automotive and ICT markets in the United States and China remained strong greatly contributed to improved net sales and profit margins.

		Capacitors	Inductive Devices	Other Passive Components
Main Products		**For Automotive** Multilayer ceramic chip capacitors with soft conductive resin terminal electrodes Aluminum electrolytic capacitors **For ICT** 3-terminal feed-through capacitors **For Industrial Equipment and Energy** Film capacitors Aluminum electrolytic capacitors 	**For Automotive** SMD inductors with guaranteed high temperature ratings Common mode filters for automotive use LAN **For ICT** SMD inductors Thin-film common mode filters **For Industrial Equipment and Energy** Transformers EMC filters 	**For Automotive** Piezo actuators Various sensors (Gear tooth, Pressure, Current, Temperature) **For ICT** SAW/BAW filters High-frequency modules VCMs/OISs Multilayer chip varistors **For Industrial Equipment and Energy** Varistors Arresters 
Important Requirements for Future Products		• Smaller form factor, higher capacitance • Lower profile for embedding • Lower ESL to enable decoupling applications • Higher temperature resistance for automotive use, higher structural reliability with soft conductive resin terminal electrodes	• Smaller dimensions, lower height, higher current rating, higher efficiency, lower losses • Develop product lineup according to usage environment • Strengthen EMC control products for reception sensitivity of smartphones with support for more bands • Develop filters for automotive networks	• Enlarge product mix to cover all RF bands • Increase production of camera module actuators • Adapt angle sensors to automotive applications
Customers		Car manufacturers, communication equipment manufacturers, industrial equipment manufacturers, infrastructure manufacturers, electrical home appliance manufacturers, precision instrument manufacturers, etc.		
Competitors	Domestic	Murata Manufacturing, TAIYO YUDEN, etc.	Murata Manufacturing, TAIYO YUDEN, SUMIDA CORPORATION, etc.	Murata Manufacturing, TAIYO YUDEN, ALPS ELECTRIC, etc.
	Overseas	SEMCO (Korea), Yageo (Taiwan), KEMET (USA), AVX (USA), etc.	SEMCO (Korea), Cyntec (Taiwan), etc.	Avago Technologies (USA), Qorvo (USA), etc.
World Market Share of Representative Products (TDK Data)		Ceramic capacitor for automobiles **40%–45%**	Inductors **20%–25%**	SAW/BAW filters **20%–25%** Varistors **30%–35%** Gas arresters **75%–80%**

Medium- to long-term growth strategy

In the passive components segment, we will be targeting new IoT-related business opportunities via the automotive, ICT, and industrial equipment and energy sectors, which are our priority markets.

In the area of automobiles, manufacturers are looking toward further heightened levels of fuel economy, safety, comfort, and sustainability. To these customers, we are offering comprehensive solutions made possible by our expertise in materials technology, process technology, evaluation and simulation technology, and packaging technology. Furthermore, in the ICT market the advent of large-capacity, high-speed communications with increasing data volumes means that support for higher frequency bands along with higher performance and multifunctionality are more important than ever. The TDK product portfolio is characterized by its wide scope, including not only the widely used conventional SAW filters but also BAW filters suitable for high-frequency bands. The demand for such products as thin-film common mode filters for smartphones is expected to grow further, which will allow us to demonstrate our strengths in this area. We are also continuing to develop strategic products for new markets in the industrial equipment and energy sector, including electronic components for wireless power transfer systems.

Outlook for fiscal 2017

In fiscal 2017, we expect net sales to grow by 3%–6%. Among inductive devices, the share of thin-film products and multilayer products for the ICT and automotive markets is expected to increase. Regarding high-frequency components, we are aiming to expand sales of compact, high-performance discrete products as well as modular products. As for piezoelectric material components, the business volume of actuator type optical image stabilizers (OIS) used in smartphone camera modules to prevent blurry photos is expected to expand, and we plan on further increasing sales in this area.

Initiatives based on growth strategy

Strategic alliance and joint venture with Qualcomm

In January 2016, we announced an agreement with U.S.-based Qualcomm Inc., a leader in next-generation wireless, technology, to establish RF360 Holdings Singapore Pte. Ltd. This joint venture company will be supplying high-frequency front-end modules, high-frequency filters, and similar products for various market segments, including mobile device systems, drones, robots, and automotive applications.

The mobile communications market is one of the most dynamic and fast-changing markets in the world, generating enormous demands for suitable products. In addition to offering multiband capability for 3G, 4G, and LTE, smartphones also need to support connectivity for many different wireless environments. With 5G expected to bring further complexity, end products nevertheless must be small and highly integrated while realizing sophisticated multi-functionality.

Qualcomm has an excellent track record in advanced high-frequency technology and products. Combining these with TDK's unique capabilities in micro-acoustic high-frequency filtering, packaging, and module integration technologies will make it possible to offer cutting-edge high-frequency solutions to customers.

Going beyond high-frequency solutions, both companies also have agreed on business and technological cooperation in other key areas, including passive components, batteries, wireless power transfer systems, sensors, and micro-electro-mechanical systems (MEMS). In addition to strengthening TDK's capabilities to achieve breakthrough solutions to technical problems that we may face in the future, this will bring new technological know-how to various markets and blaze a path toward the next generation of applications. By enhancing product power in key sectors and enabling technological development in new sectors, the alliance will expand our business opportunities.

"IN" TDK

TDK's Keyword

Toward smaller sizes and thin-film implementations

In the world of IoT, numerous electronic components will be embedded in all sorts of things, including wearable devices, automobiles, and robots. This means that the components need to be made as small as possible and must be able to fit in various installation locations in order to avoid performance degradation in such aspects as fuel economy and functionality. TDK is harnessing materials technology, process technology, and thin-film shaping and fine processing technology acquired during the development of HDD magnetic heads to achieve further reductions in component size and create thin-film versions. We are also integrating semiconductors, electronic components, and software into modules that offer high added value.

Thin-film common mode filter formed on wafer (left), and enlarged image (right)

Magnetic Application Products

Overview of fiscal 2016

Net sales in fiscal 2016 dropped by 13.2% year on year to ¥315.3 billion, and operating income dropped by 55.5% to ¥13.2 billion. Sales of HDD magnetic heads were affected by the drop in HDD production volumes, which in turn was caused by the shift from HDD to SSD as storage media inside personal computers. This resulted in sluggish market performance and the above-stated decline. Sales of power supplies for industrial equipment rose, but sales of magnets both for the automotive and the ICT markets decreased. In order to strengthen our HDD suspension business and our position in the HDD magnetic head business overall, we acquired Hutchinson Technology Inc. in October 2016.

		Recording Devices	Other Magnetic Application Products
Main Products		**For ICT (including for data center)** HDD magnetic heads HDD suspensions, etc. 	**For Automotive** DC-DC converters Battery chargers Magnets for motors (Cooling fan, Door lock) Batteries for xEV **For ICT (base station)** High current digital POL converter HDD magnets **For Industrial Equipment and Energy** Bidirectional DC-DC converters High-efficiency AC-DC power supplies Magnets for industrial equipment 
Important Requirements for Future Products		• Further increase in storage capacity and miniaturization • Development of high-spec and high-reliability products • New technologies such as thermal assisted magnetic recording heads	• Supply magnets that reduce use of rare resources to a minimum • Supply magnets with high magnetic properties (high magnetic force and high heat resistance) that contribute to miniaturization and higher efficiency of electric motors • Development of high-efficiency power supplies
Customers		Car manufacturers, communication equipment manufacturers, industrial equipment manufacturers, infrastructure manufacturers, electrical home appliance manufacturers, precision instrument manufacturers, etc.	
Competitors	Domestic	None	Power supplies: Cosel Magnet: Shin-Etsu Chemical, Hitachi Metals, etc.
	Overseas	HDD magnetic heads: Seagate Technology (USA) Western Digital Technologies (USA)	Power supplies: XP-Power (Singapore), MEAN WELL (Taiwan) Magnet: ZHONG KE SAN HUAN (China), Zhejiang Dongyang Magnetic Enterprise Group (China), etc.
World Market Share of Representative Products (TDK Data)		HDD magnetic heads: **20%–25%** HDD suspensions: **40%–45%**	Power supplies for industrial equipment: **15%–20%** Ferrite magnets: **20%–25%**

Note: TDK is the only manufacturer in the world specializing in HDD magnetic heads. Currently, the production of such heads is concentrated in three companies: TDK, Seagate Technology, and Western Digital Technologies.

Medium- to long-term growth strategy

The scale of the HDD market is expected to shrink further due to reduced demand for personal computers and the shift to SSD storage. We are therefore facing a difficult business environment in this area. On the other hand, demand for HDDs in nearline and external storage applications and for surveillance camera systems is expected to remain solid. The demand for heads used in the internal HDDs of PCs will probably continue to contract, but the number of heads used per HDD unit is expected to increase, especially in nearline-type installations. TDK will continue to optimize the scale of production and utilize advanced technology to deliver superior products and services.

The magnet business also faces a severe business climate, but our advanced technological development continues. High-performance rare-earth-type magnets and next-generation ferrite magnets will be reaching the product stage, and we are also working on special magnets for hybrid and electric vehicles. We intend to improve profitability through the development of market-leading products.

The power supply business is expected to experience growth in demand for industrial equipment products. We will continue to develop high-efficiency power supplies that contribute to savings in energy consumption by industrial equipment overall.

Outlook for fiscal 2017

In fiscal 2017, the magnetic sensor business for the automotive market is projected to expand, and we expect the acquisition of Micronas Semiconductor Holding AG in fiscal 2016 to contribute to business performance. By contrast, shipping volume of HDDs, which was in the order of 444 million in fiscal 2016, is predicted to drop to around 400 million in fiscal 2017, which means that sales of HDD magnetic heads will decrease. Due to the above factors, we expect net sales in fiscal 2017 to fall by about 11% to 14%, as compared with fiscal 2016.

Initiatives based on growth strategy

■ Dealing with the shrinking HDD market

With regard to the HDD magnetic heads business, TDK is implementing three major initiatives.

The first is right-sizing of our own operations. Front-end processing, which used to be split between two locations in Japan and North America, has now been consolidated to America only. Furthermore, we optimized back-end processing in China in terms of personnel and facilities and have started to manufacture passive components in the Philippines. At our bases in Japan, production lines were switched to magnetic sensors (TMR sensors), which are one of TDK's strategic growth products. We effectively take advantage of existing assets and accumulated technology.

The second initiative is contributing to the right-sizing of the industry. This involves going beyond earlier frameworks in strengthening vertical collaboration in development and manufacturing, as well as promoting a horizontal division of labor to avoid overlapping investments and cost increases. We are also supporting research into state-of-the-art technology in order to shorten the time to market for new products.

Finally, the third initiative is the introduction of products and services based on advanced technology. We are currently focusing on the development of thermal assisted magnetic recording heads, which use a laser integrated in the head to heat up a narrow spot on the magnetic medium, thereby temporarily weakening the coercive force. This enables the realization of another drastic jump in recording density. In addition, we are working on cutting-edge developments, such as two-dimensional magnetic recording, where bits are layered in two dimensions, and micro DSA (Dual Stage Actuator) technology.

Through these efforts, we are aiming to remain the go-to supplier in the shrinking market for HDD magnetic heads.

"IN" TDK **TDK's Keyword**

Magnetic sensors

Harnessing TDK's expertise in mangetism, the field where our company has its roots, we will be developing magnetic sensors into a key pillar of earnings. In the automotive field, the utilization of sensors for acceleration, braking, and steering applications is envisioned, facilitating the transition from mechanical to electrical and electronic control. TDK products are already in use in industrial linear scales and in autofocus encoders for cameras, and we will be expanding the product mix to cover many other types of applications as well. By building a solid reputation and track record, we aim to become the go-to company for magnetic sensors.

Gear tooth sensor

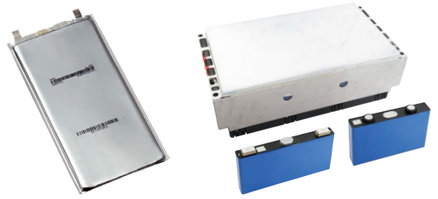
TMR sensor

Film Application Products

Overview of fiscal 2016

In the film application products segment, we were able to expand our market share in energy devices (rechargeable batteries) for major customers in the ICT market, and we also expanded our customer portfolio. Furthermore, rising demand from new application areas, such as drones, boosted our net sales by 47.0% year on year to ¥222.4 billion, and operating income rose by 48.0% to ¥36.4 billion.

		Energy Devices
Main Products		**For ICT** Lithium polymer batteries for smartphones **For Automotive** Lithium ion batteries for automobiles **For Industry Equipment and Energy** High-capacity lithium ion batteries for power storage systems
Important Requirements for Future Products		• Provide comprehensive solutions from battery cells to packaging design for batteries • Maintain pricing competitiveness • Minimize malfunction risks
Customers		Car manufacturers, communication equipment manufacturers, industrial equipment manufacturers, infrastructure manufacturers, electrical home appliance manufacturers, precision instrument manufacturers, etc.
Competitors	Domestic	Panasonic, Hitachi Maxell, etc.
	Overseas	Samsung SDI (Korea), LG Chemical (Korea), BYD (China), etc.
World Market Share of Representative Products (TDK Data)		Lithium ion polymer batteries **25%–30%**



Medium- to long-term growth strategy

In the film application products segment, the TDK subsidiary Amperex Technology Ltd. (ATL) in Hong Kong plays a central role in our business operations. With regard to energy devices for the ICT sector, the trend toward thinner mobile devices suggests that the demand for lithium polymer batteries will continue to rise. Taking advantage of this changeover, we intend to broaden our customer portfolio and thereby further increase our market share. An additional manufacturing line at the Hong Kong subsidiary will boost production capacity for rechargeable batteries, and we are also intensifying various other facility investments with similar aims.

Unlike passive components, batteries are the final form of the integrated product, requiring mastery not only of battery technology but also of design and packaging aspects. In order to strengthen our capabilities in packaging technology, we acquired the Chinese company Navitasys Technology in 2012, giving us an advantage in the lithium ion battery package business. We are strengthening our R&D power in the entire field, from development of new materials to manufacturing methods and design, which will enable us to offer comprehensive solutions to customers.

Going beyond batteries for mobile devices, we will also be focusing on demand for drones, AGVs, robots, and other types of industrial equipment, and even cars in the long term, to open up opportunities for further growth.

Outlook for fiscal 2017

We expect net sales of applied film products to grow by 12%–15% in comparison with fiscal 2016. Driven by the trend toward thinner mobile devices, sales of lithium polymer batteries are set to grow, not only for delivery to major North American customers but also to customers in China and South Korea. Demand in new application fields, such as drones, is also projected to rise. The move toward a broader spectrum of customers will result in a more balanced customer portfolio and further contribute to the stabilization of our operations.

Initiatives based on growth strategy

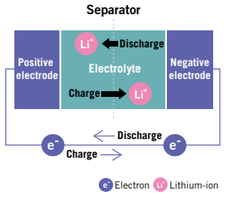
■ Development and production aimed at new applications

The demand for rechargeable batteries is spreading from smartphones to notebook computers, robots, drones, and various other application fields. Because computers need more power than smartphones, the battery capacity per unit has to be larger, which will translate into rising demand in the future. In addition, the demand for Energy Storage Systems (ESS) for solar power and wind power installations is also expected to expand.

TDK is considering making continuous investments directed toward increased lithium ion battery production by fiscal 2018. Especially in China, where high demand is expected, we are planning to expand facilities at production sites to establish a solid mass production framework. In addition to expanding and adding new equipment, we will also be updating existing equipment and boosting production efficiency.

Besides the production aspect, the development framework is also being strengthened. In the autumn of 2015, we opened a new research center in China where gifted engineers from all over the world are coming together. Development of composite parts for a management system to enhance the safety of batteries is progressing, with the aim of further enhancing our competitiveness.

TDK is also investing aggressively in the development of special and unique battery products, such as quick charging types and batteries with a 3-D structure.



Principle of lithium-ion battery

Other

Regarding areas other than the three segments reported previously, we are also active in mechatronics (production equipment) and various other fields. Net sales for fiscal 2016 rose by 8.0% over the previous term to ¥38.8 billion. Operating income for fiscal 2016 was ¥1.9 billion, a 229.4% year-on-year increase.

Main Products
Mechatronics (production equipment) TDK has gained expertise in mechatronics through such production equipment as flip chip mounting machines. In this way, we are supplying the market with the most advanced factory automation equipment.
Radio wave anechoic chamber High-performance antennas and automated measurement systems with dedicated software improve the efficiency of EMC measurements. TDK offers EMC solutions comprising highly accurate EMC measurement services to support effective noise countermeasures in electronic devices.
Flash memory application devices TDK supplies solid state drives (SSDs) with proprietary memory control chips and CompactFlash cards for industrial use.

Intellectual Capital

Our focus

In accordance with our Medium-Term Plan, which commenced in fiscal 2016, we are focusing on the three priority markets of automotive, ICT, and industrial equipment and energy, taking advantage of our proprietary technology development capabilities to open up new business opportunities and realize *Monozukuri* reform. The overall aim is to offer products that make a meaningful contribution to society while also resulting in a sustainable improvement of corporate value.

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Expectations by stakeholders

Responding to climate change by harnessing TDK's core technologies, in particular energy conservation and renewable energy, we aim to promote the development of new technologies and the spread of products that help to bring about a low carbon society.

Basic policy

Contributing to the world through technology is a key concern for TDK. Toward this end, we are focusing on innovative technology development in our three priority markets of automotive, ICT, and industrial equipment and energy, helping to save, store, and reuse energy and solve other pressing issues that modern society is facing. Furthermore, the pursuit of "zero defect quality" based on superior technological competence and realized through a unified production process that extends from raw materials to the final product will continue unchanged into the future. Providing high-quality products and services is our way of striving for the advancement of humankind.

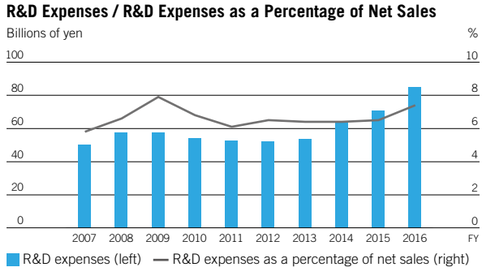
INPUT

Investing Capital for Continuous R&D

In the electronics industry, which continuously undergoes rapid changes and technological innovations, there are numerous examples of the commoditization of new products in the blink of an eye. TDK is confident that releasing valuable and creative new products to markets one after another through continuous research and development will contribute to increasing corporate value and profits. Since fiscal 2007, TDK has placed particular emphasis on R&D, maintaining annual R&D expenses of ¥50 billion or more, equal to approximately 6%–7% of sales. In fiscal 2016, we spent ¥84.9 billion on R&D. Going forward, we will continue our efforts to develop new and valuable products with a focus on our three priority markets: automotive, ICT, and industrial equipment and energy.

TDK is also working to strengthen and utilize its patent portfolio by managing and acquiring patents, licenses, and other intellectual property rights regarding the functions, designs, and so on, of TDK products as a strategic intellectual property initiative that will contribute to profits. We are also continuing our efforts to protect new products.

R&D Expenses / R&D Expenses as a Percentage of Net Sales



Technical Center (Japan)

SUSTAINABILITY

Building Global Systems for Continuous Development of Valuable New Products

Development of systems by leveraging local resources

One of TDK's key features is the development of systems for conducting development globally and using local resources. We conduct joint R&D with leading universities in the United States and Europe and are constructing materials development systems tailored to local customers in China as well. Headway Technologies, Inc., a consolidated subsidiary in the U.S., is developing next-generation HDD magnetic heads.

M&As and tie-ups reinforce TDK's technological capabilities

TDK continuously expands its technological capabilities through M&As and tie-ups. The battery business, which currently boasts high profits, was developed with Amperex Technology Limited in Hong Kong, which was acquired in 2005, while the high-frequency components business was jointly developed with EPCOS Group, with which TDK merged in 2008, expanding our customer base. TDK is now enhancing its development capabilities in such fields as packaging and modularization.

Four Global Bases Supporting Development

EFFICIENCY

Focus on Development of Products for Our Three Priority Markets

One issue that TDK faced was low efficiency in R&D. In response, TDK withdrew from low profitability, non-core businesses and implemented structural reforms designed to create novel products by making use of its core technologies, including materials and process technologies. Under the Medium-Term Plan that began in fiscal 2016, TDK is concentrating its management resources in three priority markets—automotive, ICT, and industrial equipment and energy—and is working to develop new products with even greater added value.

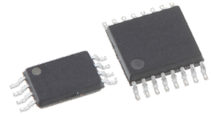
TDK is also creating Development Centers that specialize in the markets for ICT devices, energy devices, and materials in order to bolster the specialization of R&D.

OUTPUT

Development of Innovative Products Leads the Market

TDK is utilizing its core competence in areas such as process technology, materials technology, and device and module technology to develop products with high added value in terms of the impending age of IoT. Many of these products are distinctive and reflect unique TDK characteristics. These include extremely compact, low-profile, high-performance multilayer chip varistors and EMC countermeasure products for the ICT market, ultra-accurate TMR angle sensors using TMR elements for the automotive market, and bidirectional DC-DC converters that contribute to power conversion efficiency in the industrial equipment and energy market.

Bidirectional DC-DC converter



TMR sensor

Human Capital

Our focus

At TDK, we consider our employees to be one of our most important assets in carrying out our corporate motto of "Contribute to culture and industry through creativity," as well as in achieving ongoing growth over the medium to long term.

We therefore respect each of our employees as individuals, working to maximize their unique abilities and potential and at the same time encouraging a high level of independence.

Expectations by stakeholders

In tandem with implementing systems and a corporate culture that respect the differences and values of each of our employees, we also provide specific opportunities and an optimal environment designed to maximize the individual abilities and potential of our employees and to impart them with a significant degree of independence.

Basic policy

Our aim at TDK is growth through becoming a genuine global company. In this connection, **human resource development** is considered a cornerstone concept. Along with identifying highly capable human resources and fostering an environment that draws out their individual abilities and potential, we also work to forge a corporate culture that respects the diversity of our human resources and also encourages mutual respect and recognition of efforts between our employees. Shaping a global business environment that attracts truly global personnel to the TDK Group, we at TDK are committed to generating innovative products and services on an ongoing basis, and thereby doing our part for society.

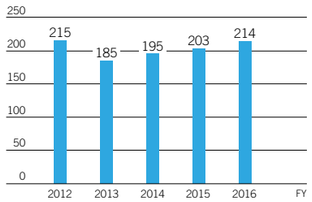
To Ensure and Foster Human Resources with High Potential and Expertise

In the electronics industry, which is experiencing rapid business environment changes, it is necessary to have a high degree of specialization and to develop and provide products that society and customers want in a timely manner. TDK hires recent graduates with high potential and drive and actively recruits mid-career personnel with high levels of specialization.

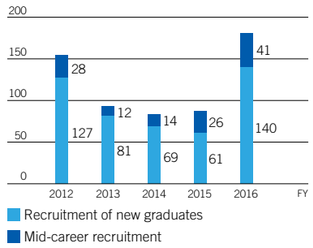
TDK believes that the ideal is to enable each employee who makes up an organization to work autonomously. Our human resource development target is to produce numerous autonomous personnel with the ability to think things through on their own, undertake new challenges with courage, persevere to optimize change, and see things through to the finish.

To achieve this target, TDK's skills development and educational programs, which are designed to progressively teach employees how to work autonomously from the earliest stages of their careers, comprise four categories: "training programs on different levels," "selective training programs," "specialized education programs," and "talent development support and qualification support programs," the latter two are offered for those who need a higher level of professional training.

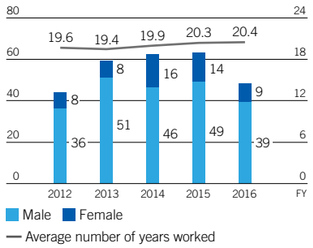
Education / Seminar Training Costs (TDK Corporation)



Recruitment of New Graduates / Mid-Career Recruitment (TDK Corporation)



Job Leavers/Dismissals / Average Number of Years Worked (TDK Corporation)



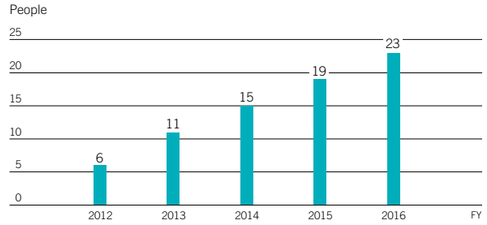
Leveraging Human Resources Globally

The TDK Group is made up of multiple companies that conduct global business, and approximately 90% of the Group's employees are non-Japanese. We strive to increase corporate value by placing outstanding human resources in optimal positions regardless of nationality, race, gender, or other attributes. Some 72% of TDK Group subsidiaries have non-Japanese presidents.

TDK is expanding and reinforcing overseas training programs that enable young employees to gain a variety of experiences overseas so that we can accelerate the globalization of human resources in the future. We are also taking measures to progressively make human resources visible through the introduction and operation of a global human resource management system.

Overseas trainee program

Cumulative Total of Participants in Overseas Trainee Program

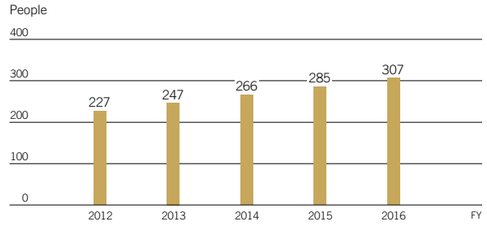


International Management Development (IMD) Training to Foster Global Leaders

IMD training is held to help our internal leaders acquire truly global skills and develop stronger borderless solidarity within the Group. This training is for candidates for managerial positions at the TDK Group's overseas affiliates. The training seminars have been held since 1997. They take the form of a week-long residential training course with lectures and workshops. The participants gain a deeper understanding of TDK's corporate philosophy, acquire a broader, more managerial perspective, and establish bonds that help build personal international networks. Some participants who have completed the IMD training have gone on to become presidents of overseas affiliates, playing a vital role in human resource development within the TDK Group.


IMD training

Cumulative Total of Participants in IMD Training

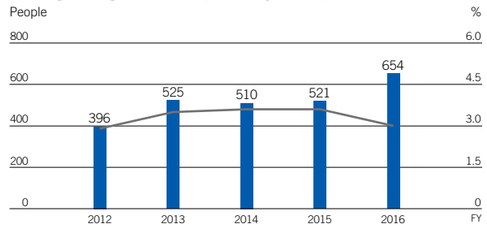


Diversity Action Promotion Plan

The TDK Code of Conduct contains provisions requiring respect for human rights and prohibiting discrimination, and TDK carries out employee education and training. TDK also conducts company wide programs, including specialized consultation services such as helplines, various programs relating to childcare and family nursing care by employees, and programs supporting female employees and employees who retire at the mandatory retirement age.

In response to the Act Concerning Promotion of Women's Career Activities, which came into effect in April 2016, TDK adopted three action plans: 1 to have women account for at least 30% of graduates hired to begin working in 2018; 2 to introduce a program to re-hire employees who resign because of childbirth, childcare, relocation of spouse, or provision of nursing care for a family member; and 3 to introduce a system allowing employees to take leave due to the relocation of a spouse.

Number of Female Employees / Ratio of Female Employees Holding Managerial Posts (TDK Corporation)



Note: Managerial posts are defined as posts having subordinates, or equivalent posts.

Social and Relationship Capital

Our focus

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.

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Expectations by stakeholders

At TDK, we not only comply with and observe the relevant laws and global industrial regulations, but 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.

Basic policy

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.

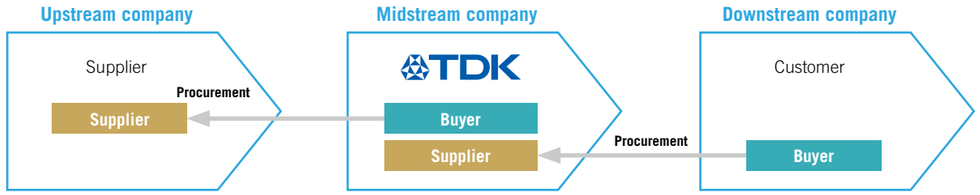
Response to Conflict Minerals

In the Democratic Republic of the Congo (DRC) and adjoining countries, at times the proceeds from the mining and sale of minerals have been used to fund armed groups. These actions serve to further conflict and violations of human rights of the local people.

TDK began its response to the problem of conflict minerals following the enactment of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act in 2010. A conflict minerals policy*1 for the TDK Group was formulated in April 2013. Surveys of suppliers are handled mainly by the Procurement Function and responses to customers by the Quality Assurance Function. In addition, each business group has designated persons in charge of the conflict minerals issue. Our suppliers implement surveys using the CFSI*2 and CMRT*3. Surveys are carried out regularly on new purchases, and for those items for which the smeltering site cannot be identified through past surveys, new surveys are conducted. In a fiscal 2014 survey, 86%*4 of 15,754 items surveyed were deemed to have no association with conflict minerals.

As for queries from customers, the entire process is integrated, spanning the initiation of a query at our sales divisions to responses by our operations divisions—yielding a rapid and accurate response system. In fiscal 2016, we issued 2,505 responses, an increase of 16 on the previous fiscal year. At TDK, we understand the necessity of initiatives throughout the supply chain; therefore, to approach the various issues of conflict minerals as effectively as we can, we participate in JEITA*5.

*1. For details of the TDK Group's policy on conflict minerals, please refer to the following URL: http://www.global.tdk.com/csr/supplier_responsibility/ csr02210.htm
*2. CFSI: Conflict-Free Sourcing Initiative
Organizations addressing conflict mineral issues, established by the Electronic Industry Citizenship Coalition (EICC) and Global e-Sustainability Initiative (GeSI)
*3. CMRT: Conflict Minerals Reporting Template
*4. Suppliers of TDK Corporation
*5. For details on JEITA's Responsible Minerals Trade Working Group, please refer to the following URL:
http://home.jeita.or.jp/mineral/eng/index_e.html



Efforts at TDK's Production Sites

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 swiftly 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 high-risk regions and production sites, including these customer CSR audits, once every two years we conduct internal audits by third-party organizations. 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.

Response to CSR audits

During fiscal 2015–16, TDK implemented CSR internal audits at 10 sites. Together with customer CSR audits, we undertook CSR audits at an aggregate total of 75 sites. In China, where there is a high risk of labor-related issues, audits were conducted at all sites. In Malaysia, where the forced labor of foreign workers has become a social issue, four production sites voluntarily accepted CSR audits in fiscal 2016. Each audited site made improvements regarding matters that were pointed out, and the CSR Office shared information with related head office functions, calling for attention to be paid to these problems and getting them reflected in measures.

Furthermore, CSR internal auditor training was implemented in China and Malaysia in fiscal 2016, bringing the total number of employees who have received this training to 171 persons.


CSR internal auditor training (Malaysia)

Promotion of CSR Procurement

CSR procurement, which is included in TDK's purchasing policy, is an important issue for our company. Because we are a components manufacturer, we promote CSR from our position as a supplier. But it is also necessary for us to promote CSR among our own suppliers.

Therefore, we require our suppliers to reply to a CSR check every year; and if there are any issues with their answers, we request them to make improvements individually. In fiscal 2016, TDK provided guidance and called for improvements at seven companies*.

TDK also implements CSR audits with the aim of objectively understanding the situation, selecting targeted suppliers in consideration of such factors as their degree of importance and our dependence on them in the delivery of products to our customers.

Expansion of CSR audits among commissioned manufacturers

In China, where working environment risks are high, TDK has been expanding CSR audits since fiscal 2016, not only among suppliers but also among commissioned manufacturers on which it depends. Of the areas specified by the EICC, these audits focus on the three items of labor, safety and health, and the environment in order to check that conditions in manufacturing workplaces are appropriate.

In fiscal 2016, TDK conducted CSR audits on six companies and made a total of 78 findings. Many of these findings concerned a lack of consideration for the storage and management of harmful substances and for workers engaged in handling them, and improvements were requested.

* Suppliers of TDK Corporation

Natural Capital

Our focus

To support the sustainable development of society, the TDK Group unites in the quest to reduce CO_2 emissions, effluents and waste in production activities, and otherwise use its business activities to minimize the global environmental load.

Expectations by stakeholders

TDK complies with all environmental laws and regulations, working to lower the environmental load of its business activities, promote and invigorate the natural environment, and advance other basic initiatives. Through its products, the Group also contributes to reducing energy consumption and implementing climate change countermeasures.

Basic policy

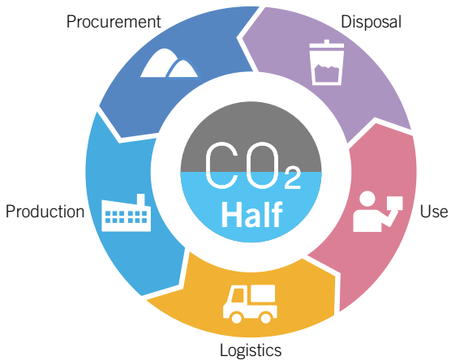
As stated in the TDK Environmental Charter, "**Develop and Prosper in Harmony with the Global Environment**" is one of the TDK Group's most important business themes.

"TDK Environmental Vision 2035" has been established to contribute to developing a sustainable society. Based on this vision, "TDK Environment, Health and Safety Action 2025" has been formulated as a basic action plan for specific steps. Work is also under way to formulate industry-wide environmental standards promoting greater public understanding of the value of TDK's environmental contributions.

Formulation of the New "TDK Environmental Vision 2035" as TDK Advances Toward Its 100th Anniversary

The TDK Group fast-tracked the goal of "carbon neutral" status originally outlined in "TDK Environmental Action 2020" (our third basic environmental action plan), achieving the stated targets in fiscal 2015. Being launched from fiscal 2017 is a new environmental vision with a more global and long-term perspective, and a medium- to long-range action plan to achieve that mission. Under this vision, formulated as "TDK Environmental Vision 2035," our goal is "**to halve the CO_2 emission basic-unit from a life-cycle perspective by 2035.**"

This stance stems from the belief that minimizing the environmental load in business activities, and revitalizing the natural environment, is the duty of companies that supply products designed to contribute to the lives of their customers and society as a whole. Moreover, modeled on the United Nations Climate Change Conference (COP 21) Paris Agreement, which seeks to curb global warming by achieving a balance between greenhouse gas emissions and absorption sources, this is considered the ideal corporate posture for all TDK activities.



TDK Environmental Vision 2035

Reduction of CO_2 Emissions from Production Activities (Environmental Load)

"TDK Environmental Action 2020" sets the target of reducing the TDK Group's global CO_2 emissions to less than one million tons by March 2021*. In fiscal 2016, TDK continued to promote energy-saving activities at its production sites in all countries. Unfortunately, those efforts failed to produce the targeted value of lowering CO_2 emissions to 1,050 thousand tons or less, with the final level tracked at 1,126 thousand tons.

* Applicable to sites at the time of compilation of "TDK Environmental Action 2020," which commenced activities in fiscal 2012.

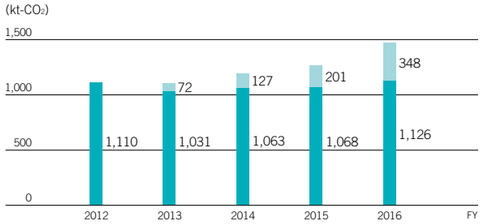
Introduction of biomass boiler

Over the past three years, TDK has studied the introduction of the biomass boiler—a system anticipated to contribute to lowering both CO_2 emissions and cost. Such boilers are engineered to run on renewable energy with animal- and plant-derived resources as fuel, while exerting a minor impact on the environment. For this project, the Honjo Factory of TDK-MCC Corporation (a facility with high demand for steam year-round) was selected as the installation site.

Once operations begin, it is projected that CO_2 emissions at Honjo will be lowered by 3.4%, while simultaneously cutting existing boiler fuel costs by 15%.

Biomass boiler (TDK-MCC Honjo Plant)

Trends in CO_2 Emissions from Production Activities (Global)

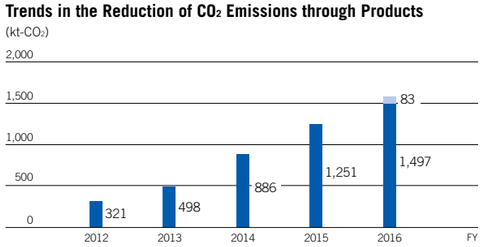


Note: The light green parts of the graph indicate emissions at plants that were newly added after compilation of "TDK Environmental Action 2020."

Increasing the Reduction of CO_2 Emissions through Products (Environmental Contribution)

"TDK Environmental Action 2020" sets the target of increasing the reduction of CO_2 emissions through products to more than 1.0 million tons by fiscal 2021. Efforts to reach this target were subsequently accelerated, enabling that level to be achieved in fiscal 2015. Declared in fiscal 2016 was the new aim of raising this contribution above 1,050 thousand tons, expanding the level to include magnetic products and multilayer chip inductors among the targets and putting effective calculating standards into place. As a result, the fiscal 2016 product contribution volume was at 1,580 thousand tons.

Trends in the Reduction of CO_2 Emissions through Products



Note: The light blue parts of the graph indicate new efforts made possible by the completion of criteria for calculating environmental contributions.

Lowering Environmental Load through a Diversified Multilayer Chip Inductor Lineup

The multilayer chip inductors used in the signal processing lines and power supply circuitry of general electronic equipment also play a role as components of mobile phones and computers. By switching from the conventional coil format to a multilayer construction using ferrite or ceramic materials, smaller and thinner sizes can be achieved, which contributes to reducing the environmental impact of the end product. This environmental contribution amounted to 14,000 tons.

Multilayer chip inductor

Characteristics of Corporate Governance at the TDK Group

Proactive Invitation of Outside Officers and Aggressive Promotion of Non-Japanese Corporate Officers

Having recognized the importance of supervisory functions for management at an early stage, TDK has actively endeavored to invite outside directors and outside Audit & Supervisory Board Members into its organization. Also, the overseas sales ratio exceeds 90%. As such, the Company aggressively promotes capable personnel in its organization regardless of their nationality.

Strengthening of Supervisory Functions Performed by Outside Directors

Three out of seven directors are **outside directors**.
The post of chairman of the Board is filled by an **outside director**.
The posts of chairman of the Nomination Advisory Committee and the Compensation Advisory Committee are each filled by an **outside director**.

This helps ensure the transparency of HR and compensation processes and the validity of officer appointments and compensation.

Governance of TDK from the Perspective of Board of Directors Evaluations

TDK sees ensuring the effectiveness of the Board of Directors as a crucial issue and takes measures to enhance the functioning of the Board.

Overview of Board of Directors Evaluations

Details of evaluation submitted in fiscal 2015
The structure and function of the Board of Directors were highly evaluated. It was also pointed out, however, that establishing governance systems that can complete structural reforms accelerate the pace of globalization, as well as increase shareholder value over the long term. Based on strategies that pursue growth, more time will be needed for deliberations by the Board on medium- to long-term management issues and major risks in growth strategies. In addition, further strengthening of systems will be needed to enable such deliberations.

Measures to address indications

1. Reinforcing medium- to long-term deliberations
TDK reviewed the Board of Directors agendas and provided additional time for deliberating on medium- to long-term issues and major risks. The Board's schedule was also reviewed, and the following measures were implemented:

1. A Board of Directors meeting will be held at the beginning of each fiscal year to provide an overview of the business of each business company and to explain medium- to long-term policies.
2. Board of Directors meetings will be held twice annually to allow each business company to report on the subsequent progress of its business plans.

2. Building systems to enable medium- to long-term deliberations
TDK reorganized its head office functions and established the Corporate Strategy HQ to reinforce strategic functions. The Corporate Strategy HQ comprises legal affairs, management planning, human resource development, and public relations functions, and is responsible for Board of Directors operations, legal responses, formulating and managing business strategies, organizational structures, human resource development, internal and external communications, and carrying out company wide business strategies.

Background to the fiscal 2016 Board of Directors evaluation
In fiscal 2016, some directors and Audit & Supervisory Board Members were replaced, and the Chairman of the Board of Directors was also replaced. TDK also adopted a Medium-Term Plan with fiscal 2016 as its first year and is working to increase corporate value even further through continuous growth based on this plan. In light of the changes to the composition of the Board of Directors and the current status of the transition to a new management stage, TDK determined that comprehensive verification of the effectiveness of the Board of Directors under the new system is necessary, and an external evaluation was conducted in fiscal 2016, as in the previous fiscal year.

Implementation process

A questionnaire on the effectiveness of the Board of Directors as a whole, as well as of each committee, director, and Audit & Supervisory Board Member, was prepared based on the results of the fiscal 2015 evaluation and the current status of TDK's Board of Directors and business. Each director and Audit & Supervisory Board Member prepared written answers in response to a questionnaire. Based on the responses, a third-party organization conducted detailed interviews of each director and Audit & Supervisory Board Member with a focus on matters of particular importance to the Board. The third-party organization submitted a report to the Board based on the responses to the questionnaire and the results of the interviews. The Board of Directors verified and evaluated the current status of the Board based on the report and identified issues. The main items of the evaluation of the Board's effectiveness were as follows:

- Awareness of TDK's current status (business, responses to globalization, main risks, etc.)
- Scale and composition of the Board of Directors
- Operational status of the Board of Directors
- Composition and roles of the Nomination Advisory Committee and Compensation Advisory Committee
- Operational status of the Nomination Advisory Committee and Compensation Advisory Committee
- Support structures for outside directors
- Roles of and expectations toward the Advisory & Supervisory Board
- Relationships with investors and shareholders

Results of Fiscal 2016 Evaluation of the Board of Directors

In fiscal 2016, new members joined the Board of Directors and Advisory & Supervisory Board, and a new Chairman was appointed to the Board of Directors. Under the leadership of the Chairman, who is an independent outside director, the culture of serious and open discussion was maintained, and substantive deliberations were actively conducted. In addition, confirmation was made that the audit functions of the Board of Directors were enhanced by focusing even more on medium- to long-term growth strategies. Confirmation was also made that appropriate measures were undertaken to address the issues identified in the prior evaluation as discussed in the previous item.

TDK became aware that under a climate of extreme change and a rapid pace of business, accelerating growth under the "true globalization policy" set forth in the Medium-Term Plan will require even further change in response by the Board of Directors and management systems. It was also confirmed that (1) enhanced deliberations on medium- to long-term issues; (2) development of a long-term succession plan; and (3) reinforcement of corporate functions in response to globalization are topics for continued deliberation over the medium to long term.

Indications and the TDK Group's Responses

The Board of Directors discussed how it should respond to these issues. The following are matters regarding which action has already been taken or will be continued into the future:

Matters indicated in the Board of Directors evaluation for which measures have been taken

Review of the Board of Directors composition

- Composition of the Board of Directors as a whole and composition of inside directors
- Reinforcement of succession plans
  (The Nomination Advisory Committee will continuously consider these issues.)

Matters indicated in the Board of Directors evaluation for which measures will be taken in the future

Further enhancement of deliberations by the Board of Directors

- Verification of medium- to long-term plans and growth strategies
- Verification of the effects of investment and M&As
- Reinforcement of oversight regarding risks

The status of these measures will be confirmed in the next Board of Directors evaluation. TDK will verify the effectiveness of the Board of Directors each year and will continuously raise its effectiveness.

TDK Basic Policy on Corporate Governance

The basic views to achieve sustainable corporate growth and an increase in corporate value over the medium to long term of the TDK Group are as follows:

(1) Based on the founding spirit "Contribute to culture and industry through creativity" as the corporate motto of TDK, which was established in 1935 as the world's first company to industrialize a magnetic material called ferrite, TDK unremittingly pursues originality and increases corporate value through provisions of products and services which have created new value.
(2) TDK builds satisfaction, trust, and support among all stakeholders (shareholders, customers, suppliers, employees and communities, among others), continues to be helpful by resolving social issues, and contributes to the development of a more sustainable society.
(3) TDK clearly declares as the "TDK Charter of Corporate Behavior" that TDK will continue to respect human rights; comply with relevant laws, regulations, and international rules and the spirit thereof; and carry out its social responsibility with a strong sense of ethics, domestically and overseas. All members of the TDK Group seek to behave in strict compliance with the "Corporate Standards of Business Conduct" prescribed by the "TDK Code of Conduct."
(4) TDK aims to achieve its management targets and further improve corporate value through the creation of products by adhering to the corporate motto. At the same time, TDK strives to foster a sound corporate culture and sincerely conducts business activities, always aware of its place as a member of society.
(5) TDK will be accountable to stakeholders through comprehensive, accurate, timely, and impartial disclosure of information.

In addition, TDK enacted the "TDK Basic Policy on Corporate Governance," setting forth the basic views and policy on corporate governance of TDK for the purpose of enhancing sustainable corporate growth and increasing of corporate value over the medium to long term of the TDK Group.

The full text of said policy is posted on the following website:
http://www.global.tdk.com/ir/tdk_management_policy/governance/basic/

Reasons for Nomination as a Candidate for Inside Director

The TDK Group believes that a structure including inside directors with a focus on human resources who can engage in deliberations and perform verifications from the perspective of overall optimization is important. TDK determined that the following persons with the experience and knowledge indicated can be expected to fully perform their roles in deciding key matters and overseeing the implementation of business by the Board of Directors and has appointed them as inside officers.

Inside directors	Reasons for nomination as a candidate (set forth in the Notice of Convocation of the 120th Ordinary General Meeting of Shareholders held on June 29, 2016)
Takehiro Kamigama	After serving as head of the HDD magnetic heads business, Mr. Kamigama served as president and representative director since 2006 and has demonstrated leadership in strengthening overall profitability and expanding business fields.
Shigenao Ishiguro	After working in the business planning department in Europe, Mr. Ishiguro served as head of the HDD heads business. He has extensive global management experience and has delivered positive results, promoting the creation of new business and management reforms.
Noboru Saito	Mr. Saito has extensive global management experience accumulated from working for sales subsidiaries in the United States and Europe and is currently working on the formulation and implementation of the company's business strategies as head of the department responsible for corporate planning, human resources, and corporate communications.
Tetsuji Yamanishi	Mr. Yamanishi has experience in accounting and finance in domestic and overseas business and currently serves as head of the Finance & Accounting Group. He has demonstrated a high level of expertise and skill in the company's global financial and managerial administrative operations.

Outside Directors and Outside Audit & Supervisory Board Members

TDK actively recruits outside directors in order to reinforce management oversight functions, conduct management with an awareness of shareholders and various other stakeholders, and establish effective and disciplined corporate governance. To oversee management, it is important that outside directors have a deep understanding of technology and knowledge of global management, and TDK believes that it is crucial that outside directors as a whole have such experience and skills as well as experience in different business sectors from the perspective of diversity. With regard to outside Audit & Supervisory Board Members, it is important that they include persons with experience in a diverse range of fields important to the Group, including finance, legal affairs, internal controls, and risk management. Based on these qualifications, as of the end of June 2016, three of TDK's seven directors were outside directors and three of its Audit & Supervisory Board Members were outside members, comprising a majority of the directors and Audit & Supervisory Board Members.

Outside directors	Reasons for nomination as a candidate	Attendance at meetings of the Board of Directors in fiscal 2016
Makoto Sumita	Mr. Sumita has an abundance of experience and knowledge in management as a manager of operating companies as well as a broad perspective.	16 times / 16 times
Kazumasa Yoshida	Mr. Yoshida has an abundance of experience and knowledge concerning the management of companies related to the electronics industry, global business, and consumer business as well as a broad perspective.	16 times / 16 times
Kazuhiko Ishimura	Mr. Ishimura has an abundance of experience and advanced, specialized knowledge regarding business management as well as a broad perspective.	10 times / 12 times (After nominated in June 2015)

Outside Audit & Supervisory Board Members	Reasons for nomination as a candidate	Attendance at meetings of the Board of Directors in fiscal 2016	Attendance at meetings of the Audit & Supervisory Board in fiscal 2016
Kazunori Yagi	Mr. Yagi has extensive knowledge related to finance and accounting, as well as an abundance of experience and knowledge concerning the management of companies in the electronics industry.	15 times / 16 times (After nominated in June 2015)	14 times / 15 times (After nominated in June 2015)
Toru Ishiguro	Mr. Ishiguro has specialized knowledge regarding the law as an attorney, specialized knowledge regarding corporate governance and internal control, and considerable insight in such areas.	12 times / 12 times (After nominated in June 2015)	11 times / 11 times (After nominated in June 2015)
Kiyoshi Fujimura	Mr. Fujimura has extensive knowledge related to finance and accounting, as well as an abundance of experience and knowledge concerning the management of general trading companies.	12 times / 12 times (After nominated in June 2015)	11 times / 11 times (After nominated in June 2015)

Status of Board of Directors and Audit & Supervisory Board during Fiscal 2016

Board of Directors meetings	Number of Board of Directors meetings	16
	Outside directors' rate of attendance at meetings	96%
	Outside Audit & Supervisory Board Members' rate of attendance at meetings	96%
Audit & Supervisory Board meetings	Number of Audit & Supervisory Board meetings	15
	Outside Audit & Supervisory Board Members' rate of attendance at meetings	96%

Main Agenda Discussed by Board of Directors during Fiscal 2016

Capital expenditures for primary businesses
Strategies for priority businesses
Business tie-up with Qualcomm and establishment of joint venture company
Business tie-up with Micronas and takeover bid
Execution of agreement for joint venture with ASE to manufacture circuit boards with embedded ICs

Criteria for Independence of Outside Directors and Outside Audit & Supervisory Board Members

In order to secure the independence of outside directors and outside Audit & Supervisory Board Members it invites into its organization, the TDK Group has established its own "items to be verified regarding independence" with reference to criteria such as Rule 436-2 of the Securities Listing Regulations ("Securing Independent Directors/Auditors") and Rule III. 5. (3)-2 of Guidelines Concerning Listed Company Compliance, etc., both of which are stipulated by Tokyo Stock Exchange, Inc.

Items to be Verified Regarding Independence

1 In cases where the relevant outside director/Audit & Supervisory Board Member has a business relationship with TDK

An outside director/Audit & Supervisory Board Member shall be judged not to be independent if they are at present, or have been during the past five years, a party with a business relationship with TDK as described in (i) below or a person who executes business for such party, or if (ii) below applies to them.

(i) When it is recognized, objectively and reasonably, that said business relationship is necessary for, or has a substantial influence on, the continued growth of TDK or the other party to such business relationship (when there is a high degree of dependence in the relationship, where the relationship is the source of 2% or more of consolidated sales, and where the other party to the relationship receives money or other assets from TDK other than remuneration for officers)
(ii) When it is recognized within TDK that the relevant outside director/Audit & Supervisory Board Member is involved in the business relationship with the other party to such relationship

2 In cases where the relevant outside director/Audit & Supervisory Board Member is a consultant, an accounting professional, or a law professional

An outside officer shall be judged not to be independent if any of the following cases apply to such person at present or have applied to such person during the past five years.

(i) When it is recognized, objectively and reasonably, that the relevant outside director/Audit & Supervisory Board Member (including candidates for such position; the same shall apply hereinafter) cannot perform duties as an independent outside director/Audit & Supervisory Board Member because they receive money or other assets from TDK other than remuneration for officers (where there is a high degree of dependence)
(ii) Where it is recognized, objectively and reasonably, that the relevant outside director/Audit & Supervisory Board Member cannot perform duties as an independent outside director/Audit & Supervisory Board Member because the organization to which such person belongs (hereinafter referred to as the "Relevant Organization") receives money or other assets from TDK other than remuneration for officers (when this income is equivalent to 2% or more of total annual remuneration)
(iii) When TDK has a high degree of dependence on a professional or a Relevant Organization, such as a case where services, etc., rendered by such party are essential to the corporate management of TDK or it would be difficult to find an alternative provider of the same services, etc.
(iv) Where it is recognized within TDK that the relevant outside director/Audit & Supervisory Board Member is involved with the services, etc., provided by the Relevant Organization

3 In the case of a close relative of the relevant outside director/Audit & Supervisory Board Member

An outside director/Audit & Supervisory Board Member shall be judged not to be independent if either of the following cases apply to their close relative at present or have applied to them during the past five years.

(i) A person to whom **1** or **2** above applies (except persons with no material significance)
(ii) A person who executes business for TDK Corporation or a subsidiary of TDK Corporation (except persons without material significance)

Remuneration for Directors and Audit & Supervisory Board Members

Compensation Determination Process

TDK established the Compensation Advisory Committee chaired by an outside director and with outside directors as a majority of members as an advisory body to the Board of Directors. The committee deliberates and makes recommendations on compensation systems and levels for TDK's directors and corporate officers, contributing to ensuring transparency in the compensation decision-making process and the appropriateness of individual compensation in light of the company's financial results and individual performance.

Objectives of Compensation Programs and Compensation Levels

TDK designs compensation programs with the aims of encouraging, to the maximum extent possible, conduct by officers that contribute to financial results, and raising share prices and achieving sustainable increases in the corporate value of the Group as a whole. These programs emphasize the linkage with short-term and medium- to long-term financial results in deliberations and verifications by the Compensation Advisory Committee, an advisory body to the Board of Directors. TDK also seeks to create competitive compensation programs so that it can recruit diverse and outstanding human resources.

With regard to compensation levels, TDK seeks to set compensation that maintains competitiveness compared to other companies in the same industry and to companies of the same size in other industries. The Compensation Advisory Committee periodically confirms the appropriateness of compensation levels based on surveys of corporate executive compensation conducted by third parties.

Results Linkage System

Factor	Type of compensation	Strategic purpose of compensation	Method of calculation
Link to short-term financial results	Performance-based bonuses	Intended to clarify the responsibility of directors and corporate officers to achieve consolidated financial results in each fiscal year and to increase motivation for raising short-term financial results.	In addition to consolidated financial results (operating income, ROE) in the relevant fiscal year, indicators are set for each division, and bonuses vary from 0% to 200% of base salary depending on the degree of attainment of targets.
Link to medium- to long-term financial results	Stock options (stock-based compensation)	A system for raising corporate value from a medium- to long-term perspective and for directors and corporate officers to share with shareholders not only the benefits of rising share prices, but also the risks of falling share prices. Intended to enhance the performance of the relevant officers and increase motivation and determination to raise corporate value.	The exercise of a portion of stock options (stock-based compensation) is conditioned on achieving certain financial results with the objective of increasing the linkage of officer compensation with medium- to long-term financial results and corporate value. For the conditions, consolidated financial results (operating income, ROE) under the Medium-Term Plan are set as indicators, and the number of options that can be exercised ranging from 0% to 100% of the options granted depends on the degree of achievement of those indicators. TDK established the Corporate Stock Ownership Guidelines and encourages officers to hold at least a certain number of shares (including stock options) set according to the officer's rank.

Standard Allowance	1	:	0.6	:	0.7
Compensation structure	Basic remuneration	+	Short-term incentive (Performance-based bonuses)	+	Medium- to long-term incentive stock options (Stock-based compensation)
Linked indicators			Operating income, ROE, Target of each division		Operating income, ROE
Fluctuation range			Depending on the degree of achievement of operating income and ROE, department objectives, vary from 0% to 200% with respect to the standard allowance		Depending on the degree of achievement of operating income and ROE, for the grant number, change is an exercisable percentage within the range from 0% to 100%

Total Amount of Remuneration for Directors and Audit & Supervisory Board Members for the Business Year under Review (Fiscal 2016)

Classification	Total number of payees	Total amount of remuneration (Millions of yen)	Remuneration breakdown: Basic remuneration		Results-linked bonus		Stock-linked compensation stock options	
			Number of payees	Amount paid (Millions of yen)	Number of payees	Amount paid (Millions of yen)	Number of payees	Amount paid (Millions of yen)
Directors (outside directors)	9 (4)	418 (51)	9 (4)	224 (51)	4	100	4	94
					Not eligible for the above remuneration			
Audit & Supervisory Board Members (outside Audit & Supervisory Board Members)	8 (5)	85 (27)	8 (5)	85 (27)	Not eligible for the above remuneration			
Total number of payees	17	502	17	308	4	100	4	94

Notes: 1. The number of directors and Audit & Supervisory Board Members at the end of fiscal 2016 was 7 and 5, respectively. The total number of payees, the total amount of remuneration, and the basic remuneration in the breakdown thereof regarding directors and Audit & Supervisory Board Members as shown above include the amount of remuneration paid to one outside director who retired at the close of the 119th Ordinary General Meeting of Shareholders held on June 26, 2015.
2. Performance-based bonuses and stock options (stock-based compensation) paid to directors are reported as expenses starting in fiscal 2016.

TOPICS

Initiatives to Reinforce Corporate Governance

1 Role of the Nomination Advisory Committee and Appointment of the CEO

TDK established the Nomination Advisory Committee as an advisory body to the Board of Directors. The Committee is chaired by an outside director, and a majority of its members are also outside directors. It deliberates on expected qualifications of candidates for director, Audit & Supervisory Board Member, and corporate officer and recommends candidates so as to contribute to ensuring the appropriateness of the nomination process and transparency of the decision-making process. The Committee also deliberates on the independence of outside directors.

When nominating the CEO, the Committee formed an image of the ideal person suitable for the role of top executive and conducted repeated deliberations that also covered such issues as systems and the term of office. An outside expert organization was also utilized, and emphasis was placed on ensuring objectivity. (See pages 64–66 for further details.)

2 Prerequisites for Ensuring the Effectiveness of the Board of Directors and Audit & Supervisory Board

One of TDK's fundamental policies is to keep the number of members on the Board of Directors low in order to achieve timely management decision making. The Articles of Incorporation specify that the number of Board members shall be no more than 10; the Board currently has seven members. The Articles also specify that the Audit & Supervisory Board shall have no more than five members; it currently has five members. The current composition of the Board of Directors, including both directors and Audit & Supervisory Board Members, is seven directors, of whom three are outside directors, and five Audit & Supervisory Board Members, of whom three are outside members, for a total of six outside officers. Thus, the ratio of inside officers to outside officers is 5:5.

3 Measures to Reinforce Management Diversity

Approximately 90% of the TDK Group's sales are from overseas, and non-Japanese employees account for approximately 90% of the workforce, giving the Group a considerable global character. In order to respond to this global management environment, the Group is actively hiring non-Japanese managers, including corporate officers and business division heads, and 41% of corporate officers are non-Japanese nationals. Some 72% of overseas Group subsidiaries have a non-Japanese president, and structures that enable local human resources to exercise leadership are taking root as they become more effective. The TDK Group has a culture of continuously innovating through active discussions regardless of nationality, race, employer, or other factors.

Global Management Meeting shows strengths of integration

The Global Management Meeting (GMM) is a TDK Group body that meets at least once each month to discuss important issues, including business strategies, operations, and management. Membership includes corporate officers at the senior vice president level and higher, business division heads, and regional managers from Europe, the Americas, and China. Non-Japanese heads of business divisions and managers from regional headquarters participate to encourage discussion from a broader range of perspectives amid a rapidly changing business environment.

Examples of GMM Topics

Establishment of joint venture with Company X

Acquisition of business company in Europe

Investment in Chinese manufacturing site to increase production

Establishment of overseas R&D center

Examples of GMM Members

President

CEO of each Business Company

COO of each Business Company

Head of each regional headquarters

CTO

Officers responsible for head office functions

Expectations and Thoughts for TDK

— TDK's Governance Viewed by an Outside Director

Makoto Sumita
Outside Director
Chairman of the Board of Directors
Chairman of the Nomination Advisory Committee
Chairman & CEO, INNOTECH CORPORATION

High hopes for new President Shigenao Ishiguro

An outstanding presence capable of growing the business and raising TDK performance

I serve as chairman of the TDK Nomination Advisory Committee. In approaching the Committee's screening of candidates for president, I strongly believed that the role and the tenure of the President were key points. With 10 years having passed since former President Takehiro Kamigama assumed that post, along with other considerations, we thoroughly discussed what type of system to establish to ensure sustainable growth for TDK going forward.

Among the comments made, it was stated that in the case of TDK, a tenure of 10 years is certainly not short in view of the process from the manufacturing of materials through to development in creating any given product. However, the term of president and the product development cycle do not necessarily coincide. The Committee held numerous meetings, with discussions rooted in the perspective of it being preferable for TDK to be led by someone cut out to serve the interests of our stakeholders, how to build a system in support of such a figure, and whether the term of office should be determined on that basis. We also held numerous interviews. This was not limited to the Nomination Advisory Committee, with similar interviews arranged by outside experts and other concerted efforts made to uphold fairness and transparency.

Former President Kamigama established a solid track record for structural reform, aggressive M&A, and other new approaches. We wanted someone capable of shouldering the role of bringing such progress to even greater fruition, and further raising the performance of TDK.

Regarding the HDD magnetic heads business, a sector for which the market has continued to be harsh, new President Shigenao Ishiguro has acted with poise and wisdom in firmly dealing with the issues at hand. He conveys the impression of someone ready to exercise the leadership needed to take charge and get the job done, even in the event of crisis. Furthermore, he has followed the practical road of reappraising the HDD magnetic heads development and production systems, while maintaining a global mindset. Upon the acquisition of Micronas, it is my understanding that Micronas management initially expressed little desire in tying up with a Japanese company. Mr. Ishiguro responded by getting directly involved in the negotiations, persevering with continued discussions on how TDK was ready to put Micronas technology to fruitful use. An agreement was finalized in the end, with the continuation of brisk deliberations utilized to formulate a strategy geared to take full advantage of the TDK Group's sensor technology. We arrived at the decision that such skills are dearly needed to build the next-generation TDK.

President Ishiguro is truly a man who inspires confidence in his profound knowledge of key technologies, and the ability to generate results. We have high expectations that he will lead TDK with a firm hand, acting in a capacity much like that of a "baseball closer" in securing victories in the end.

Grasping the philosophy of the Corporate Governance Code, building effective governance

Pursuit of genuine diversity in laying the groundwork for global development

A year has passed since the introduction of the Corporate Governance Code of Japan. While I understand that there is much debate over this matter, I also feel that the Corporate Governance Code provides a good opportunity to change how Japanese companies operate, thereby substantially raising their competitiveness over the medium to long term.

In my view, the decision to enact this code began with debate over how to improve the approaches of Japanese companies that have failed to demonstrate competitive strength on the global market. It is true that U.S. companies, overseas investors, and others have made harsh observations in this area. We must not conclude, however, that U.S. companies always approach their management with short-term vision. On the contrary, such enterprises tend to constantly redefine their business domains, striving to put their management on sound footing and further enhance competitiveness on a medium- to long-term basis. In other words, they carry on reforms to shape their businesses to meet the conditions of the new era. It is their board members, investors, and other stakeholders, moreover, who strictly assess the appropriateness of those reforms. In my opinion, such mechanisms have been inadequate in Japan.

It is important to not simply improve appearances, achieve numerical targets, and make other superficial progress. Of greater significance is the degree of commitment that top managers devote to generating high business earnings over the medium to long term. In that sense, I believe that the Corporate Governance Code will bring positive change to Japanese companies from the inside.

There is a proverb that can be roughly translated as, "Ploughing the field but forgetting the seed." That is, even when the most outstanding rules are in place, failing to put them into practice will prevent progress in the desired direction. In that regard, I give TDK high marks for spreading recognition of the importance of governance throughout its entire management level, and the functioning of that governance in an effective manner. The Company took progressive steps in that direction from early on, such as disclosure of the

evaluations of its Board of Directors to the outside. On the business management front as well, TDK has stated its target figures for operating income and ROE in the Medium-Term Plan, with the Board engaging in ongoing deliberations of how best to reach those goals.

This attitude extends to the establishment of global governance as well. On this front, it is my impression that TDK has avoided the passive approach of adopting such governance in appearance alone. Recognition of the crucial need for such controls when deploying global operations has supported progress in this area. TDK has grown its business on the strength of respect for the methods used to hire local personnel and advance commercial operations. This awareness can be seen in the extensive delegation of authority and consignment of management leadership to local operations, along with the fact that seven out of the 17 corporate officers at TDK are non-Japanese. While the term "diversity" has become a popular buzzword of late, TDK is truly pursuing the essence of "diversity" in the quest to heighten its corporate value. I view that degree of commitment as being rare among Japanese companies. In the near future, furthermore, I believe that we may also very well see non-Japanese appointed to head the top management team or posts close to that level.

The continuing quest to earn high expectations in the eyes of investors

Supporting the TDK mission for dynamic reform through governance

TDK is on the road to big change. These endeavors are not limited to aggressive M&A, with energetic pushes also underway toward major makeovers in the company's business portfolio, consolidation and new establishment of its domestic and overseas bases, and on other fronts. One factor fueling this trend is moves by customers to switch from domestic Japanese manufacturers to Asian, North American, and other overseas makers recording striking growth. We have likewise seen increases in emerging overseas corporate ventures successful in innovation and other new category customers. Conventional Japanese business practices and other means used to date are no longer adequate to forge deep ties with such new customers and effectively address their needs. To quickly identify the requirements of customers advancing diversification in quality, delivery and cost, and establish speedy development and production systems, TDK must continue to dedicate itself to the never-ending pursuit of innovation.

Though TDK is bolstering its sales in electronic components for automobiles, today's demands are not limited to safety alone. The level of electronic components geared for vehicles built for automonous driving and other new intelligence, sensors closely matched to mobility systems, and other customer demands directed at our products continues to intensify. To respond to such desires, bold steps must be taken to concentrate the technology, engineering capacity, and other TDK strengths to build systems capable of marketing such developments. I am confident that as it advances this type of process, TDK will succeed in raising the level of its competence overall.

Over these past 20 years, TDK has truly dominated the market in the HDD magnetic heads business. Knowledge of this particular pattern for success is a precious asset. There are ample opportunities for applying the know-how cultivated in HDD magnetic heads and other areas to sensors and actuators, energy units, next-generation electronic components and other strategic growth products. As one of our outside directors, I will continue to keep a keen watch, steeped in high expectations, on just how far TDK can progress in the electronic components industry, a field that has clearly entered a new stage in its development and growth.

Major Business Risks and Risk Management System

The TDK Group is active in many markets and regions around the world; overseas sales ratio of the Group has exceeded 90%. In addition, competition in the electronic components industry, to which the Group belongs, is severe due to increased technological innovation. In view of this situation, we have developed the following risk management measures to adress major business risks that may significantly affect the TDK Group.

Details of Major Risks	Examples of Risk Management Measures
Changes in economic trends due to global problems and economic fluctuations	• Collect information on global political and economic developments in a timely manner
Reduction of sales revenue or operating income due to foreign exchange rate fluctuations	• Increase purchases of raw materials in foreign currencies and local procurement of materials consumed overseas • Procure foreign capital and foreign currency futures contracts
Impacts from various problems in conjunction with conducting overseas business (international political risks, economic risks, social risks, etc.)	• Analyze and implement countermeasures to address risks in each country with a focus on global economic developments
Greater than expected decline in Group product prices and prolonged low prices	• Continuously implement cost-cutting measures and efforts to raise profitability • Identify unprofitable businesses and products and establish criteria for withdrawal
Failure of continuous technological reform and new product development	• Review research and development systems based on analysis of market trends on an ongoing basis • Manage development to conduct selection and consolidation of development topics
Occurrence of quality-related problems, such as recalls and product liability claims	• Use proprietary quality technology and previously accumulated quality data • Create quality assurance systems to ensure quality, from upstream development stages through to design reviews, internal quality inspections, supplier audits and guidance, and process management at every product stage, including planning, design, prototyping, and manufacturing
Occurrence of major disputes regarding intellectual property	• Reinforce utilization of patent portfolio through management and acquisition of intellectual property rights relating to product functions, designs, etc.
Inability to recruit and develop human resources as planned	• Actively recruit recent graduates and hire mid-career, experienced human resources • Create programs intended to raise employee motivation, including enhancement of fair evaluation and benefits programs based on a goal-oriented management system; expand various educational programs intended to develop autonomous and global human resources; and transmit TDK's *Monozukuri* DNA
Suspension of supplies of raw materials, etc., or extreme increases in raw materials prices	• Purchase raw materials, among others, from multiple outside suppliers and create production systems premised on securing appropriate quantities in a timely manner • Appropriately review suppliers
Stricter regulatory restrictions by government agencies	• Continuously monitor related regulatory amendment trends, among others
Impacts on the value of financial assets and financial liabilities from fluctuations in interest rates	• Use interest rate swaps to fix amounts of interest paid • Maintain current assets at 2.0 months or more of consolidated monthly net sales
Substantial reduction or termination of business as a result of deterioration of a customer's financial performance or acquisition of a customer by a third party	• Conduct business with a variety of customers and set trading terms taking into consideration customer credit risks
Occurrence of a natural disaster, interruption of power supplies, or epidemic	• Establish highly detailed business continuity plans • Implement disaster preparedness measures and infectious disease control measures to prepare for unexpected natural disasters or epidemics and install generating facilities to prepare for electric power shortages
Application of stricter environmental regulations	• Continuously monitor trends regarding revision of relevant regulatory systems and take countermeasures in advance • Develop products and manufacturing methods with minimal environmental impact • Undertake a range of environmental preservation measures
Problems relating to mergers and acquisitions, including inability to recover invested funds and the occurrence of additional expenses	• Implement M&As taking into consideration market trends and customer needs; the business results, financial status, technological superiority, and market competitiveness of target companies; and the Group's business portfolio
Data breaches concerning confidential information of customers and business partners	• Create and thoroughly implement Group wide management systems, reinforce IT security and facility security, and conduct employee training

Directors, Audit & Supervisory Board Members, and Corporate Officers (As of June 29, 2016)

Directors

Takehiro Kamigama

Representative Director
Chairman
Number of shares held:
10,000 shares

Shigenao Ishiguro

Representative Director
President and CEO
General Manager of Manufacturing HQ
General Manager of Humidifier Countermeasures HQ of the Company
Number of shares held:
1,800 shares

Noboru Saito

Director
General Manager of the Corporate Strategy HQ
Number of shares held:
3,200 shares

Tetsuji Yamanishi

Director
General Manager of Finance & Accounting Group
Number of shares held:
1,000 shares

Makoto Sumita

Outside Director
Chairman of the Board
Chairman of Nomination Advisory Committee
Number of shares held:
– shares

Summary of career

Born on Jan. 6, 1954

Apr. 1980	Entered Nomura Research Institute, Ltd.
Jun. 1996	Director of INNOTECH CORPORATION
Apr. 2005	Executive Vice President & Representative Director of said company
Jun. 2005	Director of IT Access Co., Ltd.
Apr. 2007	President & CEO of INNOTECH CORPORATION
Jun. 2011	Outside Audit & Supervisory Board Member of the Company
Apr. 2013	Chairman & CEO of INNOTECH CORPORATION (present post)
Jun. 2013	Resigned as Outside Audit & Supervisory Board Member of the Company
	Outside Director of the Company (present post)
Feb. 2015	Chairman & CEO of INNOTECH FRONTIER, Inc. (present post)

Kazumasa Yoshida

Outside Director
Chairman of Compensation Advisory Committee
Number of shares held:
– shares

Summary of career

Born on Aug. 20, 1958

Oct. 1984	Entered Intel Corporation
Oct. 1999	Manager of Technology/OEM Alliance Business Strategy of Enterprise Service Group of said company
Mar. 2000	General Manager of Communication Product Group of Intel K.K.
May 2002	General Manager of Intel Architecture Business of said company
Jun. 2003	Representative Director and President of said company
Dec. 2004	Vice President of Sales and Marketing Group of Intel Corporation
Jun. 2012	Outside Director of Onkyo Corporation (present post)
Feb. 2013	Outside Director of Gibson Brands, Inc. (present post)
Jun. 2013	Outside Director of CYBERDYNE Inc. (present post)
Oct. 2013	Advisor of Intel K.K.
Jun. 2014	Outside Director of the Company (present post)
Jun. 2015	Outside Director of Mamezou Holdings Co., Ltd. (present post)

Kazuhiko Ishimura

Outside Director
Member of Nomination Advisory Committee
Member of Compensation Advisory Committee
Number of shares held:
– shares

Summary of career

Born on Sep. 18, 1954

Apr. 1979	Entered ASAHI GLASS CO., LTD.
Jan. 2006	Executive Officer of said company
Jan. 2007	Senior Executive Officer and GM of Electronics & Energy General Division of said company
Mar. 2008	President & COO and Representative Director of said company
Jan. 2010	President & CEO and Representative Director of said company
Jan. 2015	Chairman & Representative Director of said company (present post)
Jun. 2015	Outside Director of the Company (present post)

Audit & Supervisory Board Members

Osamu Yotsui

Full-time Audit & Supervisory Board Member
Number of shares held:
2,800 shares

Junji Yoneyama

Full-time Audit & Supervisory Board Member
Number of shares held:
2,000 shares

Kazunori Yagi

Outside Audit & Supervisory Board Member
Number of shares held:
– shares

Summary of career

Born on Apr. 1, 1949

Apr. 1972	Entered Yokogawa Electric Corporation
Oct. 1999	Vice President (Officer) and General Manager of Finance & Business Planning, in charge of Corporate Marketing of said company
Apr. 2001	Senior Vice President and General Manager of Finance & Business Planning of said company
Jun. 2001	Director, Senior Vice President and General Manager of Finance & Business Planning of said company
Jul. 2002	Director, Executive Vice President and General Manager of Finance & Business Planning of said company
Jul. 2005	Director, Executive Vice President and General Manager of Management Administration Headquarters of said company
Jun. 2011	Advisor to said company, Outside Audit & Supervisory Board Member of Yokogawa Bridge Holdings Corporation (present post)
Jun. 2012	Outside Director of JSR Corporation (present post)
Jun. 2013	Outside Audit & Supervisory Board Member of the Company (present post)
Mar. 2014	Outside Director of OYO Corporation (present post)

Toru Ishiguro

Outside Audit & Supervisory Board Member
Number of shares held:
– shares

Summary of career

Born on Jun. 19, 1954

Apr. 1980	Registered as lawyer in Japan Joined Hamada & Matsumoto
Apr. 1984	Registered as lawyer in NewYork, the United States of America
Jan. 1985	Partner of Hamada & Matsumoto
Sep. 1987	Resident Partner of the London office of Hamada & Matsumoto
Jun. 2000	Outside Corporate Auditor of Monex Securities Ltd.
Dec. 2002	Partner of Mori Hamada & Matsumoto (present post)
Jun. 2015	Outside Audit & Supervisory Board Member of the Company (present post)
Jul. 2015	Outside Director of Daiwa Asset Management Co. Ltd.

Kiyoshi Fujimura

Outside Audit & Supervisory Board Member
Number of shares held:
– shares

Summary of career

Born on Nov. 3, 1949

Apr. 1972	Entered Mitsubishi Corporation
Feb. 2002	Member of the Board, President and CEO of Mitsubishi Corporation Financial & Management Services (Japan) Ltd.
Jun. 2003	Senior Corporate Auditor of Mitsubishi Corporation
Jun. 2007	Senior Vice President of said company, CIO & CISO and Senior Assistant to person in charge of Work Restructuring & Internal Control System
Apr. 2008	Executive Vice President of said company, CIO, Work Restructuring & Internal Control System
Jun. 2008	Member of the Board, Executive Vice President of said company, CIO, Work Restructuring & Internal Control System
Apr. 2009	Member of the Board, Executive Vice President of said company, Work Restructuring & Internal Control System, IT Service Business Development, CIO
Apr. 2010	Member of the Board, Executive Vice President of said company, Audit & Internal Control System
Jun. 2012	Adviser of said company, Outside Corporate Auditor of AJINOMOTO CO., INC. (present post)
Jun. 2015	Outside Audit & Supervisory Board Member of the Company (present post)

Corporate Officers

President and CEO

Shigenao Ishiguro

Senior Executive Vice President

Hiroyuki Uemura

Executive Vice President

Atsuo Kobayashi

Senior Vice Presidents

Seiji Osaka
Noboru Saito
Joachim Zichlarz

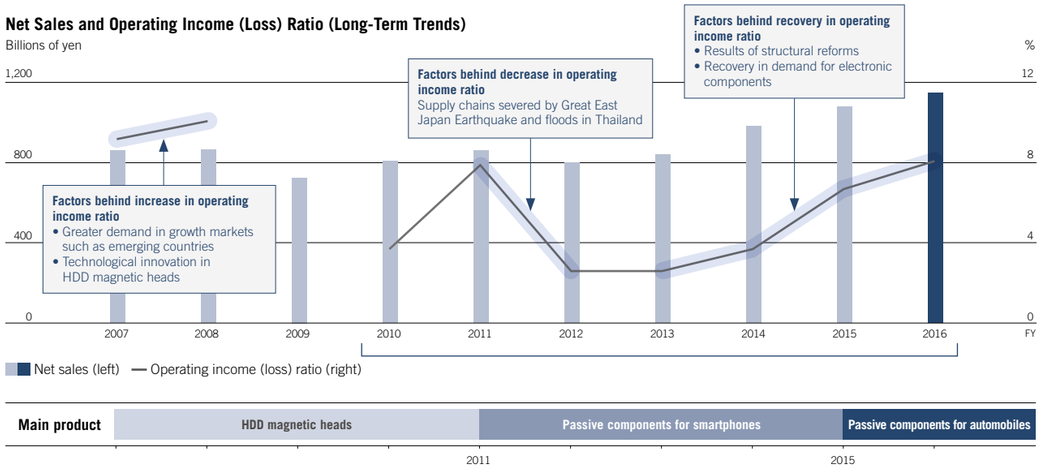
Corporate Officers

Takakazu Momozuka
Mitsuru Nagata
Joachim Thiele
Keiichi Imamoto
Satoru Sueki
Christian Block
Norbert Hess
Michael Pocsatko
Hong Tian
Tetsuji Yamanishi
Albert Ong

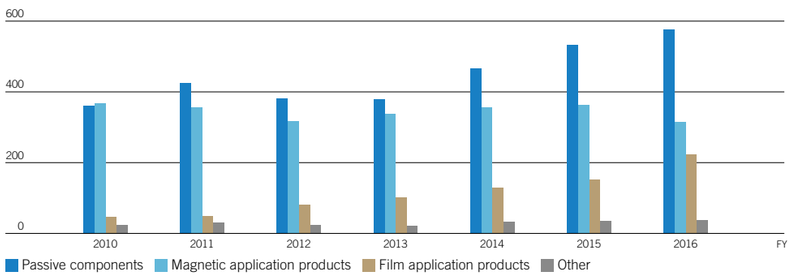
10-Year Record

10 Years of Financial Trends and Analysis

Net Sales and Operating Income (Loss) Ratio (Long-Term Trends)



Sales by Segment from Fiscal 2010 to Fiscal 2016



Note: In accordance with the reorganization in the first quarter of fiscal 2016, certain products under Inductive Devices, Other Passive Components, and Other Magnetic Application Products were reclassified into "Other" that was not a part of these three reportable segments. The previous year's sales were also reclassified to conform to the new segmentation.

Analysis of Net Sales and Operating Income in Past 10 Years

From fiscal 2003 to fiscal 2008, TDK reviewed its products and businesses through a process of selection and consolidation and achieved continuous growth with HDD magnetic heads as its main business.

Demand for electronic devices slowed, however, when the financial crisis occurred in 2008, and an operating loss was posted in fiscal 2009. TDK undertook active measures, including withdrawing from unprofitable businesses, making improvements, optimizing personnel placement, and consolidating business sites. However, supply chains were disrupted as a result of the Great East Japan Earthquake and extensive flooding in Thailand in 2011, and the impact from changes in the external environment continued.

In response to these effects, TDK began a large-scale organizational restructuring in fiscal 2012 in order to create corporate structures that are less susceptible to impact from changes in the business environment. An important part of this undertaking was reform of the profit structure, which placed particular emphasis on the magnetic application product business centered on HDD magnetic heads. The focus was to increase the profitability of multilayer ceramic capacitors and other passive components. Aging domestic manufacturing sites were closed and consolidated, and measures to optimally place human resources were implemented. Internationally, joint technology development was undertaken to fully realize the effects from integration with Germany's EPCOS Group, which TDK acquired in fiscal 2009. As a result, the high-frequency components business, which was able to utilize EPCOS's strengths, achieved profitability, and passive components became a pillar of profits in conjunction with the widespread adoption of smartphones and tablet computers. More recently, the multilayer ceramic capacitors business has leveraged strengths including materials and process technologies, to achieve strong results in distinctive electronic components for automobiles, industrial equipment and energy.

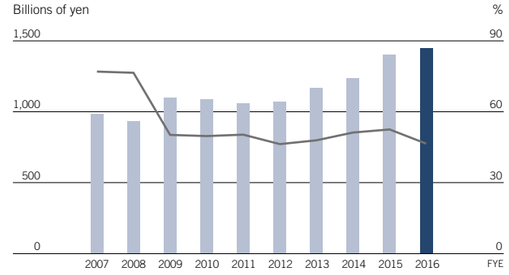
The operating income ratio has increased since fiscal 2013 as a result of a recovery in demand for electronic components, the effects of structural reforms, and other factors. Net sales surpassed ¥1 trillion in fiscal 2015 and reached a record high of ¥1,152.3 billion in fiscal 2016.

Analysis of Financial Position during Last 10 Fiscal Years

From fiscal 2008 through fiscal 2009, total assets increased due principally to the acquisition of the EPCOS Group. At the same time, as a result of raising funds, primarily in the form of acquiring stock, total liabilities also increased. This caused the company's stockholders' equity ratio to fall by approximately 20 points to 50%. Currently, the stockholders' equity ratio is on a gradual incline. Since the end of fiscal 2012, net trade receivables, inventories, property, plant and equipment, and other items have each increased alongside higher net sales for certain products. The stockholders' equity ratio increased through the end of fiscal 2015 but fell 6.0 points, to 46.6%, at the end of fiscal 2016 as a result of investment in new products and new business and active M&As.

In order to accommodate rapid technological innovations and intensified sales competition in the electronics industry, TDK has aggressively conducted capital expenditures on an ongoing basis. At the same time, the company's adopted policy is to make such investments after always considering the balance between supply and demand.

Total Assets / Stockholders' Equity Ratio

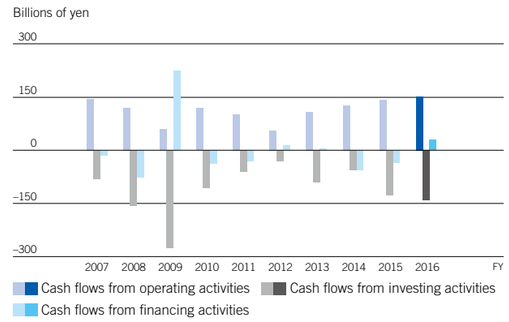


Analysis of Cash Flow during Last 10 Fiscal Years

During fiscal 2009, TDK conducted a large-scale M&A. Consequently, its free cash flow entered negative territory. However, even while continuing to aggressively conduct capital expenditures, the company has kept its free cash flow in positive territory due to an increase in cash flow from operating activities. TDK's principle is to use cash and deposits, etc. (which includes cash, deposits, short-term investments, and securities), as liquid capital while using funds generated from day-to-day business activities to cover operating capital and capital expenditure funds. The company has been endeavoring over a long period of time to maintain its liquidity at 2.0 months' worth of monthly consolidated net sales or greater. Additionally, in order to improve its capital efficiency, TDK has introduced the Cash Management System (CMS) in Japan, the United States, and Europe.

Through this system, the company centrally manages funds using headquarters functions as much as possible. However, for its subsidiaries that are unable to cover operating capital and capital expenditure funds with cash on hand, the company is electing to use funds within the TDK Group to the fullest extent possible. In addition, the company has been managing cash on hand to focus on safety and liquidity.

Cash Flows



Fiscal 2016

Operating Results for Fiscal 2016

Summary of Market Conditions

The electronics market, which has a large bearing on the consolidated performance of TDK, saw production levels differ by finished product. Production of smartphones increased from the previous fiscal year, driven by sustained growth in demand in the Chinese market. Production in the automobile market was slightly higher than the level of the previous fiscal year, driven mainly by solid automobile sales in the United States Meanwhile, production of PCs declined compared with the previous fiscal year, when there had been firm demand for replacement of PCs spurred by the end of support for Windows XP. Production of hard disk drives (HDDs) declined substantially compared with the previous fiscal year due to the decreased demand for PCs and the continued replacement of HDDs inside PCs by solid state drives (SSDs), despite demand for data center applications continuing to hold firm.

Sales of passive components mainly for the ICT market centered on smartphones as well as for the automotive market, and sales of film application products increased, making up for the drop in the HDD market. In addition, there was a 9.4% depreciation of the yen versus the U.S. dollar in actual terms during fiscal 2016, which also contributed to the increase in net sales.

Net Sales and Operating Income by Segment

During fiscal 2016, TDK recorded consolidated net sales of ¥1,152,255 million, up 6.4% from fiscal 2015, and operating income of ¥93,414 million, up 28.9% from fiscal 2015.

The Passive Components segment comprises the company's: (1) capacitors business, (2) inductive devices business, and (3) other passive components business. Segment net sales were ¥575,746 million, up 8.2% year on year. The segment reported profit of ¥66,404 million, up 81.4% from fiscal 2015. In the capacitors business and inductive devices business, sales to the automotive markets increased in particular. Sales of high-frequency devices increased significantly to the ICT market. Other passive components' sales of piezoelectric material products and circuit protection components increased to the ICT market. Sales of sensors increased to the automotive and the industrial equipment markets.

The Magnetic Application Products segment comprises the company's: (1) recording devices business and (2) other magnetic application products business. Segment net sales decreased 13.2% year on year, to ¥315,322 million. Segment profit decreased 55.5% from fiscal 2015, to ¥13,194 million. Sales of HDD magnetic heads and HDD suspension assemblies declined due to the lackluster HDD production level.

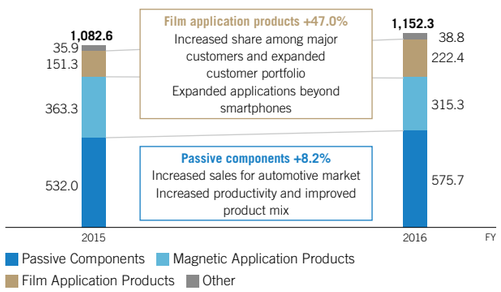
Other magnetic application products sales of power supplies increased to the industrial equipment market, but sales of magnets decreased to the automotive market and the ICT market for use in HDDs.

The Film Application Products segment includes energy devices (rechargeable batteries) and applied films. Segment net sales increased 47.0% year on year, to ¥222,359 million. Segment profit increased 48.0% from fiscal 2015, to ¥36,356 million. Sales of energy devices to the ICT market increased in particular.

The Other segment, which is made up of businesses that do not belong to any of the three reportable segments, comprises mechatronics (production equipment), among others. Net sales for this segment increased 8.0% over fiscal 2015, to ¥38,828 million. Segment earnings increased 229.4% over fiscal 2015, to ¥1,881 million.

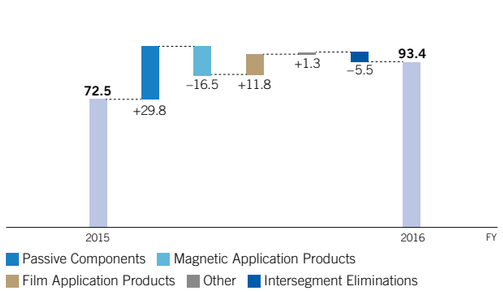
Net Sales by Segment: Comparing Fiscal 2016 and 2015

Billions of yen



Operating Income by Segment: Comparing Fiscal 2016 and 2015

Billions of yen



Production Results and Status of Orders Received by Segment

TDK's production results for fiscal 2016 are as follows: ¥577,437 million for a year-on-year increase of 5.8% in the Passive Components segment, ¥310,335 million for a year-on-year decrease of 16.4% in the Magnetic Application Products segment, and ¥229,246 million for a year-on-year increase of 46.4% in the Film Application Products segment. Net orders received for fiscal 2015 are as follows: ¥585,958 million for a year-on-year increase of 3.7% in the Passive Components segment, ¥305,049 million for a year-on-year decrease of 15.9% in the Magnetic Application Products segment, and ¥316,687 million for a year-on-year increase of 32.9% in the Film Application Products segment.

In the Film Application Products segment, both production volume and order volume expanded significantly. As demand for lithium polymer batteries and demand in non-smartphone application areas such as drones is rising, we will be expanding production capacity to meet demand.

Effect of Foreign Exchange Fluctuations

Regarding average currency rates during fiscal 2016, the yen's value depreciated 9.4% versus the U.S. dollar and 4.5% versus the euro year on year. Exchange rate fluctuations had the effect of increasing net sales by approximately ¥85.3 billion and operating income by approximately ¥17.3 billion in fiscal 2016. Additionally, TDK and certain overseas subsidiaries have entered agreements for the likes of forward foreign exchange contracts and currency swaps in order to mitigate foreign exchange fluctuation risk. The company's policy regarding said risk is that, in principle, it will hedge up to 50% of foreign currency-denominated net trade receivables expected to be generated over the course of the coming six months.

Cost and Net Income

Cost of sales in fiscal 2016 increased 3.6% from fiscal 2015, to ¥831,123 million, due to an increase in net sales. However, the cost of sales ratio decreased 2.0 percentage points over fiscal 2015, to 72.1% of net sales. Despite cost increases driven by higher labor costs in China and other emerging markets and strong pressure for price discounts on products, the cost of sales ratio decreased due to contributions from improvements in productivity and lower material prices, lower costs of sales resulting from the effects of structural reforms, improvements to the company's product mix as a result of terminating unprofitable product lines, and an increase in sales volumes. As a result, gross profit increased ¥40,797 million (14.6%) year on year in fiscal 2016, bringing the gross profit ratio to 27.9%.

Selling, general and administrative expenses in fiscal 2016 increased ¥19,842 million from fiscal 2015, to ¥227,718 million. The main factors in the increase in expenses are an increase of ¥8.2 billion due to the effects of currency translation adjustments resulting from the yen's depreciation and an increase in sales expansion drive costs in the company's main businesses. R&D expenses included in selling, general and administrative expenses for fiscal 2016 climbed 20.2% from fiscal 2015, to ¥84,920 million.

Other income (deductions) deteriorated by ¥3,633 million from fiscal 2015. The main reason is loss on sale of marketable securities and investments in securities and impairment loss of investments in securities increased by ¥1,839 million from fiscal 2015, respectively.

TDK posted net income attributable to TDK of ¥64,828 million, resulting in diluted net income attributable to TDK per common share of ¥504.66. Return on equity improved from 7.2% to 9.2%.

Status of Capital Expenditures

In fiscal 2016, TDK spent ¥160,674 million on capital expenditures. Capital expenditures in the Passive Components segment totaled ¥75,877 million. These expenditures were mainly for the purpose of increasing the production capacity of high-frequency components and inductive devices. Capital expenditures in the Magnetic Application Products segment totaled ¥16,131 million, mainly for the development and production of high-density next-generation HDD magnetic heads at SAE Magnetics (H.K.) Ltd. Capital expenditures in the Film Application Products segment totaled ¥52,837 million, mainly to boost production of lithium ion polymer batteries at Amperex Technology Ltd.

Capital expenditures in Other totaled ¥2,280 million. Capital expenditures for the R&D divisions at the headquarters totaled ¥13,549 million, mainly for investments in building new plants and in internal IT infrastructure construction and fundamental development research.

Analysis of Financial Position

Assets

Total assets amounted to ¥1,450,585 million as of March 31, 2016, a ¥46,303 million increase from March 31, 2015. Liquidity (cash and cash equivalents, short-term investments, and marketable securities) increased by ¥20,936 million. Property, plant and equipment increased by ¥60,385 million, while net trade receivables decreased by ¥11,871 million.

Liabilities

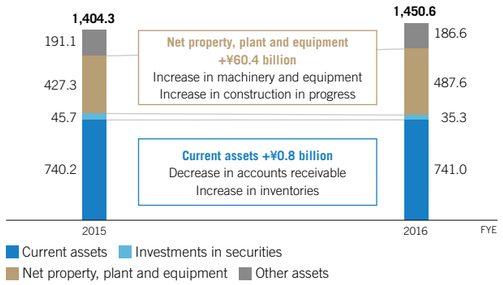
Total liabilities amounted to ¥765,952 million, a ¥119,677 million increase from the end of the previous fiscal year. Short-term debt and current installments of long-term debt increased by ¥58,062 million and retirement and severance benefits increased by ¥41,449 million.

Net assets

Total TDK stockholders' equity in net assets decreased by ¥63,500 million year on year to ¥675,361 million. While retained earnings increased by ¥46,349 million, accumulated other comprehensive income (loss) increased by ¥96,403 million, mainly due to decreases in foreign currency translation adjustments and pension liability adjustments.

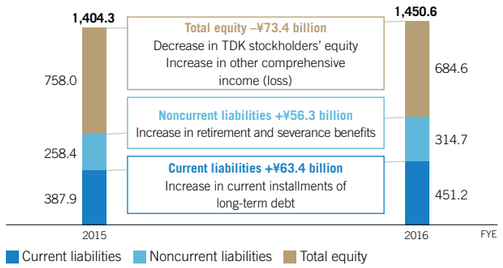
Total Assets: Comparing Fiscal 2016 and 2015

Billions of yen



Total Liabilities and Net Assets: Comparing Fiscal 2016 and 2015

Billions of yen



Cash Flows

Cash flows from operating activities

Operating activities provided net cash of ¥151,563 million, a year-on-year increase of ¥8,713 million, mainly due to increases in net income and trade payables.

Cash flows from investing activities

Investing activities used net cash of ¥140,585 million, a year-on-year increase of ¥13,273 million, mainly due to an increase in capital expenditures.

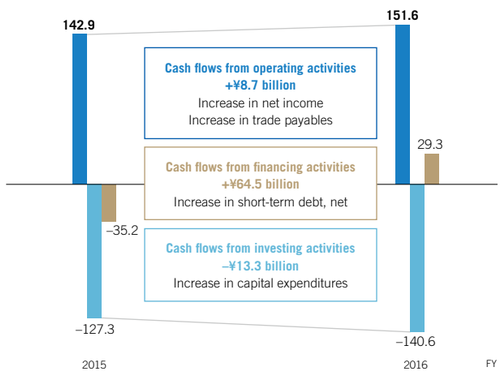
Cash flows from financing activities

Financing activities provided net cash of ¥29,305 million, a year-on-year change of ¥64,548 million, mainly due to an increase in short-term debt.

As a result of adding in the effects of currency fluctuations, cash and cash equivalents as of March 31, 2016 was ¥285,468 million, an increase of ¥20,364 million from March 31, 2015.

Cash Flows: Comparing Fiscal 2016 and 2015

Billions of yen



Future

Outlook for Fiscal 2017 and Medium- to Long-Term Prospects

Outlook for Fiscal 2017

With regard to the outlook for the global economy in fiscal 2017, the U.S. economy is expected to grow, but the economies of resource-producing countries will likely slow with the decline in growth in China and falling crude oil prices, as well as concerns regarding the withdrawal of the United Kingdom from the European Union. The impact of currency exchange rates remains uncertain, but demand in electronics markets is expected to continue growing. Net sales are expected to be ¥1,160.0 billion, an increase of 0.7% over fiscal 2016, and operating income is expected to be ¥74.0 billion. We project that sales in the Passive Components segment will be up 3%–6% compared fiscal 2016, sales in the Magnetic Application Products segment will be down 11%–14%, and sales in the Film Application Products segment will increase 12%–15%. With regard to the acquisition of noncurrent assets, TDK plans to make active capital investments in order to reinforce production capacity and technological capabilities, and capital investment is expected to reach ¥200 billion, up 24.5% over fiscal 2016. R&D expenses are projected to increase 6.0% year on year, to ¥90 billion.

Outlook for Fiscal 2017

Millions of yen

	Fiscal 2017 Full-Year Projections	Fiscal 2016 Full-Year Results	YoY Change (FY2017 vs. FY2016)	Change (%)
Net sales	**1,160,000**	1,152,255	7,745	0.7
Operating income	**74,000**	93,414	(19,414)	(20.8)
Net income	**50,000**	64,828	(14,828)	(22.9)
Dividends	**Annual ¥120**	Annual ¥120	—	—
Capital expenditure	**200,000**	160,674	39,326	24.5
Depreciation and amortization	**95,000**	83,224	11,776	14.1
R&D expenses	**90,000**	84,920	5,080	6.0

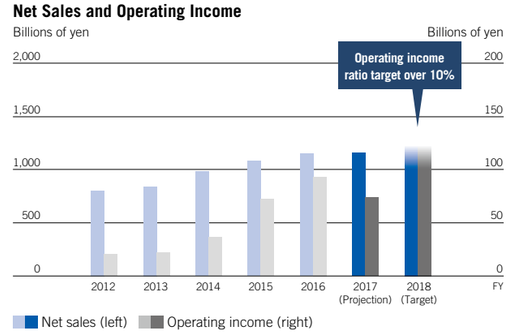
Medium- to Long-Term Management Plan

Electronics markets, including the markets for automotive and smartphone components, are generally growing at a steady pace as products incorporate more advanced functions, become slimmer, and achieve higher safety levels. In light of the demands by customers for higher quality and performance in electronic components, including automotive components, the TDK Group has positioned early achievement of zero defect quality as a key issue. We are reinforcing production processes that integrate management of all aspects, from materials to manufacturing, and accelerating *Monozukuri* Innovation in three core areas—raising quality, implementing innovations in procurement and energy efficiency, and cost cutting.

In the first year of our Medium-Term Plan, we carried out five business growth strategies with automotive, ICT, and industrial equipment and energy as our three priority markets. Going forward, we will strengthen cooperation with U.S.-based Qualcomm in a wide range of business fields and use the acquisition of Micronas, a Switzerland-based magnetic sensor company, to accelerate the expansion of strategic growth products and acquire business opportunities in IoT markets (see page 23). In the recording devices business, it is expected that business operations will be difficult as a result of the decline in demand for PCs and the shrinking HDD market. By normalizing the scale of production and using our state-of-the-art technological capabilities to supply products and services, we will strive to remain a needed presence even in shrinking markets (see page 47). We will steadily carry out thorough countermeasures in some businesses with a focus on an early shift to a high-profit structure.

The headquarters development function that supports these business operations will organize three centers for ICT device development, energy device development, and materials development and establish development structures tailored to market characteristics. TDK will also reinforce R&D functions in the United States, Europe, and China to carry out R&D activities tailored to the specific attributes of each region.

Net Sales and Operating Income



Consolidated Balance Sheets

TDK Corporation and Consolidated Subsidiaries (U.S. GAAP)
As of March 31, 2016 and 2015

ASSETS

	2015		2016			Change
	Millions of yen	%	Millions of yen	%	U.S.$ thousands	Millions of yen
Current assets	740,241	52.7	**740,994**	**51.1**	**6,557,469**	753
Cash and cash equivalents	265,104		**285,468**		**2,526,265**	20,364
Short-term investments	20,091		**21,964**		**194,372**	1,873
Marketable securities	1,301		**—**		**—**	(1,301)
Net trade receivables	238,089		**226,218**		**2,001,929**	(11,871)
Inventories	151,012		**157,129**		**1,390,522**	6,117
Other current assets	64,644		**50,215**		**444,381**	(14,429)
Noncurrent assets	664,041	47.3	**709,591**	**48.9**	**6,279,566**	45,550
Investments in securities	45,733		**35,335**		**312,699**	(10,398)
Net property, plant and equipment	427,254		**487,639**		**4,315,389**	60,385
Other assets	191,054		**186,617**		**1,651,478**	(4,437)
Total	1,404,282	100.0	**1,450,585**	**100.0**	**12,837,035**	46,303

For convenience only, an exchange rate of U.S.$1 = ¥113 has been used.

LIABILITIES AND EQUITY

	2015		2016			Change
	Millions of yen	%	Millions of yen	%	U.S.$ thousands	Millions of yen
Current liabilities	387,877	27.6	**451,234**	**31.1**	**3,993,221**	63,357
Short-term debt	136,098		**158,683**		**1,404,274**	22,585
Current installments of long-term debt	751		**36,228**		**320,602**	35,477
Trade payables	111,591		**112,664**		**997,027**	1,073
Accrued expenses	118,336		**123,892**		**1,096,389**	5,556
Other current liabilities	21,101		**19,767**		**174,929**	(1,334)
Noncurrent liabilities	258,398	18.4	**314,718**	**21.7**	**2,785,115**	56,320
Long-term debt, excluding current installments	131,483		**140,847**		**1,246,434**	9,364
Retirement and severance benefits	105,687		**147,136**		**1,302,088**	41,449
Other noncurrent liabilities	21,228		**26,735**		**236,593**	5,507
Total liabilities	646,275	46.0	**765,952**	**52.8**	**6,778,336**	119,677
Common stock	32,641		**32,641**		**288,858**	—
Additional paid-in capital	39,755		**21,083**		**186,575**	(18,672)
Legal reserve	29,685		**34,221**		**302,841**	4,536
Retained earnings	661,159		**707,508**		**6,261,133**	46,349
Accumulated other comprehensive income (loss)	(5,882)		**(102,285)**		**(905,177)**	(96,403)
Treasury stock	(18,497)		**(17,807)**		**(157,584)**	690
Total TDK stockholders' equity	738,861	52.6	**675,361**	**46.6**	**5,976,646**	(63,500)
Noncontrolling interests	19,146	1.4	**9,272**	**0.6**	**82,053**	(9,874)
Total equity	758,007	54.0	**684,633**	**47.2**	**6,058,699**	(73,374)
Total	1,404,282	100.0	**1,450,585**	**100.0**	**12,837,035**	46,303

Consolidated Statements of Income and Statements of Comprehensive Income

TDK Corporation and Consolidated Subsidiaries (U.S. GAAP)
For the years ended March 31, 2016 and 2015

CONSOLIDATED STATEMENTS OF INCOME

	2015		2016			Change	
	Millions of yen	(%)	Millions of yen	(%)	U.S.$ thousands	Millions of yen	(%)
Net sales	1,082,560	100.0	**1,152,255**	**100.0**	**10,196,947**	69,695	6.4
Cost of sales	802,225	74.1	**831,123**	**72.1**	**7,355,071**	28,898	3.6
Gross profit	280,335	25.9	**321,132**	**27.9**	**2,841,876**	40,797	14.6
Selling, general and administrative expenses	207,876	19.2	**227,718**	**19.8**	**2,015,203**	19,842	9.5
Operating income	72,459	6.7	**93,414**	**8.1**	**826,673**	20,955	28.9
Other income (deductions):							
Interest and dividend income	4,075		**4,496**		**39,787**	421	
Interest expense	(2,992)		**(3,116)**		**(27,575)**	(124)	
Foreign exchange gain (loss)	(1,846)		**(2,394)**		**(21,186)**	(548)	
Other–net	2,821		**(561)**		**(4,964)**	(3,382)	
Total other income (deductions)	2,058	0.2	**(1,575)**	**–0.1**	**(13,938)**	(3,633)	—
Income before income taxes	74,517	6.9	**91,839**	**8.0**	**812,735**	17,322	23.2
Income taxes	21,738	2.0	**25,216**	**2.2**	**223,151**	3,478	16.0
Income from continuing operations	52,779	4.9	**66,623**	**5.8**	**589,584**	13,844	26.2
Less: Net income attributable to noncontrolling interests	3,339	0.3	**1,795**	**0.2**	**15,885**	(1,544)	–46.2
Net income attributable to TDK	49,440	4.6	**64,828**	**5.6**	**573,699**	15,388	31.1

For convenience only, an exchange rate of U.S.$1 = ¥113 has been used.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	2015	2016		Change
	Millions of yen	Millions of yen	U.S.$ thousands	Millions of yen
Net income	52,779	**66,623**	**589,584**	13,844
Other conprehensive income (loss), net of taxes:				
Foreign currencies translation adjustments	92,481	**(61,172)**	**(541,345)**	(153,653)
Pension liability adjustments	(13,804)	**(31,555)**	**(279,248)**	(17,751)
Net unrealized gains (losses) on securities	4,463	**(6,994)**	**(61,894)**	(11,457)
Total other comprehensive income (loss)	83,140	**(99,721)**	**(882,487)**	(182,861)
Comprehensive income	135,919	**(33,098)**	**(292,903)**	(169,017)
Comprehensive income attributable to noncontrolling interests	6,158	**1,371**	**12,133**	(4,787)
Comprehensive income attributable to TDK	129,761	**(34,469)**	**(305,036)**	(164,230)

For convenience only, an exchange rate of U.S.$1 = ¥113 has been used.

Consolidated Statements of Stockholders' Equity

TDK Corporation and Consolidated Subsidiaries (U.S. GAAP)
For the years ended March 31, 2016 and 2015

Millions of yen

2015	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total TDK stockholders' equity	Noncontrolling interests	Total equity
Balance as of March 31, 2014	32,641	57,635	26,651	624,919	(87,134)	(19,385)	635,327	16,916	652,243
Equity transaction of consolidated subsidiaries and other		(17,880)		(99)	931	895	(16,153)	(3,556)	(19,709)
Cash dividends				(10,067)			(10,067)	(372)	(10,439)
Transferred to legal reserve			3,034	(3,034)			—		—
Comprehensive income									
Net income				49,440			49,440	3,339	52,779
Other comprehensive income (loss)					80,321		80,321	2,819	83,140
Total comprehensive income							129,761	6,158	135,919
Acquisition of treasury stock						(7)	(7)		(7)
Sale of treasury stock		(0)				0	0		0
Balance as of March 31, 2015	32,641	39,755	29,685	661,159	(5,882)	(18,497)	738,861	19,146	758,007

Millions of yen

2016	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total TDK stockholders' equity	Noncontrolling interests	Total equity
Balance as of March 31, 2015	**32,641**	**39,755**	**29,685**	**661,159**	**(5,882)**	**(18,497)**	**738,861**	**19,146**	**758,007**
Equity transaction of consolidated subsidiaries and other		**(18,672)**		**(79)**	**2,894**	**702**	**(15,155)**	**(11,068)**	**(26,223)**
Cash dividends				**(13,864)**			**(13,864)**	**(177)**	**(14,041)**
Transferred to legal reserve			**4,536**	**(4,536)**			—		—
Comprehensive income									
Net income				**64,828**			**64,828**	**1,795**	**66,623**
Other comprehensive income (loss)					**(99,297)**		**(99,297)**	**(424)**	**(99,721)**
Total comprehensive income							**(34,469)**	**1,371**	**(33,098)**
Acquisition of treasury stock						**(12)**	**(12)**		**(12)**
Sale of treasury stock							—		—
Balance as of March 31, 2016	**32,641**	**21,083**	**34,221**	**707,508**	**(102,285)**	**(17,807)**	**675,361**	**9,272**	**684,633**

U.S.$ thousands

2016	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total TDK stockholders' equity	Noncontrolling interests	Total equity
Balance as of March 31, 2015	**288,858**	**351,814**	**262,699**	**5,850,965**	**(52,053)**	**(163,690)**	**6,538,593**	**169,434**	**6,708,027**
Equity transaction of consolidated subsidiaries and other		**(165,239)**		**(699)**	**25,611**	**6,212**	**(134,115)**	**(97,947)**	**(232,062)**
Cash dividends				**(122,690)**			**(122,690)**	**(1,567)**	**(124,257)**
Transferred to legal reserve			**40,142**	**(40,142)**			—		—
Comprehensive income									
Net income				**573,699**			**573,699**	**15,885**	**589,584**
Other comprehensive income (loss)					**(878,735)**		**(878,735)**	**(3,752)**	**(882,487)**
Total comprehensive income							**(305,036)**	**12,133**	**(292,903)**
Acquisition of treasury stock						**(106)**	**(106)**		**(106)**
Sale of treasury stock							—		—
Balance as of March 31, 2016	**288,858**	**186,575**	**302,841**	**6,261,133**	**(905,177)**	**(157,584)**	**5,976,646**	**82,053**	**6,058,699**

For convenience only, an exchange rate of U.S.$1 = ¥113 has been used.

Consolidated Statements of Cash Flows

TDK Corporation and Consolidated Subsidiaries (U.S. GAAP)
For the years ended March 31, 2016 and 2015

	2015	2016	
	Millions of yen	Millions of yen	U.S.$ thousands
Cash flows from operating activities:			
Net income	52,779	**66,623**	**589,584**
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	80,249	**83,224**	**736,496**
Changes in assets and liabilities:			
Decrease (increase) in trade receivables	4,919	**(7,262)**	**(64,266)**
Decrease (increase) in inventories	(4,368)	**(10,591)**	**(93,726)**
Increase (decrease) in trade payables	(12,375)	**16,460**	**145,664**
Increase (decrease) in accrued expenses	7,892	**(509)**	**(4,505)**
Decrease (increase) in other assets and liabilities, net	(3,347)	**75**	**664**
Other–net	17,101	**3,543**	**31,354**
Net cash provided by operating activities	142,850	**151,563**	**1,341,265**
Cash flows from investing activities:			
Capital expenditures	(102,525)	**(160,674)**	**(1,421,894)**
Proceeds from sale and maturity of short-tem investments	21,828	**30,348**	**268,566**
Payment for purchase of short-term investments	(30,861)	**(27,352)**	**(242,053)**
Proceeds from sale and maturity of securities	707	**4,833**	**42,770**
Payment for purchase of securities	(248)	**(1,112)**	**(9,841)**
Acquisition of subsidiaries, net of cash acquired	—	**(15,165)**	**(134,203)**
Disbursement for loans made by TDK	(26,321)	**(148)**	**(1,310)**
Receipt from collection of loans made by TDK	1,327	**21,605**	**191,195**
Proceeds from sales of tangible and intangible assets	7,698	**3,918**	**34,673**
Other–net	1,083	**3,162**	**27,982**
Net cash used in investing activities	(127,312)	**(140,585)**	**(1,244,115)**
Cash flows from financing activities:			
Proceeds from long-term debt	34,777	**22,700**	**200,885**
Repayment of long-term debt	(37,320)	**(1,289)**	**(11,407)**
Increase (decrease) in short-term debt, net	(916)	**50,213**	**444,363**
Dividends paid	(10,069)	**(13,864)**	**(122,690)**
Acquisition of noncontrolling interest	(24,633)	**(28,504)**	**(252,248)**
Other–net	2,918	**49**	**433**
Net cash used in financing activities	(35,243)	**29,305**	**259,336**
Effect of exchange rate changes on cash and cash equivalents	33,961	**(19,919)**	**(176,274)**
Net increase in cash and cash equivalents	14,256	**20,364**	**180,212**
Cash and cash equivalents at beginning of period	250,848	**265,104**	**2,346,053**
Cash and cash equivalents at end of period	265,104	**285,468**	**2,526,265**

For convenience only, an exchange rate of U.S.$1 = ¥113 has been used.

Corporate Information

TDK Corporation and Consolidated Subsidiaries (U.S. GAAP)
As of March 31, 2016

Corporate Name
TDK Corporation

Corporate Headquarters
Shibaura Renasite Tower, 3-9-1 Shibaura, Minato-ku, Tokyo 108-0023

Date of Establishment
December 7, 1935

Authorized Number of Shares
480,000,000 shares

Number of Shares Issued
129,590,659 shares

Number of Shareholders
26,983

Common Stock
¥32,641,976,312

Securities Traded
Tokyo Stock Exchange (Listed in October 1961)

Securities Code
6762

Number of Employees (Consolidated)
91,648

Transfer Agent
Sumitomo Mitsui Trust Bank, Limited 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8233

Independent Registered Public Accounting Firm
KPMG AZSA LLC (the Japan member firm of KPMG International)

ADR Information
Type
Level 1 with sponsorship

ADR Ratio
1 common stock = 1 ADR

Ticker Symbol
TTDKY

CUSIP
872351408

Depositary Bank
Citibank, N.A. Shareholder Services
P.O. Box 43077
Providence, Rhode Island 02940-3077
U.S.A.
Tel: 1-877-248-4237 CITI-ADR (toll free)
Tel: 1-816-843-4281 (out of U.S.)
Fax: 1-201-324-3284
URL: http://www.citi.com/adr
E-mail: citibank@shareholders-online.com

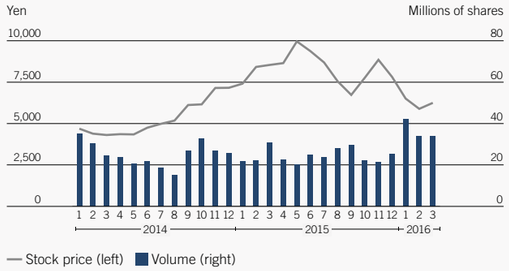
Principal Shareholders (10 largest shareholders)

Name of shareholder	Number of shares held (thousands of shares)	Percentage of number of shares held in the total number of issued shares (%)
1. The Master Trust Bank of Japan, Ltd. (Trust account)	18,318	14.14
2. Japan Trustee Services Bank, Ltd. (Trust account)	11,813	9.12
3. JP Morgan Chase Bank 380055	5,690	4.39
4. Trust & Custody Services Bank, Ltd.	3,491	2.69
5. Japan Trustee Services Bank, Ltd. (Trust account 9)	2,622	2.02
6. BNP Paribas Securities (Japan) Limited	2,556	1.97
7. STATE STREET BANK WEST CLIENT–TREATY 505234	1,830	1.41
8. Japan Trustee Services Bank, Ltd. (Trust account 7)	1,678	1.29
9. Nippon Life Insurance Company	1,640	1.27
10. Goldman Sachs Japan Co., Ltd.	1,554	1.20
Total	51,192	39.50

Note: Other than the above, the Company holds 3,468 thousand shares of treasury stock.

Status by Ownership

TDK Stock Price and Volume



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