Attracting Tomorrow

TDK

Reinventing Ourselves

ANNUAL REPORT 2017

English Version

The Story of TDK's Sustainable Corporate Value Creation

Constantly Refined

Magnetics Technology

1935

One of four great world-class Innovations

Ferrite core

"A more than 80-year history in tandem with magnetism"

The magnetic material "ferrite" is an original Japanese invention of Dr. Yogoro Kato and Dr. Takeshi Takei of the Tokyo Institute of Technology. As an important magnetic material for cutting-edge electronic equipment, ferrite continues to contribute widely to society, and in 2009 was designated as an IEEE Milestone. With its origins in this landmark invention, TDK has continued to refine its magnetics technology throughout the course of its more than 80-year history.

Constantly Upholding

a Spirit of Originality

社是

創造によって

文化産業に貢献する

Corporate Motto

Contribute to culture and industry through creativity

"Creating value that does not yet exist in the world on a material level"

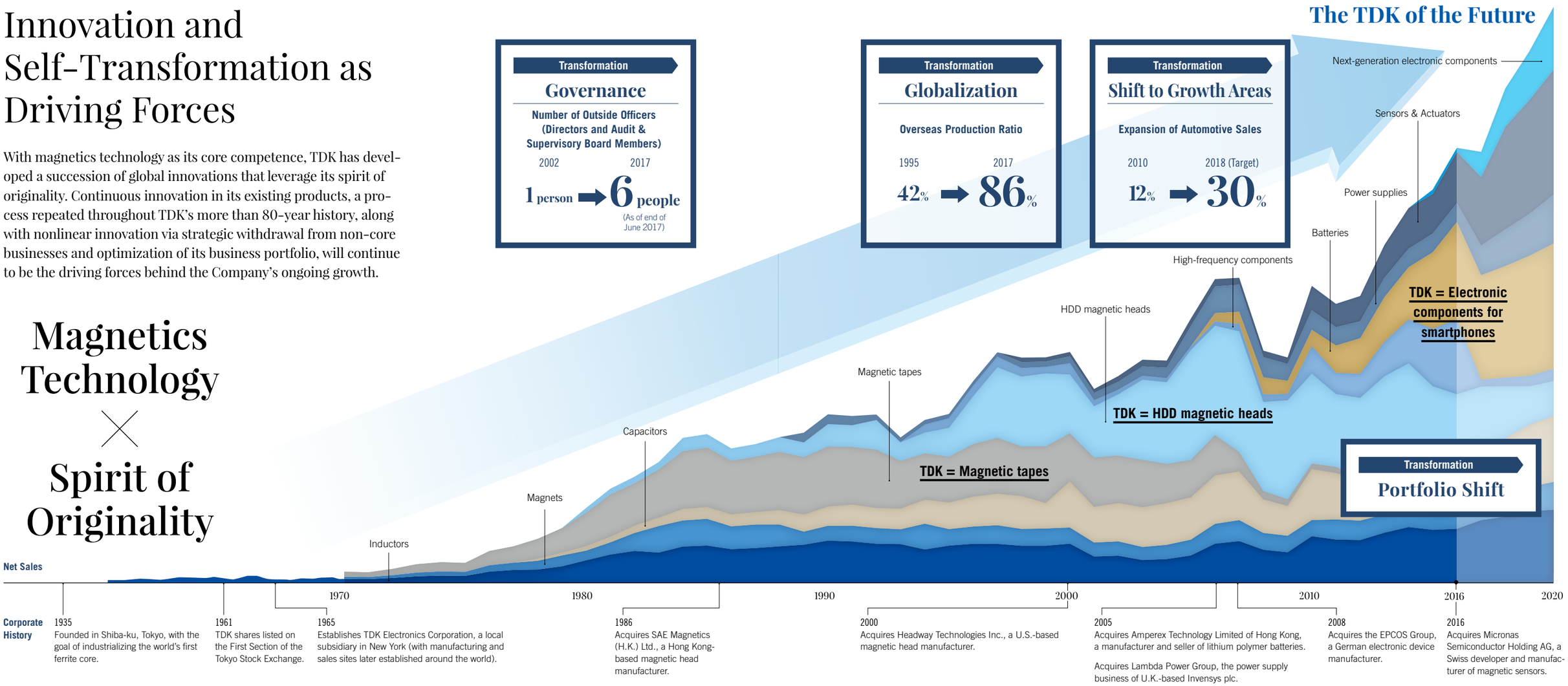
Today's TDK was founded in 1935 as Tokyo Denki Kagaku Kogyo K.K., with the goal of industrializing ferrite. Identifying with Dr. Kato's statement that, "the Japanese must develop their own genuine industries," Kenzo Saito, the Company's first president, succeeded in commercializing a so-called "ferrite core." His philosophy of "creating value that does not yet exist in the world on a material level" continues to be handed down at TDK today.

MILESTONE

Innovation and Self-Transformation as Driving Forces

With magnetics technology as its core competence, TDK has developed a succession of global innovations that leverage its spirit of originality. Continuous innovation in its existing products, a process repeated throughout TDK's more than 80-year history, along with nonlinear innovation via strategic withdrawal from non-core businesses and optimization of its business portfolio, will continue to be the driving forces behind the Company's ongoing growth.

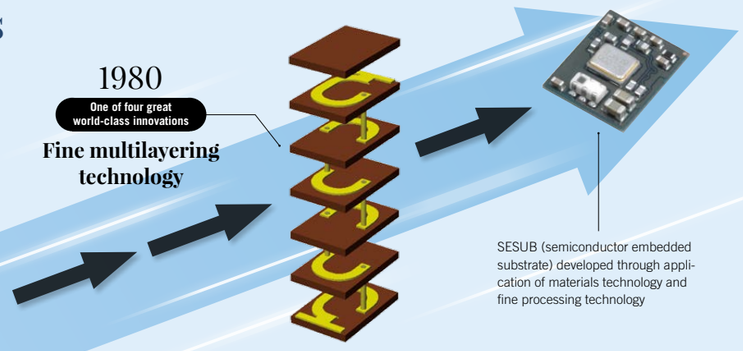
Magnetics Technology × **Spirit of Originality**



Innovation That Drives Transformation

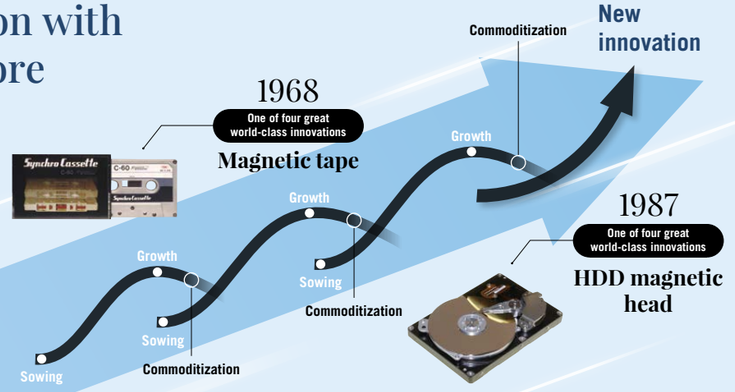
Continuous Innovation in Passive Components

The multilayer chip inductor, based on the world-leading fine multilayering technology developed by TDK in 1980, contributed greatly to the creation of small, thinner electronic equipment. Continuous innovation in these types of passive components and other existing products is one driver of TDK's sustainable growth.



Nonlinear Innovation with Magnetism at Its Core

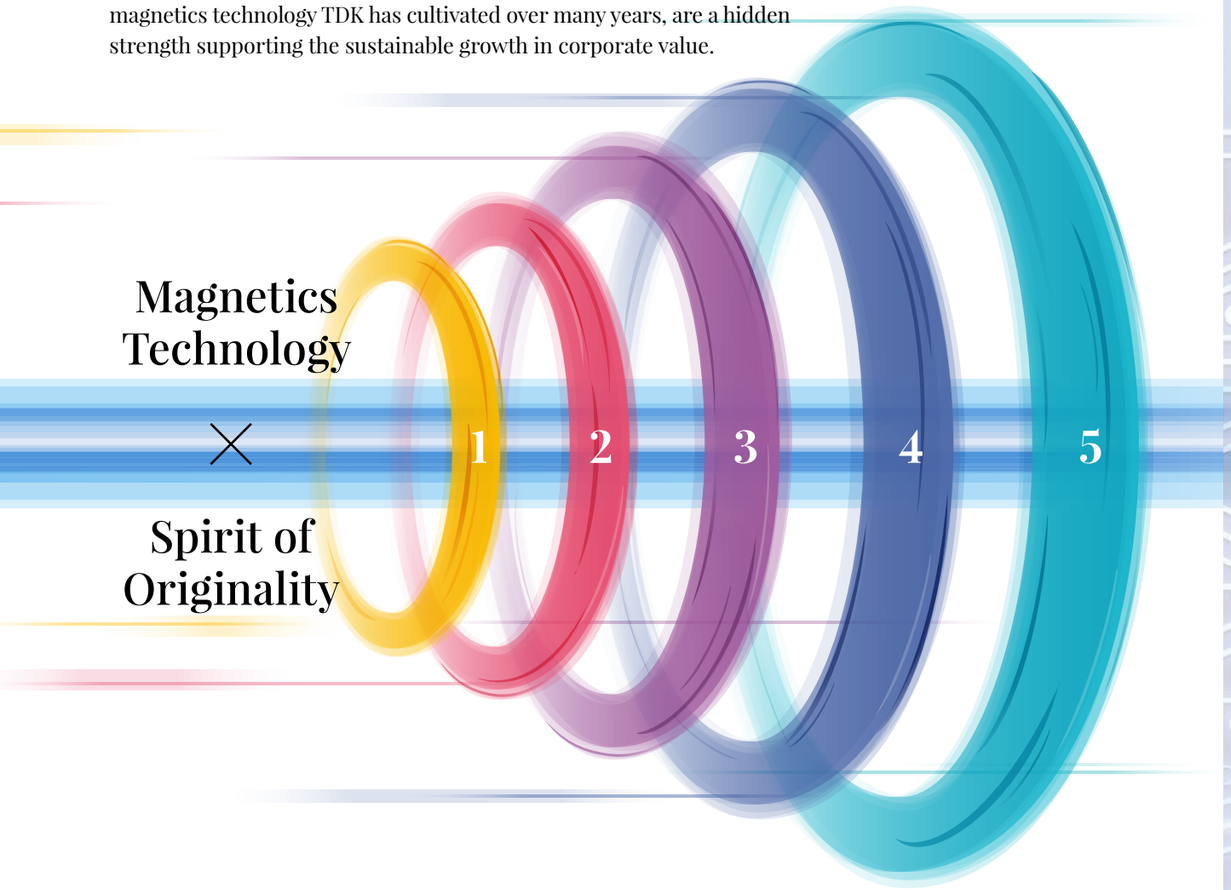
While its main products are doing well, TDK works to forecast long-term technology trends and develop core businesses for the future, sometimes boldly replacing its main business focus. This is what we call "nonlinear innovation," and it provides a schematic for TDK's sustainable growth. HDD magnetic heads that have achieved phenomenal recording density are one such example.



INNOVATION PROCESS

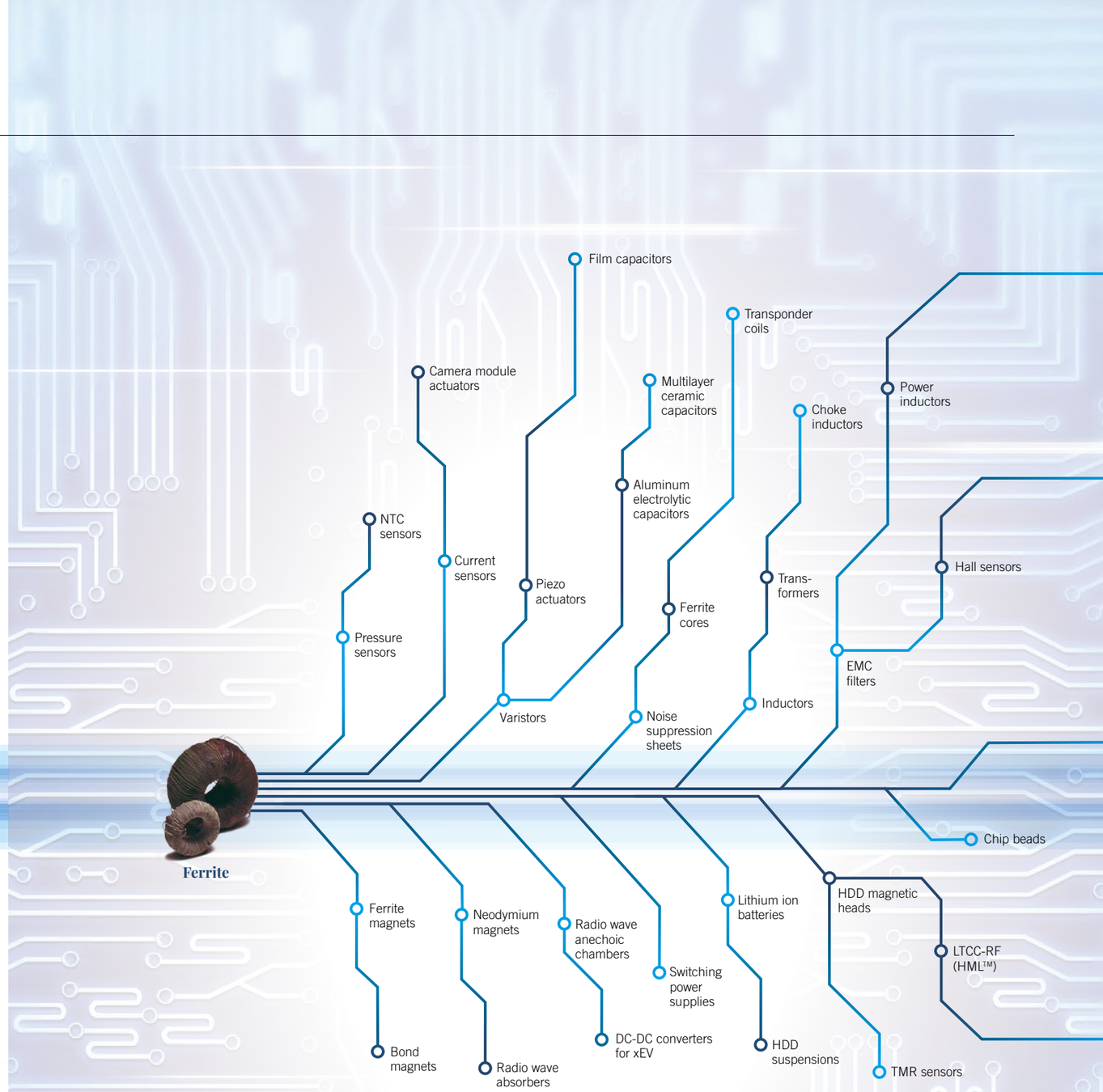
Achieving Sustainable Growth in Corporate Value through 5 Competitive Advantages

Competitive advantages, including materials and process technologies, a customer base, strength of diversity, a global business base, and integrated production, are the foundation of TDK's growth. Synergies between these competitive advantages, which stand solidly on the magnetics technology TDK has cultivated over many years, are a hidden strength supporting the sustainable growth in corporate value.



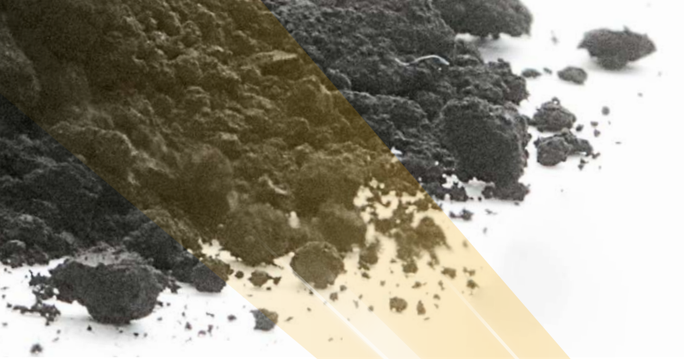
Competitive Advantages Supporting Sustainable Growth at TDK

1	2	3	4	5	Hidden Strength
Materials and Process Technologies	Customer Base	Strength of Diversity	Global Business Base	Integrated Production	



Infinite Innovation

With ferrite as a starting point, TDK has extended the boundless potential of innovation by refining and exerting its competitive advantages, and today, we are taking on the challenge of new business innovation.



Competitive Advantages Supporting the Creation of Innovation and Long-Term Value

1 Materials and Process Technologies

—— Creating "Black Boxes" to Prevent Imitation

Materials technology elicits the targeted properties in a product through advanced expertise in complex composition processes and control of additives. Process technology maximizes the properties of these materials while also expanding the scope of their application in products. Creating "black boxes" for techniques for controlling crystal particles at the atomic level, for intellectual property, and for other know-how makes them difficult to imitate overnight.

Materials

Development and Design

Evaluation and Simulation

Front-End Process

Back-End Process

2 Customer Base

—— Enabling Investment from a Long-Term Perspective

TDK has built strong relationships with its customers in the automotive, ICT, industrial and energy markets, and other markets. This competitive advantage allows us to more accurately forecast future changes in technology trends, and reduces the risks involved in making aggressive R&D and capital investments.

Automotive

ICT

Industrial and Energy

3 Strength of Diversity

—— A Spirit of Equality Leading to M&A Success

TDK has built its relationships with the companies it acquired based not on controlling them, but on positioning them as equal partners. This expertise in post-merger integration, cultivated over long years of experience in M&A, is a powerful weapon in ensuring the success of our business portfolio.

Non-Japanese Corporate Officers
6 people

Japanese Corporate Officers 12 people

(As of end of June 2017)

4 Global Business Base

—— Overseas Sales in Excess of 90%

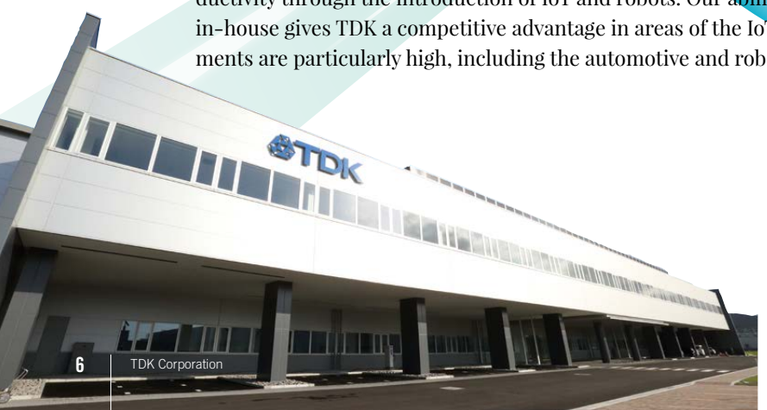
TDK began full-scale globalization efforts in the 1960s, enhancing its local production and technical support infrastructure overseas and expanding its business with manufacturers outside Japan. This global business base, with approximately 90% of production and sales generated overseas, is a competitive advantage that will allow us to capture business opportunities in the IoT market, which is expected to expand worldwide.

Percentage of Overseas Production	Percentage of Non-Japanese Employees	Percentage of Overseas Sales
86.1%	90.7%	91.1%

5 Integrated Production

—— A Powerful Advantage in the Age of IoT

Integrated production, where everything from materials to the final product is handled in-house, allows TDK to take the initiative in product evolution, and we have successfully increased productivity through the introduction of IoT and robots. Our ability to also control quality entirely in-house gives TDK a competitive advantage in areas of the IoT market where quality requirements are particularly high, including the automotive and robotics fields.



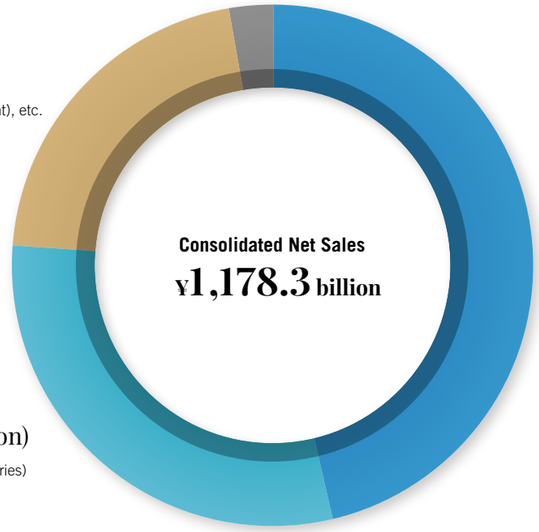
Honjo Factory East Site

Location: 1-8 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

BUSINESS PORTFOLIO

Focusing on High-Potential Markets

Net Sales by Product Segment



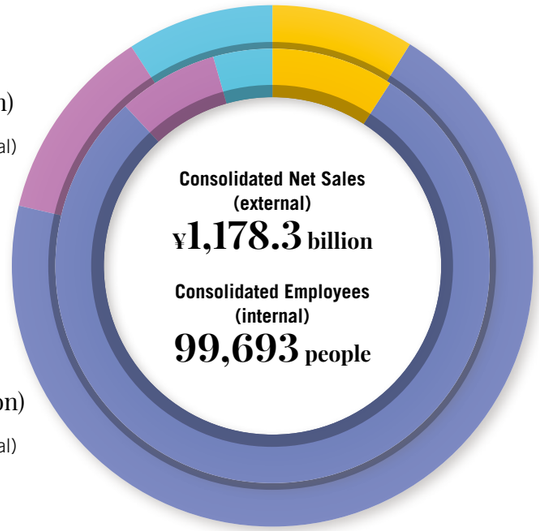
Other
2.7% (¥32.1 billion)
- Mechatronics (Production Equipment), etc.

Film Application Products
21.0% (¥247.7 billion)
- Energy Devices (Rechargeable Batteries)

Passive Components
46.6% (¥548.7 billion)
- Capacitors
- Inductive Devices
- High-Frequency Components
- Piezoelectric Material Components and Circuit Protection Components
- Sensors

Magnetic Application Products
29.7% (¥349.7 billion)
- Recording Devices (HDD Magnetic Heads, HDD Suspensions)
- Power Supplies
- Magnets

Net Sales by Region



Americas
Net Sales (external)
8.9% (¥104.9 billion)
Number of Employees (internal)
4.2% (4,216 people)

Europe
Net Sales (external)
12.4% (¥146.2 billion)
Number of Employees (internal)
7.7% (7,674 people)

Japan
Net Sales (external)
8.9% (¥105.2 billion)
Number of Employees (internal)
9.3% (9,308 people)

Asia and others
Net Sales (external)
69.8% (¥821.9 billion)
Number of Employees (internal)
78.7% (78,495 people)

Automotive Market

Leveraging Relationships with Automobile Manufacturers and a Broad Portfolio to Accelerate Business Expansion

TDK has worked to enhance its product portfolio in such areas as passive components, magnets, and power supply, contributing to the increased use of electronics by offering products compatible with demands for high reliability. The expected widespread use of xEV (HEV, PHEV, BEV, etc.) and the rapid development of IoT mean that the market for electronic components for automobiles is also expected to expand. By adding a broad array of non-optical sensors and wireless power transfer systems to its portfolio, TDK is expanding its business in the automotive market.

ICT Market

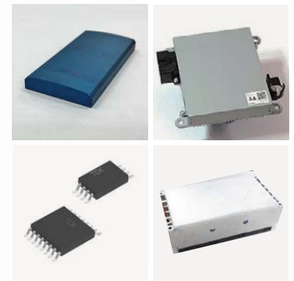
Contributing to the Evolution of ICT Devices through Use of Thin-Film Technology and Modularization

TDK offers more than 20 types of products for smartphones, including lithium polymer batteries, thin-film power inductors, and various types of sensors. As smartphones simultaneously become more highly functional, incorporate a wider range of functions, and become thinner, the electronic components built into them will require even greater integration. TDK will support the evolution of ICT devices by accelerating the creation of next-generation electronic components that take advantage of its strength in thin-film technology, and the modularization of electronic components utilizing SESUB, TDK's innovative semiconductor embedded substrate technology that allows for high-density mounting.

Industrial and Energy Market

Contributing to Energy Savings and Efficiency with a Focus on Power-Related Components and Sensors

The industrial and energy market is also a priority for TDK. We provide highly reliable, highly efficient electronic components for renewable energy systems, railways, and industrial robots, contributing to energy savings and efficiency. In addition to wireless power transfer coils and other power-related components that control and supply electrical power and which take advantage of our core competence in magnetics technology, we are working to expand sales with a focus on sensors. We are also working to provide high-value-added solutions for industrial robots, an area where particularly rapid growth is expected.



We Are Ready to Transform

TDK Product Brands

EPCOS

MICRONAS

TDK

tronics

ICsense THE IC DESIGN COMPANY

InvenSense

Another Re-Invention

Through a series of M&As, beginning with Micronas in 2016 and concluding with InvenSense in 2017, through its business tie-up with Qualcomm, and through the establishment of the joint venture company RF360, TDK has prepared for the transformation to a hybrid business model. Building on a foundation of materials and electronic components differentiated by advanced technology, we will provide sensor solutions and power solutions, creating a high-value-added business model and pushing forward with market expansion.

Transformation

Shift to a High-Value-Added Business Model

Taking advantage of its strengths as a comprehensive manufacturer of electronic components, TDK will go beyond stand-alone sales of those products to provide solutions centered on sensors, building a business model with even higher added value.

Transformation

Into the Vast IoT Market

By shifting the focus of its business from the product-dependent *Monozukuri* (manufacturing excellence) model of the past to a *Kotozukuri* (integrated solutions) model based on offering the optimal solutions for leading customers to business success, TDK will capture the unlimited potential of the vast IoT market, achieving sustainable growth in corporate value.

Transformation

Market Expansion

In addition to developing new customers in the automotive, ICT, and industrial and energy markets, and expanding the scope of applications for its products, TDK will work closely with Qualcomm and other IC manufacturers as it looks to develop demand for consumer applications, which represent an even larger market.

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.

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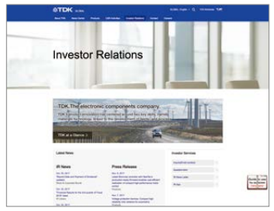
http://www.global.tdk.com/corp/en/ir/index.htm



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

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

- TDK CSR REPORT 2017
- CSR Activities

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

TDK Product Center

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 (“the 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 2017* except as provided for in applicable laws and ordinances.

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Editorial Policy
Annual Report 2017 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 topics related to corporate social responsibility (CSR), and for product information, please visit the TDK website.

Consolidated Business Results Highlights

Years ended March 31

Yen millions

Consolidated Business Highlights	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net sales	¥862,025	¥ 866,285	¥ 727,400	¥ 792,624	¥ 862,492	¥ 802,534	¥ 841,847	¥ 984,525	¥1,082,560	¥1,152,255	**¥1,178,257**
(Overseas sales)	690,673	714,172	610,944	704,874	764,807	702,469	747,062	890,520	989,348	1,061,203	**1,073,024**
Cost of sales	622,819	635,529	605,943	604,454	645,514	624,271	668,258	763,572	802,225	831,123	**855,948**
Selling, general and administrative expenses	159,616	143,581	175,762	158,727	149,114	157,724	151,535	184,337	207,876	227,718	**113,649**
Operating income (loss)	79,590	87,175	(54,305)	29,443	67,864	20,539	22,054	36,616	72,459	93,414	**208,660**
Income (loss) before income taxes	88,665	91,505	(81,630)						74,517	91,839	**211,717**
Income (loss) from continuing operations before income taxes				25,576	64,519	14,668	19,765	39,772			
Net income (loss) attributable to TDK	70,125	71,461	(63,160)	13,520	45,264	(2,454)	1,195	16,288	49,440	64,828	**145,099**
Capital expenditures	70,440	84,312	98,425	64,370	78,638	99,653	85,606	68,606	102,525	160,674	**167,631**
Depreciation and amortization	65,337	71,297	89,567	83,788	77,594	80,197	77,938	83,109	80,249	83,224	**87,491**
Research and development expenses	50,058	57,387	57,645	53,942	52,973	52,551	53,943	63,385	70,644	84,920	**91,254**
Ratio of overseas production to net sales (%)	62.2	70.1	74.0	80.5	83.6	80.2	81.8	86.7	87.9	86.3	**86.1**
Net cash provided by operating activities	145,483	119,413	59,189	118,247	101,879	55,334	108,942	127,308	142,850	151,563	**160,136**
Net cash used in investing activities	(81,488)	(141,892)	(275,410)	(105,963)	(61,341)	(29,898)	(90,156)	(55,438)	(127,312)	(140,585)	**(71,111)**
Net cash provided by (used in) financing activities	(15,862)	(75,941)	223,637	(38,369)	(31,860)	12,929	4,395	(56,118)	(35,243)	29,305	**(37,753)**
Cash and Cash equivalents at end of period	289,169	166,105	165,705	132,984	129,091	167,015	213,687	250,848	265,104	285,468	**330,388**
Total assets	989,304	935,533	1,101,036	1,091,458	1,060,853	1,072,829	1,169,575	1,239,553	1,404,253	1,450,564	**1,664,333**
Stockholders' equity	762,712	716,577	554,218	543,756	534,273	498,159	561,169	635,327	738,861	675,361	**793,614**
Working capital	449,830	300,859	281,536	286,370	199,186	219,918	232,693	279,504	352,364	289,760	**388,542**
Number of shares issued (thousands)	133,190	129,591	129,591	129,591	129,591	129,591	129,591	129,591	129,591	129,591	**129,591**

Yen

Per Share Data											
Net income (loss) attributable to TDK (basic)	¥529.88	¥551.72	¥(489.71)	¥104.82	¥350.90	¥(19.06)	¥ 9.50	¥129.47	¥392.78	¥514.23	**¥1,150.16**
Net assets	5,759	5,557	4,297	4,215	4,142	3,957	4,461	5,050	5,865	5,355	**6,289**
Dividends	110.00	130.00	130.00	60.00	80.00	80.00	70.00	70.00	90.00	120.00	**120.00**
Payout ratio (%)	20.8	23.4	—	57.2	22.8	—	737.2	54.1	22.9	23.3	**10.4**

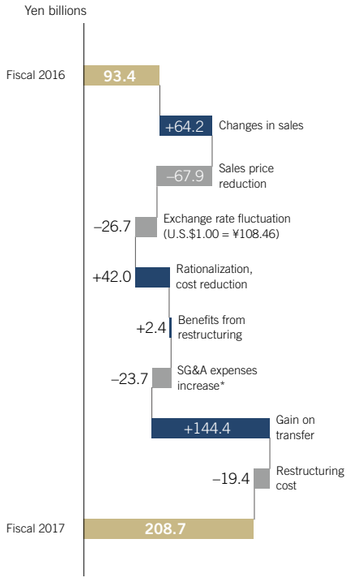
Key Financial Ratios											
Overseas sales ratio (%)	80.1	82.4	84.0	88.9	88.7	89.8	88.7	90.5	91.4	92.1	**91.1**
SG&A ratio (%)	18.5	16.6	24.2	20.0	17.3	19.6	18.0	18.7	19.2	19.8	**9.7**
Operating income ratio (%)	9.2	10.1	(7.5)	3.7	7.9	2.6	2.6	3.7	6.7	8.1	**17.7**
ROE (%)	9.6	9.7	(9.9)	2.5	8.4	(0.5)	0.2	2.7	7.2	9.2	**19.8**
ROA (%)	7.3	7.4	(6.2)	1.2	4.2	(0.2)	0.1	1.4	3.7	4.5	**9.3**

Non-Financial Indicators											
Number of employees	51,614	60,212	66,429	80,590	87,809	79,175	79,863	83,581	88,076	91,648	**99,693**
Overseas employees ratio (%)	80.1	82.8	84.1	87.2	88.5	87.4	88.2	89.1	89.8	90.3	**90.7**
CO_2 emissions in production activities (t-CO_2)	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	**1,463,396**
CO_2 emissions reduction in manufacturing (t-CO_2)						321,000	498,000	886,000	1,251,000	1,581,000	**1,675,000**

Notes: 1. In accordance with the provisions of ASC No. 205-20, "Presentation of Financial Statements–Discontinued Operations," operating results related 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.

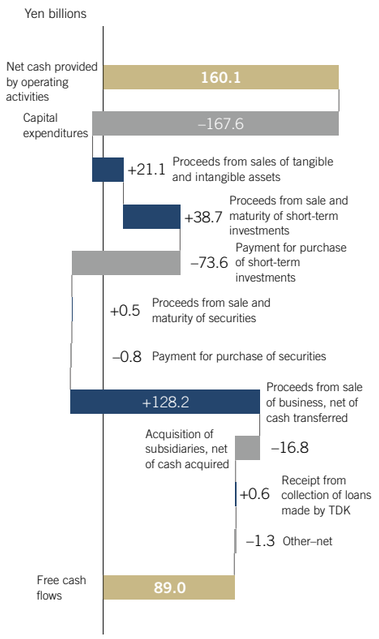
2. Because the TDK Environmental Action 2020 Plan came into effect from fiscal 2011, the "CO_2 emissions through products (environmental contributions) (t-CO_2)" figures are for fiscal 2012 onward.

Breakdown of Operating Income Changes



* Selling, general and administrative expenses shown on the graph include a portion of business transfer-related expenses.

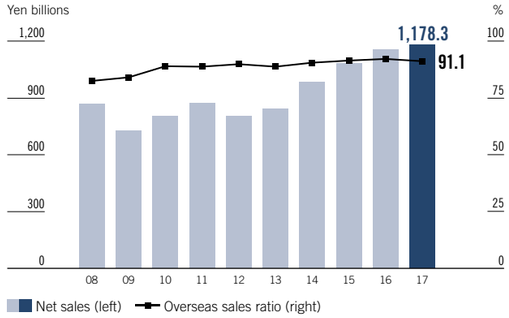
Breakdown of Free Cash Flows



Business Trends

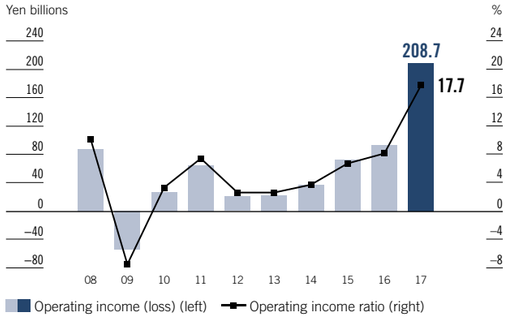
Years ended March 31

Net Sales / Overseas Sales Ratio



The HDD market exceeded initial assumptions, and strong sales of products for the automotive markets in Europe and North America continued, resulting in record-high net sales of ¥1,178.3 billion in fiscal 2017. The overseas sales ratio has increased over the past 10 years, particularly in the United States and Asia, and in fiscal 2017, sales outside Japan accounted for 91.1% of total net sales.

Operating Income (Loss) / Operating Income Ratio



As a result of structural reforms that have continued since fiscal 2012, a profit structure with a good balance among the three main segments has been firmly established. In fiscal 2017, capital gains of ¥144.4 billion were recorded in conjunction with the business tie-up with Qualcomm and the agreement to establish a joint venture, and operating income was up 123.4% year on year, to ¥208.7 billion, while the operating income ratio increased 9.6 percentage points, to 17.7%.

Net Income (Loss) Attributable to TDK

Performance was sluggish from fiscal 2009 due to reduced demand for electronic components resulting from the global economic slowdown, the impact of the Great East Japan Earthquake, and other factors. After structural reforms were implemented beginning in fiscal 2012, however, results drastically improved. Net income in fiscal 2017 reached ¥145.1 billion, up 123.8% year on year, partly due to the impact of the capital gains recorded in the transfer of business to Qualcomm.

Capital Expenditures / Depreciation and Amortization

Under the Medium-Term Plan that covers the three-year period from fiscal 2016 to fiscal 2018, TDK announced a plan to budget ¥430–¥480 billion for investments in new facilities. TDK is actively pursuing capital investments aimed at accelerating strategic growth product expansion, strengthening its overseas R&D base, accelerating existing core business expansion, and accelerating *Monozukuri* Innovation.

Total Assets

Total assets rose sharply as a result of the acquisition of the EPCOS Group in fiscal 2009. Total assets have continued to gradually increase since fiscal 2011 due to higher tangible fixed assets and investment. In fiscal 2017, total assets reached ¥1,664.3 billion, up 14.7% year on year, due in part to increases in liquidity on hand, by ¥79.1 billion, and net trade receivables, by ¥28.7 billion.

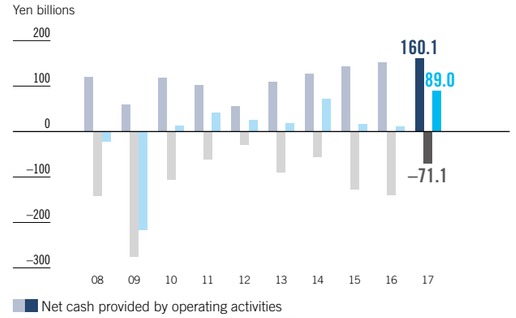
Stockholders' Equity / Stockholders' Equity Ratio

Stockholders' equity and the stockholders' equity ratio both declined in fiscal 2009 due to the acquisition of the EPCOS Group, but have gradually increased in subsequent years. In fiscal 2017, the business transfer to Qualcomm resulted in a significant increase in profits, with stockholders' equity rising 17.5% year on year, to ¥793.6 billion, and the stockholders' equity ratio climbing by 1.1 percentage points year on year, to 47.7%.

ROE / ROA

ROE and ROA declined sharply in fiscal 2009 following the global economic downturn, but after the implementation of structural reforms, both have improved as a result of higher net income and other factors. In fiscal 2017, profits increased significantly due to the business transfer to Qualcomm, with ROE growing 10.6 percentage points year on year, to 19.8%, and ROA increasing by 4.8 percentage points year on year, to 9.3%.

Cash Flows



The business transfer to Qualcomm in fiscal 2017 resulted in a significant improvement in free cash flows. Funds obtained as compensation for the business transfer are being utilized in new M&A in accordance with our growth strategy, and we are working to further strengthen our earnings structure.

Working Capital

The Group's working 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 2017 was ¥388.5 billion.

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

TDK has invested over ¥50 billion in R&D each year 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.

Overseas Production Ratio

Compared with fiscal 2008, the overseas production ratio in fiscal 2017 was up 16 percentage points, reaching 86.1%. TDK seeks to establish location independent production systems and is working to establish the ability to supply products with the same high quality from any location.

Number of Employees

Although the number of employees showed an upward trend after the acquisition of the EPCOS Group in fiscal 2009, TDK worked to streamline its workforce during the period of structural reforms undertaken from fiscal 2012. Starting in fiscal 2016, the first year of the current Medium-Term Plan, TDK has been increasing personnel in order to bolster competitiveness.

Driven by the spirit of our founder, handed down for more than 80 years, we will open up the future for TDK.

The TDK Group is bringing a sense of speed to driving self-transformation forward. By resolving social issues through a hybrid business model combining materials, components, and solutions, we will achieve sustainable growth in corporate value.

Always quick to sense society's changing needs

TDK has achieved sustainable growth through nonlinear change

About 80 years ago, TDK (then known as Tokyo Denki Kagaku Kogyo K.K.) was founded with the goal of turning "ferrite," a unique Japanese invention, into a commercial product. At the time, ferrite was a completely unknown quantity, both in terms of its applications and its potential for commercialization. Our corporate motto, "Contribute to culture and industry through creativity," embodies the spirit of originality expressed in the words of TDK's founder, Kenzo Saito, who spoke of "creating value that does not yet exist in the world on a material level," and also his belief that "if there is a will that something is truly of social value, there is a way."

Over the years, this spirit of originality has been handed down at TDK, which has always concerned itself with what society will need next, and we have continued to generate original innovation—including the cassette tape in 1968, fine multilayering technology in 1980, and HDD magnetic heads in 1987—and contribute to society's development. This ability to quickly sense society's needs is what has enabled us to replace our product portfolio before our main products enter their decline, and has allowed us to undertake a transformation of our business structure, leading to our sustainable growth.

Today, TDK is facing a new time of change. Growth has slowed in HDD magnetic heads, our mainstay product since the 1990s, and commoditization is expected to progress further across a wide variety of components we supply for use in smartphones and other information and communication technology (ICT) equipment. As we look ahead to this new society, concern is growing that reliance on *Monozukuri* (manufacturing excellence) alone, on our founding strengths in materials technology and process technology, will limit our ability to deliver sustainable growth.

To continue to "contribute to culture and industry" in the years ahead, TDK is embarking on a transformation, not only of its business portfolio, but of the very nature of the business itself.

Shigenao Ishiguro
President & CEO

Capturing the limitless potential of electronic components

To create "something that does not exist in the world" today requires change

It is difficult to accurately predict how future society will be shaped by the Internet of Things (IoT), artificial intelligence (AI), and other technologies. Still, we are confident in the limitless potential of electronic components. In 2015, TDK launched production of highly accurate, highly sensitive tunnel magneto resistance (TMR) sensors applying HDD magnetic head technology, marking its full-scale entry into the sensor market. Going forward, sensors will begin replacing functions in which people had previously intervened across a variety of fields, including automobiles, public infrastructure, and healthcare, and their potential will expand endlessly.

Power electronics is another very promising field, and power electronics technology and products are nothing less than TDK's core competence. I believe their potential for us is even greater than that of sensors, as the need for power electronics grows in every field—including in the home—to efficiently generate, supply, convert, and store electricity.

In the past, single issues were solved with single components. Going forward, however, problem-solving will become more difficult without a composite of multiple, varied components. For example, the spread of xEV has brought us connected cars. However, as they are more widely equipped with advanced driver-assistance systems (ADASs), not only will they require multiple components to sense vibration, slope, temperature, and other factors, but they will also need wireless communications capability to accumulate and analyze that data. There is a countless number of fields where this kind of integration is needed. In addition, many of these processes require electricity. TDK has the potential to assemble and provide all of these components.

In many cases, these are things that currently "do not exist in the world." To create them, we must reshape our business into something not found on just an extension of our traditional path. We need to shift from our origins in *Monozukuri*, providing customers with products that respond to their needs, to a focus on *Kotozukuri* (integrated solutions), offering solutions that anticipate those needs. Doing so will require a wide-ranging arsenal of technology.

M&A as a means to an end

The TDK approach to post-merger integration means respect for diversity and a willingness to hand over the leading initiative

TDK has, since prior times, made active use of M&A as a means of transforming its business portfolio. In many cases, we have developed our own acquisition candidates that have the technology we need to achieve our long-term growth strategy, examining them carefully in terms of whether or not our philosophies can be shared and our technologies integrated. We have also consistently taken an approach that gives the leading initiative in the business to the respective acquired companies, resulting in growth in corporate value for both sides.

For example, our HDD magnetic head business expanded significantly with our 1986 acquisition of SAE Magnetics (H.K.) Ltd. (SAE). Thanks to the contributions of Amperex Technology Limited (ATL), acquired in 2005, TDK saw solid growth in net sales of rechargeable batteries. The EPCOS Group, a major German components manufacturer acquired in 2008, played a leading role in our growth in the smartphone market with, among others, its high-frequency components. Around 2015, we began moving forward with M&A centered on the sensor business, with an eye on possible gains from a sale through the transfer of the EPCOS Group's high-frequency components business. In that process, we narrowed our focus to non-optical sensors, rather than optical sensors, a field in which we had no core technology and in which other companies already had a strong lead.

In March 2016, we made Micronas Semiconductor Holdings AG (Micronas) a subsidiary, building a beachhead in the market for Hall sensors, which make up 80% of magnetic sensors. At the same time, along with TMR sensors, pressure sensors, and temperature sensors, we bolstered our portfolio for the automobile industry and enhanced our expertise, enabling us to expand our sales channels. In December 2016, we added inertial sensors with high-accuracy MEMS technology to our portfolio with the acquisition of Tronics Microsystems SA (Tronics) as a subsidiary, marking the beginning of our entry into the aviation market. In May 2017, we completed our acquisition of InvenSense, Inc. (InvenSense), which developed the world's first six- and nine-axis motion sensors. By adding MEMS technology-based inertial sensors, pressure sensors and ultrasonic sensors, microphones, and other products to our portfolio, we can now consider the entire non-optical sensor market a target.

In March 2017, we completed our acquisition of ICsense NV (ICsense), which develops and supplies Application Specific Integrated Circuit (ASIC) technology to read values detected by sensors and perform signal processing, as well as offering custom IC design services. This will enable TDK to design ASICs tailored to the characteristics of specific sensors, building an end-to-end value chain that extends from materials technology to sensor elements, signal processing, and software provision.

Through these M&As, TDK has built a balanced portfolio that allows it to approach a wide range of markets.

Open collaboration and an internal focus on continuing to develop competitive advantage

Materials and components refined over 80 years

Today, with the rapid changes taking places across all areas of society, we believe that basing ourselves in an open environment that includes other industries is the way to expand the range of solutions we can offer. For example, in wearable devices we are seeing an increase in opportunities for collaboration with universities and other institutions with the expertise to make use of data on vital signs to improve health. This is a new development that is different from the conventional electronic components business.

Semiconductor manufacturers will be particularly important partners as we work to create a new business model. Fourth generation mobile communication system (4G) smartphones today increasingly offer multiband capability, and also need to support a diverse wireless environment that includes wireless LAN and Bluetooth connectivity. With 5G expected to bring further complexity, IoT devices must be small and highly integrated while achieving sophisticated multi-functionality. Modularization technology is essential to that complexity. We believe that a rational approach going forward will be not to work alone, or to work with high-frequency components alone, but to offer modules and solutions by developing close relationships with semiconductor manufacturers. This was behind the February 2017 establishment of our joint venture with Qualcomm Incorporated (Qualcomm), RF360 Holdings Singapore PTE Ltd. (RF360), a carve-out of our high-frequency components business. We are now working with Qualcomm on high-frequency solutions across a broad range of areas, including next-generation mobile telecommunications, IoT, and automotive-related fields. We are also engaged in a variety of joint development projects, including sensor reference design. Our hope is to build relationships with a wide range of semiconductor manufacturers, using our technology and products to give form to algorithms and leveraging our mutual strengths to generate new value.

While intensifying efforts toward open collaboration, there is another area we need to continue refining internally, and that is the competitiveness of our materials technology and process technology centered on magnetics, and of the passive components developed utilizing those technologies. These represent a competitive advantage TDK has worked to establish throughout its more than 80-year history, and a base for sustainable growth that cannot easily be imitated by other companies. They also form a solid foundation for our new business model.

A new business model

Creating a virtuous cycle of materials, components, and solutions

Our technology arsenal is in place, and TDK is embarking on a new, hybrid business model that combines materials, components, and solutions. By refining our materials and components technologies, we have built a base of competitive, single components, and utilizing the resources of Qualcomm and other IC partners, we will offer high-value-added sensor solutions and power solutions in the priority ICT, automotive, and industrial and energy markets. By quickly tying the needs of these industries to our development efforts, we will further enhance the competitiveness of our components and expand volume, creating a virtuous cycle by connecting those components to high-value-added solutions. This in turn will increase the value of the business model as a whole, and result in expanded earnings.

In the sensor business, we will take advantage of our world-leading lineup of non-optical products, contributing to resolving customer issues with a variety of advanced compound sensors while also expanding into sensor fusion with the addition of software. At the same time, we will move forward to offer total solutions across a wide range of markets, not only for the automotive industry, but also for fields such as entertainment, IoT, and industrial equipment, including robotics. Our goal is to become the world's No. 1 sensor solution provider (P.36 Special Feature: Sensor Solutions).

With regard to power solutions, enormous potential exists even when narrowed down to batteries alone. Smartphones and automobiles are not the only things that run on batteries. There are many other familiar areas where solutions can be provided using light, safe, high-efficiency pouch cell batteries, including power tools and home appliances. The possibilities are also limitless for new applications, including drones, industrial robots, and automated guided vehicles (AGVs). TDK is proud to offer a broad array of products for the power conversion field, including DC-DC and AC-DC converters, as well as for the power control field. Further, we plan to offer high-value-added power solutions leveraging these technologies that allow for freedom of control over energy. One example is in the automotive market, where our magnets for power generating motors contribute to efficient power generation, and in power supply and charging, where we are going beyond sales of individual products such as compact, on-board chargers and coils to push ahead with practical development of a magnetic resonance wireless power transfer system for charging moving vehicles (P.38 Special Feature: Power Solutions).

Goals of the InvenSense acquisition

The foremost objective is to obtain the ability to conduct a fast-paced business and draw out future needs

The background to our approximately U.S.$1.3 billion investment in acquiring InvenSense requires, I think, a more detailed explanation. This acquisition aims for an impact viewed from a long-term, big-picture perspective.

One reason for the decision was, as mentioned earlier, the fact that this will enable us to target the entire non-optical sensor market through the acquisition of MEMS sensor technology.

Also a factor was our determination that we could significantly increase the corporate value of InvenSense. While the company's portfolio is centered primarily on inertial sensors for the mobile and IoT markets, it has particular strengths in MEMS technology. By combining that technology with a wide variety of the TDK Group's sensors, and by utilizing our sales channels, we can expand the potential for market development and build a balanced customer portfolio. In doing so, we will enhance corporate stability, and, by further leveraging our piezoelectric elements, also bolster our development of next-generation products. Additionally, use of mounting technology and semiconductor embedded substrate (SESUB) technology will make a variety of other composite products possible.

InvenSense is the first fabless company acquired by TDK. Previously, we had sought out value in companies that vertically integrated everything from development to production, acquiring manufacturing firms. Meanwhile, the value in InvenSense, a fabless company, lies not in its manufacturing capabilities, but in its ability to accurately translate customer needs into the product designs and prototypes it provides. This ability to conduct a fast-paced business and draw out future needs is precisely the value in which I have the highest expectations. It would not be exaggerating to say that InvenSense holds the key as TDK looks to expand its solutions business. In the sensor business, we have already begun sharing in their expertise. We hope to work together from a short-term, medium-term, and long-term perspective to utilize our customer bases, expand our portfolio of products that apply our respective technologies and applications, and ensure this partnership generates synergy.

Speed increases competitiveness and profitability

Under a "First-to-Market" approach, we are working to increase our speed Companywide

The cassette tapes and HDD magnetic heads that have driven our growth, and the battery business led by ATL, all have speed in common—the ability to quickly deliver products that anticipate market needs. As change accelerates in the years to come, speed will become an increasingly important factor in business.

Speed is also an important target of M&As and business tie-ups. For example, the ability of InvenSense to respond quickly directly accelerates the speed of business, and by bringing their production in-house at TDK, we can significantly reduce the lead times required for prototype development compared with contracting production outside. The total value chain we have built through our collaboration with Qualcomm and our acquisition of ICsense similarly bring speed to development.

Based on this thinking, I have proposed a "First-to-Market" approach, and by involving development, production sites, and all of our other organizations and personnel in the effort, we are making a strong push to speed up our business.

Development is being encouraged to of course anticipate the needs of the market, but also to stay ahead of our road map by getting an early start on development efforts. The value-added time when we manufacture at our production sites in fact represents only about 20-30% of the overall time. The rest can be considered non-value-added time, during which for one reason or another the flow of production has fallen behind. We are now promoting reduction of non-value-added time, not just at our production sites but in all of our divisions. We are also advancing efforts to shift our business from a monthly to a weekly basis. This allows for a more flexible response to changing plans, and also reduces waste, which we believe will greatly shorten the business cycle.

I believe that improving our cost rate and shortening our cash conversion cycle are certain to lead to a stronger earnings structure for TDK. By shortening working hours, efforts to reduce non-value-added time will, I think, also contribute to enhancing human productivity.

Near-term performance trends and an outline for medium-term growth

Many seeds being planted for growth under the next Medium-Term Plan

Fiscal 2017 was positioned as the year we decided and embarked on building a new business portfolio aimed at future growth. While operating income increased 2.2 times year on year, excluding the ¥144.4 billion gain on the sale of our high-frequency components business, it actually fell by 9.2%. Our goal for fiscal 2018 will be to bring our operating income ratio to levels sufficient to fill in for what was carved out, but it is expected to remain at 7.2%, and neither the operating income ratio nor ROE will achieve the target of greater than 10% set out in our current Medium-Term Plan.

Next year, we will be announcing our upcoming three-year Medium-Term Plan, and a clear explanation of TDK's growth strategy for building a new business model, upon which we have already embarked, will be provided then. At that time, we will also officially report on our numerical targets, but for now, I would like to just touch on the outlines. In fiscal 2021, the sensor business is expected to still be in the midst of generating synergies with the companies we have acquired. However, we hope to increase our share of that market, which is expected to grow at an annual rate of 8%, from approximately 13% today to around 20%. We envision net sales roughly doubling from current levels, reaching the ¥200.0 billion range. Given the current situation, I think we have the ingredients to make that happen. In addition, there will be ¥1,200.0 billion from organic growth* in our existing components business, as well as ¥200.0 billion in net sales from sensors and an additional ¥100.0 billion in power solution-related sales, centered on power supply products. That total of ¥1,500.0 billion in consolidated net sales is what we are picturing for the final fiscal year of the plan. As we build a new business model, we will simultaneously strengthen our earnings structure. We will be examining our income goals more closely going forward, but my hope is to attempt to generate operating income on a scale of ¥200.0 billion.

* Growth realized by utilizing internal resources to expand current product sales.

Laying a foothold for the next Medium-Term Plan

Focusing on building a strategic foundation

In fiscal 2018, we will move steadily ahead with preparations for our next Medium-Term Plan.

Our most important issue will be to strengthen our passive components and materials businesses, which form our strategic foundation. We will focus particularly on enhancing QDC (Quality, Delivery, and Cost) competitiveness by strengthening our *Monozukuri* power.

TDK will be expanding its business in the automotive market and other fields where the quality of components involves human lives. Product life cycles are expected to extend from about three to five years for home appliances, and to 10 years or more for components in continuous use in automobiles and public infrastructure. Our mission thus becomes one of not only providing conventional quality assurance at the time of shipment but also ensuring post-shipment quality assurance. I think this will, in turn, lead to greater competitive strength. TDK combines "Industry 4.0" concepts with a "zero defect" quality approach, pursuing not only production efficiency, but ensuring rigorous quality control from the initial materials by utilizing IoT in upstream management, enabling us to achieve overwhelmingly reliable quality. At our new factories in Akita Prefecture, we are moving forward with deployment of a new model line, beginning with our multilayer ceramic capacitor production line, that will take data on energy consumption patterns, vibrations, and other information detected by a variety of sensors to form a store of big data, which will be compared with and analyzed against quality data. Eventually, this will be extended to ferrite, magnets, batteries, and other products, then rolled out at production sites around the world, allowing us to achieve location independent production that will ensure identical quality worldwide.

In the sensor business, we have integrated an organization that was scattered across a variety of business units, establishing Sensor Systems Business Company, comprising six Group companies with development and production sites in 13 countries worldwide. We will ensure a speedy launch of the sensor business by sharing resources and promoting cross-divisional collaboration in development, marketing, and production. We also plan to begin putting structures in place for the expansion of our energy-related businesses.

Maturation of the market for HDD magnetic heads is expected to progress further, with the exception of HDDs for nearline applications, where the number of heads installed in each HDD is expected to increase. By providing thermal-assisted recording and other advanced technology, we aim to support our customers while building a lean operation centered on Headway Technologies, Inc. (Headway Technologies) of the United States and SAE to ensure stable earnings. We also plan to merge the production and development technology of Hutchinson Technology Incorporated (Hutchinson), acquired in October 2016, achieve vertical integration of the suspension business, and maximize the synergies of the business merger, under a policy of extending application of the company's technology to new components in the ICT market and elsewhere.

Pushing forward to become a "centennial company"

Continuing to pursue what society needs

Having embarked on new reforms, no issue is more important for TDK than people as we solidly execute our strategy, prepare to mark our 100th anniversary in 2035, and work toward the continued expansion of corporate value beyond that milestone. Since first setting out to globalize its business in 1950, TDK has cultivated strength of diversity, readily accepting the varied cultures and values of the companies we have acquired and incorporating their dynamism in our business. Of our 18 current corporate officers, six are non-Japanese, and we have made steady progress in diversifying our management ranks (P.64 Corporate Governance). Still, for TDK, which has become an even more diverse group through its M&As in recent years, to grow into a truly global company, we must strengthen our human resource management to ensure the entire Group is headed in a common direction. In April 2017, Andreas Keller was appointed as General Manager of Human Resources and Administration HQ at TDK Corporation, and we are moving forward with efforts to promote cross-border personnel exchanges and establish human resource development and training policies that are consistent across the Group. We are also working to identify talented personnel on a global basis and put in place structures for making high-level use of their capabilities.

The most important thing we must continue to protect and put into practice if we are to maintain sustainable growth is the founding spirit I referred to at the beginning. I intend to see that our Group-wide motto, "Contribute to culture and industry through creativity," spreads even further within the Group, so that we remain sensitive to identifying what society needs next and able to resolve society's issues with a creativity unique to TDK. In addition, with locations in approximately 30 countries worldwide, and with over 90% of its net sales occurring overseas, TDK is also dealing with an expanding supply chain as globalization has accelerated in recent years. This brings a commensurate increase in the risk that we may place a greater burden on regional communities and the environment. Our hope is that as we offer a competent response to sustainable development goals (SDGs) and other societal demands, we can work with society to achieve sustainable growth.

The road ahead for TDK does not exist as an extension of the roads we have already traveled. More than 80 years ago, Kenzo Sato held to the belief that "if there is a will that something is truly of social value, there is a way." We carry that belief with us today, and as one TDK Group, we continue the challenge of opening up the future.

October 2017

Shigenao Ishiguro
President & CEO

Medium-Term Plan (Fiscal 2016 to fiscal 2018)

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 to "advance autonomous collaboration within the Group and 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

Increasing automotive sales to 30% of total net sales

Fiscal 2015 17% → Fiscal 2018 (target) 30%

As automobiles rely more and more on electrical and electronic equipment, we will work to solidly capture growing demand not only for conventional parts such as capacitors and inductors, but also for customized products such as magnetic sensors and on-board automotive chargers, as well as wireless power transfer systems.

Expansion of new businesses in growth fields

Fiscal 2015 1% → Fiscal 2018 (target) 8%

On the strength of our global 4-pole network, we are making full use of the rich and varied technological resources of the TDK Group to drive the creation of new businesses.

Automotive

Five Priority Businesses

- Inductive Devices
- High-Frequency Components
- Piezoelectric Material Products
- HDD Magnetic Heads
- Rechargeable Batteries

+

New Businesses

- **Sensors for Automobiles and Industrial Equipment**
  - 1 TMR sensor
  - 2 MEMS pressure sensor die
- **Energy Units for Automobiles and Industrial Equipment**
  - 3 Wireless power transmitting and receiving coil unit for wireless power transfer
  - 4 Bidirectional DC-DC converter
- **Wearable and Healthcare Devices**
  - 5 Semiconductor embedded substrate (SESUB)
  - 6 Wireless power transfer coil unit
- **Thin-Film Components**
  - 7 Thin-film power inductor
  - 8 Thin-film capacitor (TFCP) for embedding in substrate

ICT

Industrial and Energy

POINT 2 *Monozukuri* Innovation—"Zero defect" quality based on superior technological competence—

1. **"Industry 4.0" *Monozukuri* Innovation that greatly raises the level of digitization, automation, and virtualization of production processes**
2. **Pursuit of "zero defect" through narrowed tolerances via product upstream management**
3. **Achieve "location independent," whereby the same quality can be achieved regardless of actual production location**

1 Industry 4.0

- Monitoring system network with sensors and ICT
- Real-time control of manufacturing processes
- Big data analysis and feedback to production processes

2 Pursuit of "zero defect"

- Building of upstream management type quality assurance structure

Monozukuri innovation

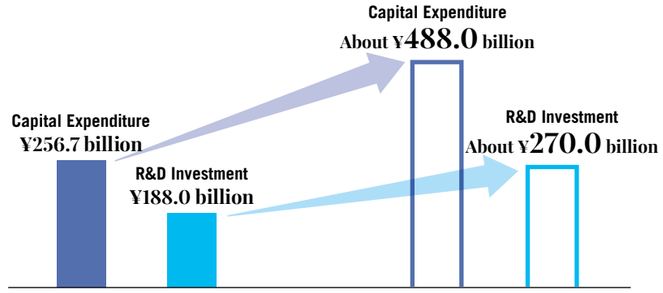
Inventory control innovation

Energy efficiency innovation

→ Implement this innovation at new factories in Akita Prefecture ▼▼▼ Roll out to other factories around the world

POINT 3 Strengthening Growth Investment

1. **Acceleration of strategic growth product expansion**
2. **Strengthening of overseas R&D base**
3. **Acceleration of existing core business expansion**
4. **Acceleration of *Monozukuri* Innovation**



Giving TDK's new nonlinear evolution a strong push from the finance side

Tetsuji Yamanishi
Director
Senior Vice President
General Manager of Finance & Accounting HQ

Fiscal 2017 review

Placing emphasis on ensuring procurement of capital for acquisitions

In fiscal 2017, TDK pushed forward with a large-scale conversion of its business portfolio. Based on an agreement with Qualcomm related to the establishment of RF360, a joint venture company that provides high-frequency components and other products, in February 2017, TDK received approximately ¥130.0 billion, representing 51% of the funds from the transfer of its high-frequency components related business, and plans to receive the remaining equity amount, equivalent to 49%, in August 2019. Because the Company proceeded with M&As in fiscal 2017 ahead of the completion of this business transfer, ensuring we procured acquisition capital was a top priority in terms of our finance and capital strategies. We also set up a commitment line for the first time, part of our effort to secure an adequate capital procurement facility and ensuring our ability to carry out M&As.

Net sales in fiscal 2017 increased 2.3% over the previous fiscal year, while operating income rose by ¥115.3 billion year on year. Deducting the ¥144.4 billion in capital gains from the transfer of the high-frequency components business, ¥21.2 billion in structural reform expenses, and other one-time losses and gains for an actual operating income of ¥85.5 billion, the operating income ratio was 7.3%. Even assuming the transfer of the high-frequency components business, our outlook called for achieving the current Medium-Term Plan (for fiscal 2016 to fiscal 2018). Several factors, however, including (1) sluggish growth in profit levels from passive components and rechargeable batteries; (2) a delay in the timing of income contributions from acquired companies; and (3) delays in profit improvements, primarily in the magnet business, mean that achieving the management targets we have set, which call for an operating income ratio and ROE in excess of 10% each, will be difficult.

Fiscal 2018 positioning and priority measures

Working to stabilize our financial constitution by bringing free cash flows into positive territory

Fiscal 2018 is being positioned as a run-up period in preparation for the next Medium-Term Plan. The operating income projection of about ¥80.0 billion, intended to absorb the impact on results associated with the transfer of the high-frequency components business, was compiled assuming organic growth. Considering trends in orders received in existing businesses, this target is well within range. With impairment losses in the current fiscal year in HDD magnetic heads, aluminum electrolytic capacitors, and magnets, business structure reforms are in sight, and we have paved the way for conversion of our profit structure in fiscal 2018 as well.

Under the current Medium-Term Plan, investment has taken precedence, with active M&As and a plan for capital investment of about ¥490.0 billion over three years, equivalent to slightly less than double depreciation and amortization, and as a consequence, our stockholders' equity ratio has fallen to 47.7% as of the end of fiscal 2017. Because the acquisition of InvenSense was covered by borrowing, that ratio is expected to fall further in fiscal 2018, but through selection and consolidation of capital expenditures, and by generating solid results from our M&As, we will bring free cash flows into positive territory while stabilizing our financial constitution in preparation for the next Medium-Term Plan.

Direction of the next Medium-Term Plan

Increasing capital efficiency through investment based on rigorous selection and consolidation

In April 2018, we plan to announce our next Medium-Term Plan. We will offer an official briefing on our profit outlook at that time.

With regard to capital structure, we are aiming for an interim stockholders' equity ratio of greater than 50%, and improvement in our debt-to-equity ratio to approximately 0.3 from slightly more than 0.4 in fiscal 2017. This will allow us to carry out investments from a long-term perspective while ensuring flexibility in procuring capital, in the midst of an industry in which technological innovation is extremely rapid, and which is affected by currency exchange rates and macro-environmental shifts. To accomplish this, we will select and consolidate our capital expenditures, aiming for slightly more than depreciation, and generate solid free cash flows.

With regard to dividends, we have set a dividend payout ratio target of 30%, under a policy of working to steadily increase dividends through growth in profit per share. During the period of the next Medium-Term Plan, demand is expected to grow further, particularly in the market for electric vehicles in 2020 and beyond, and that may require investing in increased production. Acquisition of treasury stock as part of returning profits to shareholders will be included among our options for use of surplus funds generated through timely investment in response to increases in demand.

Organically linking strategy to the front lines

Ensuring growth strategy is incorporated in front-line policies

We are also focused on increasing capital efficiency. We will work to organically tie the growth vision conceived by management not only to our finance and capital strategy, but all the way to policies on the front lines. Part of that effort is our performance management framework (📖 P.41 Linking Strategy to the Front Lines), which we are working to strengthen. TDK has introduced TDK Value Added (TVA) as a comparison of return against capital cost (the weighted average cost of capital, or WACC, multiplied by invested capital), which was introduced in 1999. Under the logic tree tied to this TVA, we not only evaluate the profitability of each business, the efficiency of business assets, and the ability to capture cash, but also factorize and monitor KPIs tailored to specific front-line policies and business characteristics. This not only allows as to unite as a single company in promoting our growth strategy, but, we believe, will enable us to build a financial constitution capable of achieving ROE of 15% or more by also tying that strategy to selection and consolidation of capital expenditures through stronger management of investment efficiency.

Overview of Business Conditions by Segment (Fiscal 2017)

Note: Beginning in fiscal 2018, changes were made to reported segments. The following is an explanation of fiscal 2017 performance under the former segments.

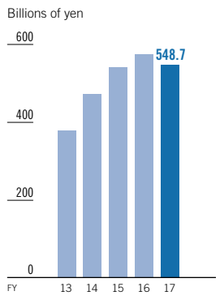
Passive Components Segment

Net sales
¥548,730 million (down 6.0% year on year)

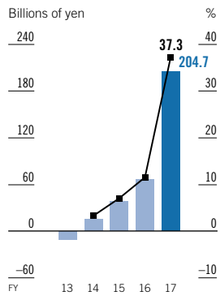
Operating income
¥204,681 million (up 208.2% year on year)

Fiscal 2017 operating income includes ¥144.4 billion in business transfer gains associated with the establishment of the joint venture business with Qualcomm. Operating income excluding the impact of this amount was down 9.2% year on year, to ¥60.3 billion, but the operating income ratio was 11%, on par with the previous fiscal year's level. High-frequency components saw particularly significant improvement in profitability through productivity improvements, with profits leading the segment as a whole. At the same time, impairment losses, etc. associated with profit structure conversion in the aluminum electrolytic capacitor business resulted in the posting of ¥9.8 billion in structural reform expenses for the segment as a whole.

Net Sales



Operating Income (Loss) / Operating Income Ratio



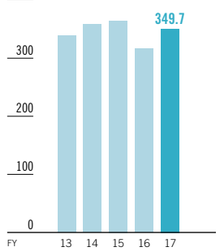
Magnetic Application Products Segment

Net sales
¥349,698 million (up 10.9% year on year)

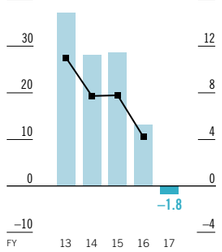
Operating loss
−¥1,802 million (— year on year)

Thanks to strong shipments of HDD magnetic heads for a Japanese customer, and solid sales of magnetic sensors from Micronas, acquired in March of fiscal 2016, for the automotive market, net sales increased in fiscal 2017. At the same time, as a result of an active push toward structural reforms, the Magnetic Application Products segment as a whole posted ¥11.4 billion in structural reform expenses. We also completed our evaluation of goodwill carve-out assets with regards to our acquisition of Micronas and Hutchinson, which resulted in the posting of approximately ¥3.3 billion in depreciation and amortization expenses in the period under review.

Net Sales



Operating Income (Loss) / Operating Income Ratio



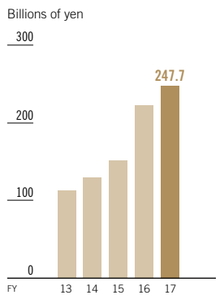
Film Application Products Segment

Net sales
¥247,693 million (up 12.6% year on year)

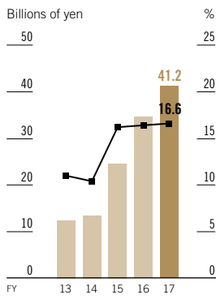
Operating income
¥41,217 million (up 11.3% year on year)

In rechargeable batteries, while sales to North America fell year on year, sales to smartphone manufacturers in China increased significantly. Sales also increased for new applications aside from smartphones, including drones and game consoles. Timely efforts to boost production capacity and improve production efficiency enabled us to respond to this increased demand, and resulted in a significant increase in both net sales and income.

Net Sales



Operating Income / Operating Income Ratio



Corporate Value

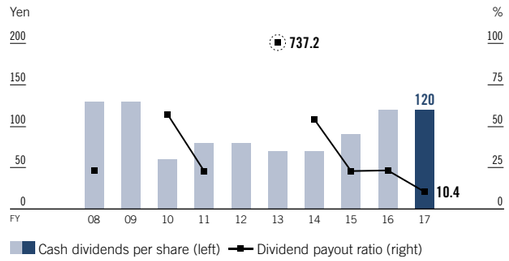
Basic Policy and Prospects for Profit Distribution

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 2017, the yearly dividend amounted to ¥120 per common share. Consequently, the dividend payout ratio was 10.4% and the ratio of dividends to stockholders' equity was 1.9%.

For the next term, an interim dividend of ¥60 and a year-end dividend of ¥70 are planned, resulting in an expected yearly dividend of ¥130 per common share.

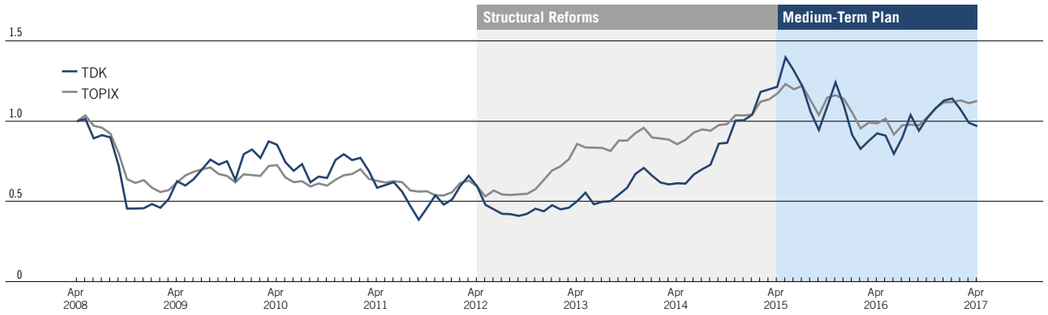
Cash Dividends per Share / Dividend Payout Ratio



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.

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 2008 management integration.



	2008/3	2009/3	2010/3	2011/3	2012/3	2013/3	2014/3	2015/3	2016/3	2017/3
PER (times)	10.7	—	59.3	14.0	—	344.2	33.3	21.7	12.2	**6.1**
PBR (times)	1.1	0.8	1.5	1.2	1.2	0.7	0.9	1.5	1.2	**1.1**

Social Recognition by Outside Organizations

Member of Ethibel EXCELLENCE

MS-SRI (Morningstar Socially Responsible Investment index)

TDK's TMR angle sensor received the Automotive Components Award at the 2016 "CHO" *Monozukuri* Awards

Received Human Resources Development Award from Malaysia's Ministry of Human Resources

TDK CSR REPORT 2016 received an award at the 20th Environmental Communication Awards for Excellence

Special Feature

The Start of a New "Nonlinear Progress"

Over the years, TDK has achieved sustainable growth through "nonlinear progress," our ability to remain alert to the future needs of society and make bold changes in our business portfolio before existing businesses enter a period of maturity. Today, in anticipation of the future before us, we are taking our powerful first steps toward a new nonlinear progress.

Re-invention

1935
Development of ferrite cores

1968
Development of magnetic tapes

1980
Development of fine multilayering technology

1987
Development of HDD magnetic heads

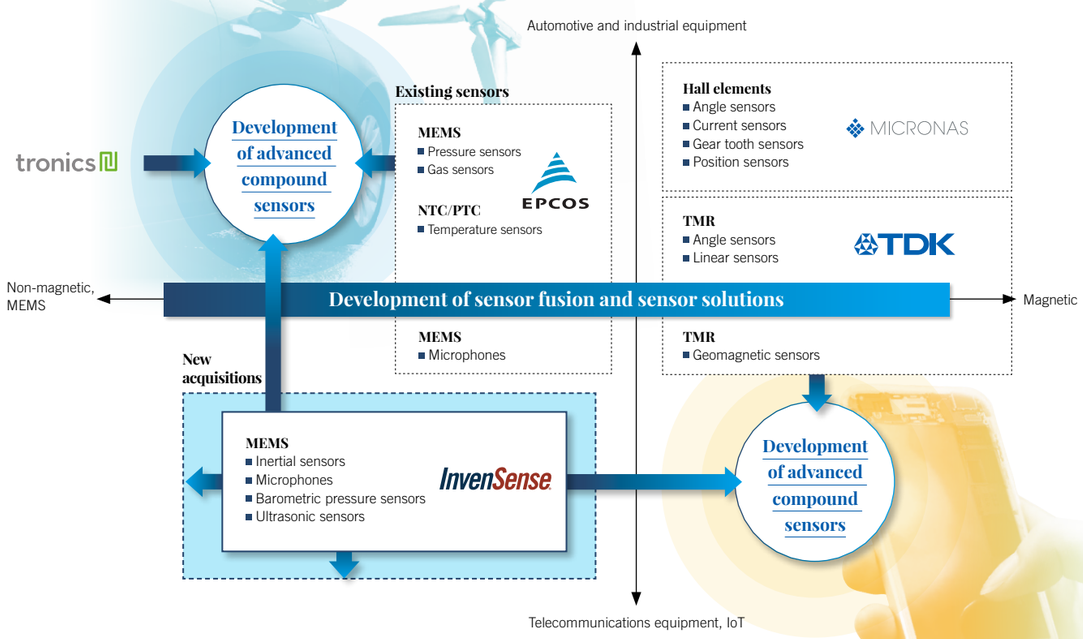
2005
Acquisition of ATL, Hong Kong-based manufacturer of lithium polymer batteries

2008
Acquisition of the EPCOS Group, a German electronic device manufacturer

Power of Synergy

A Complete Technology Arsenal

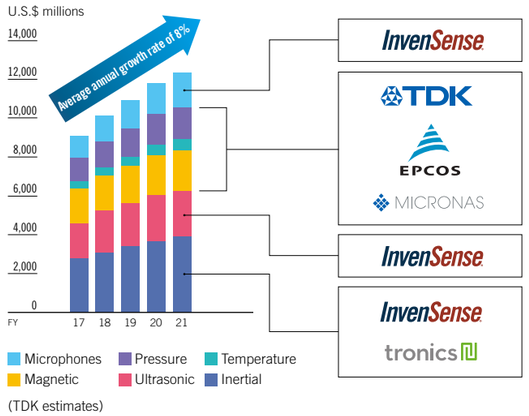
Beginning with our agreement to acquire Micronas at the end of 2015, TDK has pursued aggressive M&As, primarily in the sensor field, and we have quickly moved to deepen our relationships with IC manufacturers, starting with Qualcomm with which we established a joint venture to provide high-frequency components. With the subsequent closing of our acquisition of InvenSense in May 2017, TDK now has a complete technology arsenal and has begun a new series of reforms.



Target Markets

Demand for the non-optical sensors TDK considers its target is expected to grow at an annual rate of 8% up to fiscal 2020. Through its acquisition of InvenSense, TDK has obtained a platform for sensors based on micro electro mechanical systems (MEMS) technology, putting the entire non-optical sensor market within range. It has also allowed us to expand our target from our previous focus on the automotive market to other fields, including mobile and IoT, enabling us to build a more balanced product portfolio.

Outlook for Global Sensor Demand (Non-Optical)
By product



(TDK estimates)

Key Factors behind New Reforms

Speed

The source of competitiveness in business lies in the speed with which needs can be captured, prototypes can be offered, and those new offerings can be incorporated into products and solutions, and thus the cycle also leads to improved profitability. TDK is engaged in a Companywide effort to increase the speed at which it does business.

▶ Speed-Related Synergies with InvenSense

1. Ability to offer solutions

The speed with which InvenSense is not only able to develop software, but to take a concept from the initial capturing of market needs to actually providing a solution, will enhance the ability of the TDK Group as a whole to offer solutions.

2. Accelerated prototype development through in-house manufacturing

InvenSense is a fabless operation, and by bringing their production in-house within the TDK Group, we will significantly shorten the time required to provide prototypes, as well as the time needed to offer solutions.

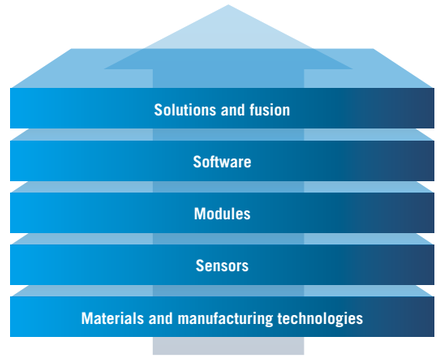
▶ Accelerated Cycle Times

TDK is working to not only reduce lead times between development, manufacturing, and sales, but is pushing to cut non-value-added time Companywide, including in the back office, thus accelerating the entire business cycle (P.59 Manufacturing).

▶ Building a Total Value Chain in the Sensor Business

With our acquisition of ICsense, which deals in ASIC development, TDK has built a consistent value chain, from materials to solutions and fusion. This will not only allow us to respond totally to our customers' needs from materials onward, but also increase the speed of business.

Customers and Business Partners



Driver of a New Business Model——Collaboration with Qualcomm

TDK's collaborative relationship with Qualcomm is a powerful driving force behind our new business model.

Key Collaborative Synergies

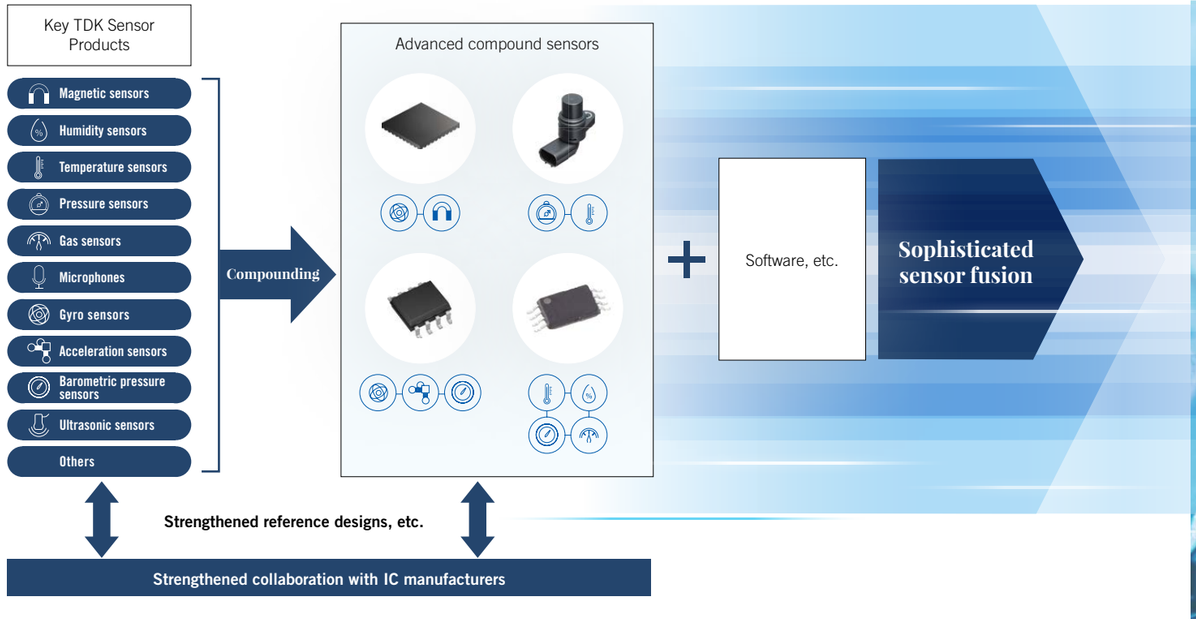
- The ability to use advanced RF solutions to provide integrated systems via the joint venture RF360
- Technical cooperation across a wide range of advanced technologies in next-generation mobile communications, IoT, and automotive-related sectors, including passive components, batteries, wireless power transfer, sensors, and MEMS
- Enhanced reference design capabilities through Qualcomm
- Early disclosure of Qualcomm technology road map

What TDK Can Do
Sensor Solutions

With a full lineup of non-optical sensors, TDK is now prepared to respond to any market need. Our goal is to contribute to resolving social issues and become the world's No. 1 provider of sensor solutions by creating sensor elements that offer higher sensitivity, higher accuracy, and lower power consumption; by developing compound sensors and integrating sensors with arithmetic elements and memory; and, with the addition of software, by increasing added value through sensor fusion.*

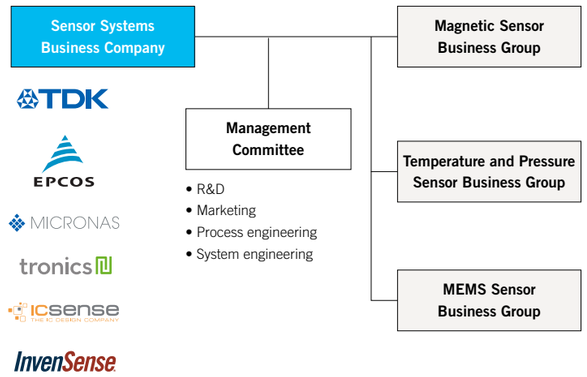
* Combining multiple sensors with software to achieve advanced sensing functions.

TDK's Goals for Sensor Solutions



Sensor Business Integration and Rapid Launch

TDK integrated some divisions and related companies belonging to disparate business domains by fiscal 2017, including magnetic sensors, temperature and pressure sensors, MEMS and microphones, etc., and established Sensor Systems Business Company. With six Group companies in 13 locations worldwide engaged in marketing and R&D efforts across the Group, we are aiming toward a rapid launch of the sensor business (note the addition of "Sensor Application Products" in our segment reporting beginning in fiscal 2018).



Examples of Compound Sensor and Software Application Solutions

Gyro Sensors + Software

⇒ Improved Workability and Efficiency

Gyro (angular velocity) sensors are used to detect the orientation and state of motion of a moving object. Familiar uses include car navigation systems, camera image stabilization, and more. Gyro sensors can be adapted for use in anything that moves. Used in combination with software in industrial and mobile robots, they contribute to improved workability and efficiency by enabling robots to create and learn new motions. Installed in wearable devices, they can detect a person's posture and movements, and may have applications in the sports and healthcare sectors.

Ultrasonic Sensors + Software

⇒ Improved Security

The use of biometric authentication systems involving passwords is expanding. One of these is a fingerprint authentication system with an ultrasonic sensor using MEMS technology. With excellent water resistance, it can read fingerprint and blood vessel patterns deep in the skin, eliminating the errors common with conventional methods. This makes high-performance fingerprint authentication systems possible, and contributes significantly to improved security. Depending on the software, ultrasonic sensors can be combined with wearable devices and used in near-field communications, offering a wide range of potential applications.

TMR Sensors + Hall Sensors

⇒ Improved Redundancy

Ultra-high-sensitivity TMR sensors, adapted from HDD head technology, and Hall sensors, a kind of sensor flexible enough to adapt to a diverse range of applications, are the two leading types of magnetic sensing technologies, and one of TDK's strengths is its lineup of magnetic sensor products. Angle sensors, rotation sensors, position sensors, and others each bring their distinctive characteristics to the automotive, robotics, and other fields. In addition, use of TMR sensors and Hall sensors together as a set enhances the likelihood that one or the other will maintain its sensor functions even in the harshest conditions, significantly improving redundancy.

Acceleration Sensors + Gyro Sensors

⇒ Improved Safety

Combining acceleration sensors with gyro sensors creates inertial sensors capable of detecting the attitude of a vehicle around three different axes: front and back, left and right, and up and down. The angular velocities around each of these axes are known as the roll rate, the pitch rate, and the yaw rate. During left and right turns, for example, the sensor detects angular velocity in terms of yaw rate, preventing drift, where the vehicle cannot turn, and spin, where the vehicle turns too far. This technology is also critical to ensuring the safety of autonomous-driving vehicles. Applications can also be expected for mobile robots.

Acceleration Sensors + Gyro Sensors + Barometric Pressure Sensors + Software

⇒ Improved Navigation Accuracy

Inertial sensors made up of acceleration sensors and gyro sensors can be combined with barometric pressure sensors to achieve highly accurate car navigation even on roads with height differences. Going forward, we will also see the development of software and systems that use AI to analyze and manage the information gathered by various automotive sensors, using it to inform the driver in the event of possible breakdowns or accidents. Automobile sensor networks, connected by the vehicle's engine control unit (ECU), will also connect to sensor networks in the IoT society to come.

Future Potential

Efforts are underway worldwide to utilize sensor networks as a means of improving the safety and economic efficiency of public infrastructure. The number of potential targets for sensing devices is innumerable, from railways and roads, to rivers, harbors, bridges, and steel towers. Because many of these involve dangerous working environments, sensor units equipped with internal batteries need to remain usable for long periods of time following installation. This is why the ability to offer highly durable, highly reliable sensor units will greatly enhance competitive advantage in the IoT market to come.

What TDK Can Do
Power Solutions

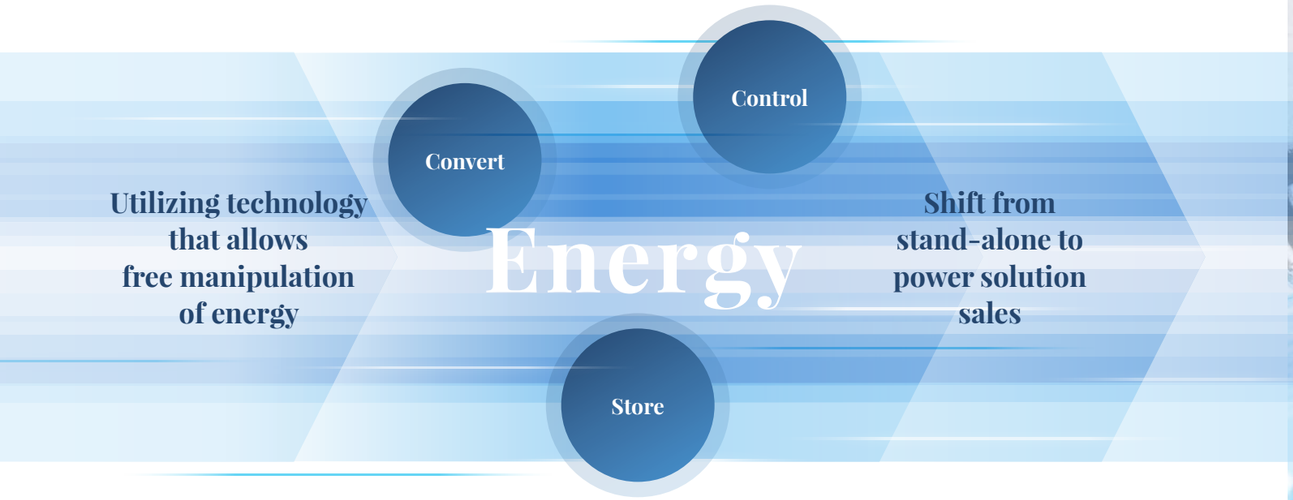
Complex Solutions That Leverage Competitive Advantage

Building on its strengths in high performance and reliability based on technology accumulated over many years, TDK is working to enhance its position as the leading manufacturer of batteries for consumer use, while also further expanding its range of energy-related products, including its rich lineup of power supply equipment. Leveraging our competitive advantage in developing products from the material and component stage, TDK will offer complex power solutions with high added value.

Expanding Power Solutions Unique to TDK

Today, TDK is focusing on power solutions in addition to sensors and actuators and next-generation electronic components.

Energy devices such as lithium-ion polymer batteries, as well as power supply equipment, generally relied primarily on conventional stand-alone sales. By pivoting to offer high-value-added units that combine these products with hardware and software, TDK's policy going forward will be to push aggressively ahead with proposals for unique power solutions in the three priority markets of automotive, industrial and energy, and ICT.



From its origins in the development of ferrite, an innovative magnetic material, TDK has continued to refine its core competence in magnetics technology, and today offers a diverse range of products related to core power electronics functions, including energy conversion, storage, and control. Utilizing our technology and expertise that allow for free manipulation of energy, we will develop highly-value-added power solutions.

Energy conversion-related products	Energy storage-related products	Energy control-related products
• AC-DC/DC-DC converters • Automotive inverters • Programmable DC power supplies • Bidirectional converters • Wireless power transfer coils • Drive power and power generation magnets	• Lithium polymer batteries for industrial equipment • Electric double-layer capacitors (EDLC)	• Battery management system (BMS) transformers • Battery management units (BMUs) • IGBT transformers • Sensors (current sensors, temperature sensors, etc.)

Examples of the Integration of TDK Elemental Technology for High-Value-Added Power Solutions

Power Transfer Coil Technology + Capacitor Technology + High Reliability Design Technology

⇒ Wireless Power Transfer System for Industrial Equipment

Expectations are high for the introduction of wireless power transfer systems in the industrial equipment sector as well, including for automated guided vehicles (AGVs) and robots, in terms of their ability to improve convenience, safety, and reliability, while reducing manpower and costs through automated charging. Envisioning a wide variety of applications, TDK has developed three platforms (1kW, 200W, 50W for rotating bodies) that allow for the building of wireless power transfer systems that employ advanced magnetic field resonance methods.

Ferrite Technology + Coil and Transformer Technology + Cooling and Heating Design Technology

⇒ On-board Chargers for EV and PHEVs

EVs and PHEVs are installed with on-board chargers used to charge the main battery. The chargers are comprised of a rectifying and smoothing block that converts commercial AC power to DC, a power factor correction (PFC) block, a DC-DC converter, and other components. One of TDK's strengths lies in the fact that it has commercialized a diverse range of electronic components that comprise on-board chargers, and can offer compact, lightweight, high efficiency on-board chargers that represent a concentration of power electronics technology.

Ferrite Technology + Power Conversion Technology + Circuit Design Technology + Coil and Transformer Technology

⇒ Regenerative Energy Bidirectional DC-DC Converters

In industrial equipment such as elevators and cranes that run on motors, braking of the motor releases wasted energy in the form of heat. Bidirectional DC-DC converters function to store that regenerative energy in a battery, providing a boost for stored power when the motor is started and requires a high level of power. TDK can offer comprehensive systems that integrate power conversion, storage, and control.

Ferrite Technology + Coil and Transformer Technology + Circuit Design Technology

⇒ AC-DC Power Supply Units for Storage Battery Charging

Power storage systems using lithium-ion batteries are widely used in peak cut and peak shift power demand systems as well as emergency power sources during disasters. TDK's AC-DC power supply units for storage battery charging utilize advanced power electronics technology to provide a constant-voltage, constant-current (CVCC) power supply optimized for charging storage batteries. The units offer particularly outstanding charging performance when used in commercial high-capacity power storage systems.

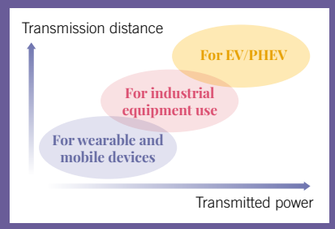
SESUB Technology + Circuit Design Technology + Assessment and Simulation Technology

⇒ Power Management Unit (PMU)

TDK's semiconductor embedded substrate (SESUB) is a proprietary substrate technology for embedding thin IC chips in a resin substrate, allowing for three-dimensional mounting of other components. Power management units installed in smartphones and tablet devices were developed using this technology. Power supply management functions, including DC-DC converter circuits, battery charging circuits, and LCD backlight power supply circuits are packaged in a single module, not only saving space, but enhancing heat discharge and noise characteristics.

TDK's Wireless Power Transfer System Development Portfolio

TDK's wireless power transfer systems, which target the three priority markets of automotive, industrial and energy, and ICT, feature a broad development portfolio that includes high-power systems for EV and PHEV use, medium-power systems for industrial equipment, and low-power systems for wearable and mobile devices. Our greatest competitive advantage is that we have the wide range of core technologies needed for system development, as well as many of the electronic components and devices that comprise those systems.



Strengths of Materials and Components Technologies for Enhancing Competitive Advantage

To enhance the competitiveness and sustainability of its new business model, TDK is working to build up the strengths of its components business, based on a foundation of materials and process technologies and integrated production, and the passive components they generate.

Strengthening *Monozukuri* (Manufacturing Excellence) Power

TDK is moving forward to expand its business in fields that require not only high efficiency, but also high reliability, including the automotive market, the industrial and energy market, and the healthcare market. Under our policy of pursuing "zero defect" quality in addition to the "Industry 4.0" concept, we are pushing ahead with *Monozukuri* reforms (P.60 Manufacturing).

Strategic Background	Because their use is expanding in the automotive market and other fields involving human life, component quality is a critical issue both in terms of differentiation and reducing risk.

The Endless Pursuit of Compact, Low-Profile Technology

Going forward, requirements that IoT devices be compact, slim, and highly integrated are expected to increase even further. TDK continues to pursue highly competitive, compact, low-profile technologies, as typified by semiconductor embedded substrate (SESUB), and will promote the development of high-value-added next-generation electronic components and modules.

SESUB

This proprietary technology embeds integrated circuits thinner than 100μm three-dimensionally in the substrate, rather than mounting them on the substrate. Used in ultra-compact power supply modules and Bluetooth modules, this technology contributes to the development of thinner, more compact mobile devices. We are also working to develop more highly integrated modules and a wide range of other IoT device applications.

SESUB

Bluetooth module

Power management unit

MEMS technology

MEMS microphone

MEMS pressure sensor

Strategic Background	Responding to increasingly compact, lightweight, highly functional smart devices and IoT devices will require a new dimension in highly integrated design.

Fundamental Restructuring of the Magnet Business

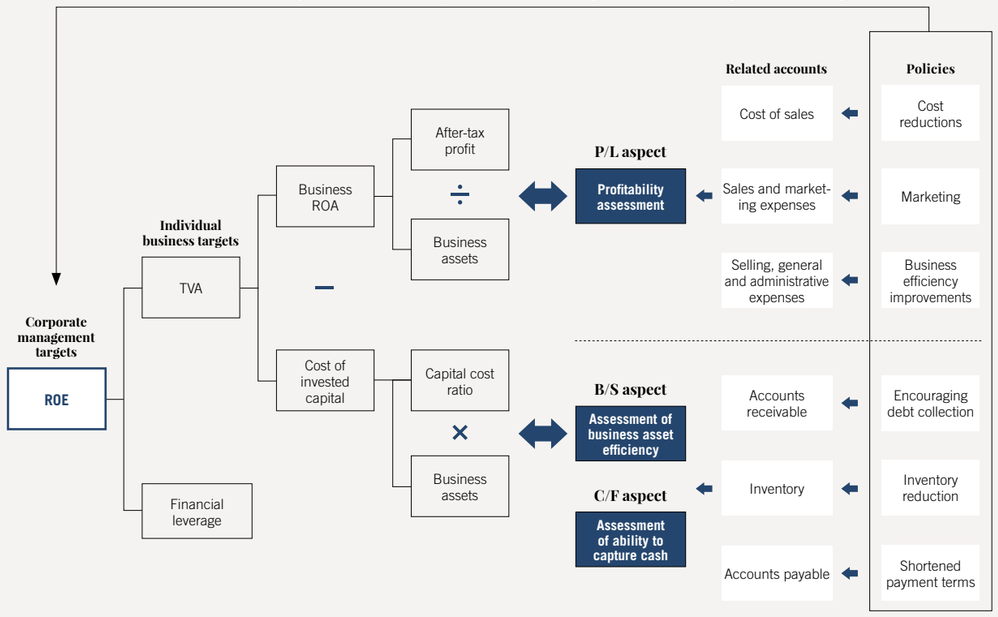
In fiscal 2017, the magnet business recorded an impairment loss, due in part to a large number of production sites, process segmentation, and other structural issues. While working to incorporate demand for use in automobiles and wind power generation, which is expected to grow, we will undertake a fundamental restructuring of the business.

Strategic Background	We must ensure that demand for use in automobiles and wind power generation, which is expected to expand, leads to profitable growth.

Linking Strategy to the Front Lines

To ensure the solid execution of our growth strategy leads to improvements in profitability and corporate value, TDK is working to instill that growth strategy on the front lines. The performance management framework we are working to deploy calls for KPIs to be established by individual business division and site, and for an acceleration in the speed of business, which is key to our new business model. The goal of these efforts is to improve profitability Companywide. Investment effectiveness, including assessment of the efficiency of business assets and capital expenditures based on TDK Value Added (TVA, a proprietary index for evaluating performance), will come under even stricter monitoring, which will lead to an improvement in capital efficiency for the Company as a whole.

Build a framework by which front line policies lead to improvements in capital efficiency



Accelerating the Speed of Business by Reducing Non-Value-Added Time

At TDK, we are working to reduce lead times based on three strategies: (1) getting an early start; (2) reducing non-value-added time (on the front lines of manufacturing, equivalent to time not spent in production); and (3) shortening of work cycles. A variety of projects are underway, led by the front lines, with one factory working to reduce lead times by half from the planning and coordination stage through material procurement and manufacturing. By sharing success stories, we are working to accelerate the speed of business with the participation of all our employees.

Assessment by the Chairman of the Board (Outside Director)

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

About three years ago, it became clear that under the status quo, profit growth would slow not only in HDD magnetic heads, which had led TDK’s growth, but also in the core electronic components business. That was when TDK began discussions around what its future strengths would be and the direction the Company should take going forward.

As discussions progressed regarding which technologies should be nurtured internally and which should be acquired by borrowing outside capabilities, the conclusion was reached that a partnership between Qualcomm, which has software and algorithm technology, and TDK, which is capable of embodying those technologies in its own products, would be ideal. The business tie-up with Qualcomm that emerged from those discussions eventually determined the direction of a major strategy that included expansion of TDK’s sensor business. Once that larger direction was decided, it was not long before companies such as Micronas and InvenSense came to the fore as potential acquisitions. In selecting those deals, we analyzed demand trends in the sensor market and the status of competitors from a variety of angles, looking for the companies that would best fit with TDK’s growth strategy.

> *“The business tie-up with Qualcomm determined our strategic direction.”*

The cycle of technological change in the high tech sector has sped up and the cost of corporate acquisitions has risen; the risks involved have grown compared with five years ago. At the same time, it is impossible to predict whether those acquisition costs will drop going forward. To ensure that the execution side could take risks within an appropriate range when carrying out this series of acquisitions, we continued to review the suitability and growth potential of businesses brought before the Board by the management meeting, while the Board conducted a multi-faceted review of the investment effects and risks and continued to provide feedback. With regards to InvenSense, a fabless firm, I give high marks to the execution side for their speedy response to employee and customer retention risks.

Because TDK is pursuing an offensive investment strategy, we try, to some extent, to keep positive scenarios in mind as we conduct feasibility studies. In the case of InvenSense, for example, while the deal presented significant potential for synergies in terms of software and algorithms, my assessment of areas that are not making much of a contribution to profit is quite conservative. I also believe that TDK’s true capabilities will be tested as it attempts to enhance corporate value for both parties to these acquisitions, extracting value from technologies dependent on individuals that may not even appear as intangible fixed assets on the balance sheet, or value of which the acquired party may not even be aware.

> *“We hope this dispels any concerns remaining in the market.”*

In terms of corporate governance, I think TDK has made progress in splitting the business execution function from the supervisory function. On the Board of Directors, of which I am chairman, the three outside directors share an understanding of the importance of balancing accelerated decision-making with the need for vigorous discussion as part of fulfilling our obligation to be accountable to the Company’s shareholders and investors. Based on his past experience, Mr. Yoshida is well acquainted with the investment risks associated with venture companies, and Mr. Ishimura has extensive experience in corporate acquisitions overseas. I think that kind of background has proven useful in discussions about the assessment of M&A deals and management of post-acquisition risks.

To encourage deeper discussions by the Board of Directors, about three years ago we instructed the management meeting to present the Board only with the most important agenda items, and only after they had been discussed thoroughly at the management meeting level. Beginning in 2017, we narrowed down the number of members participating in the management meeting, which has led to progress on this issue.

With the “shape” of the business in place, now comes the time to deliver results. I plan to keep a close eye on whether plans are being executed with a sense of speed, and whether strategies and investment targets are undergoing proper review. As one of TDK’s outside directors, I look forward to seeing the Company quickly integrate its acquisitions, dispel any concerns in the market, and demonstrate growth that exceeds investor forecasts.

Column

The Strength of Diversity

Fully Leveraging the Strengths of Acquired Companies through TDK-Style Post-Merger Integration

Joachim Zichlarz
Executive Vice President
Electronic Components Business Company CFO

I currently serve as the CEO of the EPCOS Group, which became part of the TDK Group in 2008. This merger was a very attractive deal for both companies, as it helped in complementing our respective product portfolios. In addition, the merger process was carried out very smoothly thanks to the fact that TDK treated EPCOS not simply as a company it acquired but rather as a business partner of equal status that it newly incorporated as an important member of the Group. I believe that the trust-based relationships that were subsequently established between the two companies have acted as the foundation for the synergies we are creating in various areas of operation today.

TDK has adopted a Group-wide approach that respects the culture and values of the companies it acquires, without forcing its approach on them, in an effort to realize mutual growth. TDK is today a truly global company, with over 90% of its employees on a consolidated basis being from countries other than Japan. Management meetings are conducted mainly in English, allowing participating members of various nationalities to voice their opinions without hesitation. This, in turn, encourages the active exchange of opinions. All members participating in these meetings, including myself, find these meetings to be very engaging as we are able to experience TDK’s global spirit and business approach. Moreover, TDK has fostered a corporate culture that allows anyone, regardless of age or position, to voice their opinions to the Company’s management. I believe that such a culture represents a strength that will support TDK’s growth going forward.

By fully leveraging the strength of diversity in these ways, TDK will be able to move forward with Group-wide initiatives to realize further growth.

The EPCOS OHG Deutschlandsberg factory (Austria)

Segments at a Glance (Fiscal 2017)

Passive Components Segment

	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 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 and Energy** Transformers EMC filters	**For Automotive** Piezo actuators **For ICT** Ceramic high-frequency components, VCMs/OISs, Multilayer chip varistors **For Industrial and Energy** Varistors Arresters
Competitors	Murata Manufacturing, TAIYO YUDEN, SEMCO (Korea), Yageo (Taiwan), etc.	Murata Manufacturing, TAIYO YUDEN, SEMCO (Korea), Cyntec (Taiwan), etc.	Murata Manufacturing, ALPS ELECTRIC, Panasonic, AMOTEC (Korea), etc.
World Market Share of Representative Products (TDK Data)	Ceramic capacitors for automobiles **40%–45%**	Inductors **20%–25%**	Ceramic high-frequency components **30%–35%** Varistors **30%–35%** Gas arresters **75%–80%**

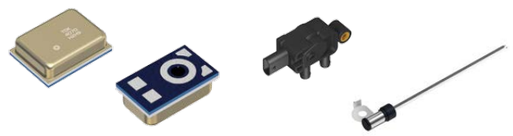
Magnetic Application Products Segment

	Recording Devices	Other Magnetic Application Products
Main Products	**For ICT** 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** High current digital POL converters, HDD magnets **For Industrial and Energy** Bidirectional DC-DC converters, High-efficiency AC-DC power supplies, Magnets for industrial equipment
Competitors	HDD magnetic heads: Seagate Technology (USA), Western Digital Technologies (USA) HDD suspensions: NHK SPRING, etc.	Power supplies: XP-Power (Singapore), MEAN WELL (Taiwan), Cosel, etc. Magnets: Shin-Etsu Chemical, Hitachi Metals, ZHONG KE SAN HUAN (China), etc.
World Market Share of Representative Products (TDK Data)	HDD magnetic heads: **20%–25%** HDD suspensions: **55%–60%**	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.

Sensor Application Products Segment

* Fiscal 2018 net sales are expected to increase 1.7–2.0 times year on year in conjunction with completion of the acquisition of InvenSense and other factors.

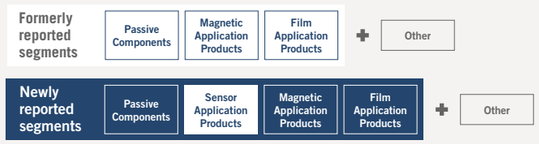
	Sensors
Main Products	**For ICT** Sensors (Barometric pressure, Gyro, Acceleration, MEMS microphone, etc.) **For Automotive** Sensors (Gear tooth, Pressure, Angle, Current, Temperature, etc.) **For Industrial Equipment** Sensors (Pressure, Gyro, Acceleration, Current, etc.) 
Competitors	Murata Manufacturing, ALPS ELECTRIC, TAIYO YUDEN, Bosch (Germany), STMicroelectronics (Switzerland), Infineon (Germany), Asahi Kasei Microdevices, Allegro (USA), Shibaura Electronics, etc.
World Market Share of Representative Products (TDK Data)	Temperature sensors (NTC thermistors) **30%–35%** Other sensors: Currently undisclosed

Film Application Products Segment

	Energy Devices
Main Products	**For ICT** Lithium polymer batteries for smartphones Lithium polymer batteries for tablet devices and notebook computers Lithium polymer batteries for wearable devices **For Industrial Equipment and Others** Lithium polymer batteries for drones Lithium polymer batteries for game consoles 
Competitors	Samsung SDI (Korea), LG Chemical (Korea), Murata Manufacturing, Panasonic, Maxell, etc.
World Market Share of Representative Products (TDK Data)	Lithium polymer batteries **25%–30%**

About Segment Changes

On April 1, 2017, TDK established Sensor Systems Business Company to target the sensor business, a market where significant expansion is expected. Businesses comprising the sensor application products segment have been rearranged from their previous segments. The businesses targeted by this reorganization include, from formerly reported segments, temperature and pressure sensors from the Passive Components segment; magnetic sensors from the Magnetic Application Products segment; and the MEMS microphone business from the Other segment.



Business Environment Surrounding TDK

Market environment and opportunities	Factors affecting the market
For Automotive • Trend toward lighter weight and electrification of automotive equipment, driven by customers' increased fuel economy awareness • Development of new technologies such as ADAS and autonomous driving	• 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 raw 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
For ICT • Increased demand in the Chinese and Indian markets and other emerging economies • Market entry of new terminals • Mobile terminals with lower profile, more functions, higher performance	
For Industrial and Energy • 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	

Passive Components Segment

The Passive Components segment is TDK's mainstay, generating about half of total net sales. It comprises the capacitor business, which includes ceramic capacitors, aluminum electrolytic capacitors, and film capacitors; the inductive device business, including coils; as well as other passive components, including high-frequency components, piezoelectric material components, and circuit protection components. As mobile devices become more powerful and incorporate a variety of functions, and as automobiles rely ever more heavily on electric and electronic equipment, the demand for passive components will continue to expand, and growth is expected to remain strong going forward.

A Brief Guide to Passive Components

Passive Components Support Electronics Society

Electronic components include IC, LSI, and other active components, and capacitors, inductors, resistors, and other passive components that store, discharge, and consume electric power. Active components only function with help from passive components.

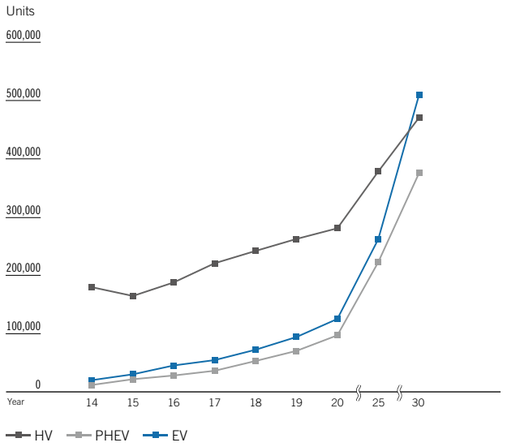
Installed on the circuit boards of mobile devices, electrical home appliances, office equipment, automobiles, robots, industrial equipment, and other devices are memory and CPUs—consisting of an aggregation of many semiconductor devices—as well as a wide variety of passive components. To sustain the ceaseless evolution of electronic equipment and automobiles, TDK is working to make these passive components smaller, lighter, lower in profile, and more modular.

Business Strategy

- Strengthen *Monozukuri* (manufacturing excellence) power and enhance QDC competitiveness (P.59 Manufacturing)
- Maximize cooperation with Qualcomm and achieve high-value-added products through a "First-to-Market" approach
- Continue endless pursuit of compact, low-profile design (thin-film and SESUB technology)

Market Data

Spread of Electric Vehicles (HV, PHEV, EV)



Source: Sogo Planning *2017 Latest Trends in and Forecasts for Electric Vehicle-related Markets.*

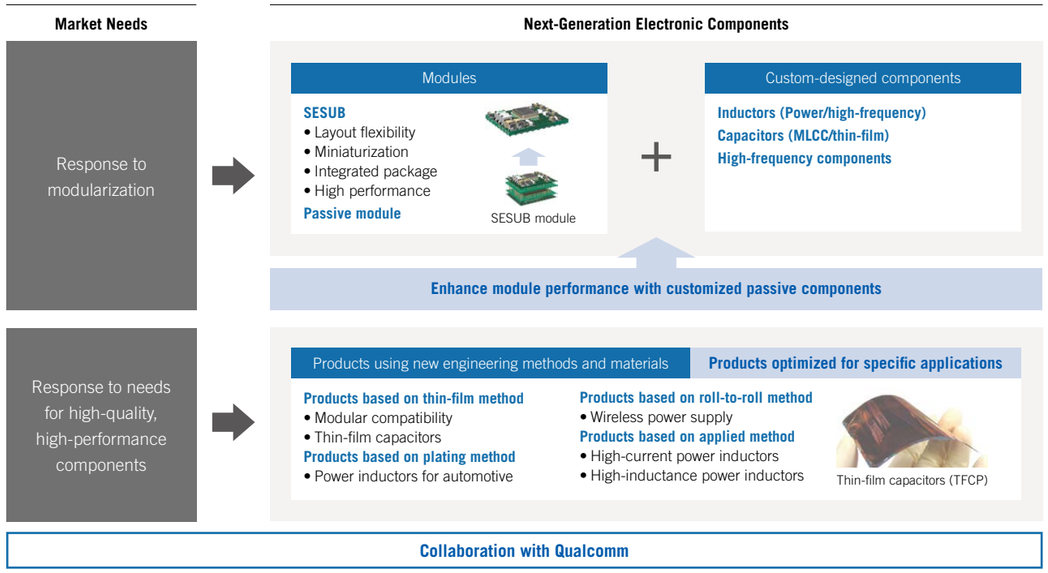
Topics

01 Developments in Next-Generation Electronic Components

Social and Market Needs

- Demand for more compact, lower-profile (thinner) components as electronic devices grow more compact and more powerful
- Demand for modularization compatible with the shift to lower-priced, more powerful end products

As mobile devices grow more powerful and incorporate a wider variety of functions, there will be even further advances in the shift to high-density mounting of electronic components. 5G (fifth-generation mobile communications systems) service, scheduled to begin in 2020, will require a degree of high-density mounting on a completely different level from before. To respond to the need for modularization—one solution for achieving this—TDK is pushing to develop compact, high-performance modules using advanced semiconductor embedded substrate (SESUB) technology, which merges our materials, thin-film, and other technologies. We will also work to strengthen customization and enhance module characteristics by leveraging IC reference designs based on our collaboration with Qualcomm.
We are also engaged in the development and deployment of innovative engineering methods intended to strengthen the competitiveness of individual passive components.



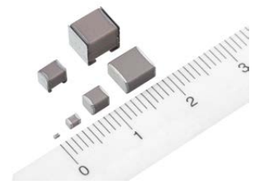
02 A Full Line of Passive Components to Support Automotive Evolution

Social and Market Needs

- Enhancing reliability and offering comprehensive solutions in response to automotive electronic equipment needs

Automobiles today are equipped with a wide variety of electronic components, to the point they have become known as "electronic devices on wheels." The xEV (HEV, PHEV, EV, etc.) market is expanding rapidly worldwide, and the use of advanced driver-assistance systems (ADASs) is spreading, with the commercialization of autonomous-driving technology also in sight.

To strengthen our lineup of passive components that offer comprehensive support for these evolving technologies, TDK is focused on developing and commercializing electronic components that meet the needs and performance requirements of automotive electronic equipment. These include highly vibration- and heat impact-resistant resin electrode terminal multilayer ceramic chip capacitors, high temperature-resistant surface-mount device (SMD) inductors, and others.



Resin electrode terminal multilayer ceramic capacitors for automotive use

Sensor Application Products Segment

By positioning sensors as its primary strategic growth products, and by deploying an aggressive program of acquisitions, TDK has added a wide variety of sensors to its existing line of magnetic, temperature, and other sensor products, while also building a world-class lineup of non-optical sensor products in a very short time.

Under our newly established Sensor Systems Business Company, which has merged the TDK Group's various sensor businesses, we are also working with IC manufacturers to push forward with development of multi-functional, modularized sensors and even more advanced sensor fusion, as we aim to become the world's No. 1 provider of sensor solutions.

A Brief Guide to Sensors

Closing in on One-Trillion-Sensor Age

Sensors detect information concerning our five senses, including sight, hearing, and touch, as well as physical sensations such as temperature, humidity, barometric pressure, acceleration, and inertia, and even properties such as magnetism and ultrasound that cannot be detected by human senses, and convert that information into electric signals. They are installed in a wide array of electric and electronic devices all around us, including mobile devices such as smartphones as well as automobiles and others, providing unseen support for everyday life, business, and industry.

With the explosive growth of a variety of IoT devices, annual production of sensors is expected to exceed one trillion units by the 2020s. With non-optical sensor technology accumulated through M&A and an overwhelmingly strong product lineup, TDK aims to lead the world in the age of IoT.

Business Strategy

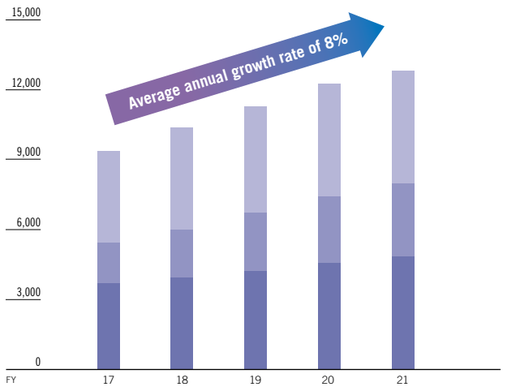
- Integrate a previously dispersed organization, and achieve a borderless marketing and R&D structure
- Merge core sensing and materials technologies with IC and packaging technologies to offer highly functional, high-value-added sensor solutions (P.36–37 Special Feature)
- Expand customer base for existing sensor products

Market Data

Outlook for Global Sensor Demand (Non-Optical)

By market

U.S.$ millions



(TDK estimates)

Topics

01 Expanding the Customer Base for Existing Sensor Products

Utilizing our global No. 1 lineup of non-optical sensors, TDK is working to develop its customer base, expanded through acquisitions. This we will achieve by offering solutions that add compound functionality and software, targeting customer bases that either had no previous need for individual products or which we were unable to break into before.

02 Achieving Outstanding Operations

Alongside our business expansion, we are also working to generate synergies with the companies we have acquired in terms of streamlining operations. Aside from certain processes, InvenSense runs an entirely fabless operation. Our goal is to maximize operational efficiency by utilizing TDK factories to produce specialized MEMS products and wafers, while continuing to outsource production of application-specific integrated circuits (ASICs) and other products where there is little room for differentiation. By utilizing our ceramics-based packaging technology, as well as our semiconductor embedded substrate (SESUB) technology and others, we will work to strengthen the competitiveness of TDK sensor elements and compound sensors.

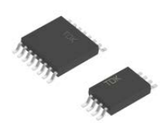
InvenSense MEMS sensor

03 Generating a Stream of Synergies with Acquired Companies

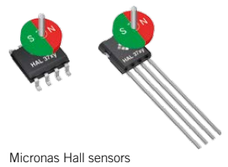
Compound sensors that combine TDK's tunnel magneto resistance (TMR) sensor technology and expertise with Hall sensor technology from Micronas allow detection of both dynamic and static magnetic fields, enabling ideal measurement of position and angle. Combining sensors of differing principles and structures also enhances sensor functional stability and redundancy, important in autopilot and other systems.

TDK's newly developed digital output TMR sensors are warranted for accuracy within an angle tolerance of ±0.2 degrees, and in room temperature environments, have achieved an angle tolerance of ±0.05 degrees, top class in the industry* for the automotive market. ASIC is a new product that embodies the synergies being achieved in the TDK Group's sensor business through the adoption of design technology from ICsense.

*As of June 2017; based on TDK research.



TMR sensors



Micronas Hall sensors

Magnetic Application Products Segment

TDK's Magnetic Application Products 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.

The segment mainly comprises HDD magnetic heads, a field where we hold high worldwide market share. 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 at the nanometer level has brought about an amazing increase in storage capacity. High-efficiency power supplies incorporating outstanding low-loss ferrite and transformer technology, and high-performance magnets utilizing our materials technology, also contribute significantly to the conservation of power and resources.

A Brief Guide to Magnets

Modern People Would Be Helpless without Them

Magnets, which retain their magnetic force without a supply of energy, are fundamental to sustaining modern society. For example, automobiles are equipped with about 100 compact motors that use ferrite magnets. Powerful neodymium magnets are also used in xEV drive motors.

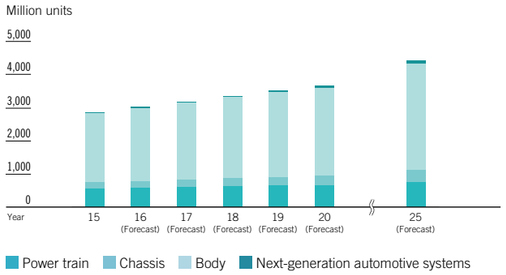
Going forward, demand for high-performance magnets is expected to grow even further, including magnets for industrial equipment and robot motors, and for power generators used in wind power generating systems. Since its founding, TDK has spent more than 80 years refining the magnetic materials technology that is part of its DNA, and will contribute to society by continuing to refine that technology.

Business Strategy

- Completely rebuild the magnetics business, the starting point of the materials business
- Lead change and technological innovation in the HDD industry

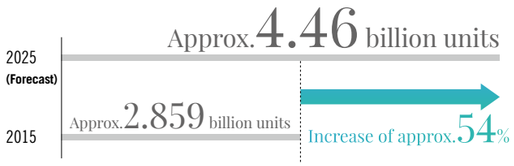
Market Data

Global Market Forecast for In-Vehicle Motors by System Area



Note 1: Based on number of vehicles produced.
Note 2: Forecast figures for 2016 and beyond (as of August 2016).
Source: Yano Research Institute Ltd. *In-Vehicle Motors Market 2016*

Global In-Vehicle Motors Market Size



Note 1: Based on number of vehicles produced.
Note 2: Forecast figures for 2025 and beyond (as of August 2016).
Source: Yano Research Institute Ltd. *In-Vehicle Motors Market 2016*

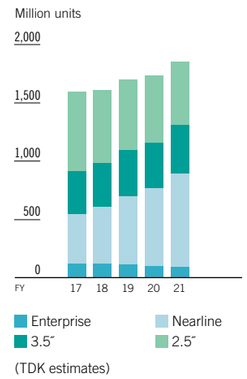
Topics

01 Leading Change and Technological Innovation in the HDD Industry

While demand for HDDs for consumer products is expected to decline, the explosive growth in the amount of data generated, backed by the development of cloud computing and IoT, means that the number of magnetic heads installed on each HDD for nearline applications used in data center servers is expected to increase.

TDK is working to contribute to the right-sizing of the industry through vertical collaboration in development and manufacturing, and by promoting a horizontal division of labor to avoid overlapping investments. At the same time, by leading in technological innovation, we will achieve an ongoing increase in HDD memory capacity for nearline applications, thus contributing to market growth.

Forecast Demand for HDD Magnetic Recording Heads



(TDK estimates)

02 Improving Fuel Economy in Next-Generation Eco-Cars and Contributing to Reducing a Variety of Environmental Burdens

In recent years, Europe, China, and other regions have announced policies promoting a shift to electric vehicles, and it is expected to accelerate the spread of electric vehicles worldwide. In anticipation of the growing popularity of next-generation eco-cars, which are effective in reducing hazardous substances in exhaust emissions and CO_2 emissions levels, TDK is working to further the evolution of automotive DC-DC converters and on-board chargers, utilizing the circuit and design technologies gained through development of switching power supplies for consumer product and industrial equipment use.

Automotive DC-DC converter

On-board charger

Automotive DC-DC Converter (Generation 5) and On-Board Charger (Generation 2)

- Merges TDK proprietary materials technology (ferrite core), circuit technology (high efficiency), and simulation technology (magnetic field and heat analysis) to achieve even more compact, lightweight, high-efficiency design with greater reliability
- Enhanced efficiency improves vehicle fuel economy
- Significantly enhances output power per unit volume

Film Application Products Segment

The Film Application Products segment covers a variety of energy devices, primarily rechargeable batteries for ICT devices such as smartphones, tablets, and notebook PCs, as well as for automotive use and use in industrial equipment.

ATL, which develops and produces lithium polymer batteries, has established a position as the leading company in the lithium polymer battery field. Drones and other new areas of application are also beginning to expand.

A Brief Guide to Batteries

Significant Potential Lies in Rechargeable Lithium Polymer Batteries

Rechargeable lithium polymer batteries are a type of lithium-ion rechargeable battery, use of which has expanded in mobile devices, but which use a polymer electrolyte in gel form.

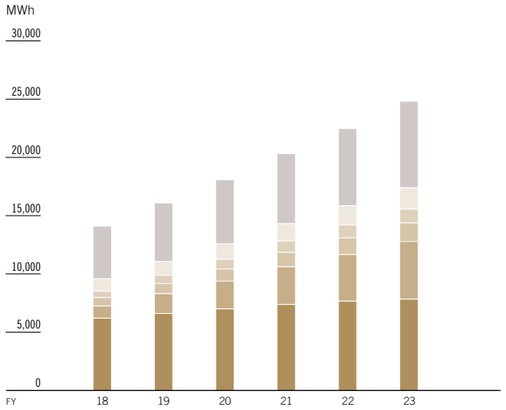
In addition to making compact, lightweight design easier, high freedom of form factor, further boosted by increasingly thinner smart devices, has increased demand for lithium polymer batteries dramatically over the past 10 years. Going forward, demand is expected to increase as an alternative to square cell batteries in notebook PCs and smartphones, and increase in IoT devices requiring compact, high-capacity batteries. Adoption is also progressing in drones and virtual reality devices, as well as in robots, automated guided vehicles (AGVs), and other applications in the industrial equipment and energy sector.

Business Strategy

- Provide the highest level of performance and reliability as the leading manufacturer of batteries for consumer products
- Use vertical integration strengths in materials and components to expand energy-related product line (P.38–39 Special Feature)
- Begin putting in place structures aimed at future business expansion

Market Data

Forecast Worldwide Demand for Rechargeable Batteries (Non-ICT Market)



(TDK estimates)

Topic

01 Providing the Highest Level of Performance and Reliability as a Leading Manufacturer

Building around its acquisition of ATL in 2005, TDK has established a position as a leading company in the market for lithium polymer batteries for consumer product use, which carries enormous potential.

Under the current Medium-Term Plan, TDK is taking a more aggressive approach to investments needed to respond to growing demand. In China, where particular growth in demand is foreseen, we are building a new R&D center in addition to boosting production capacity.

Going forward, in addition to further enhancing our strengths—including the business speed that has been a driver of growth to date, the flexible responsiveness that exemplifies our outstanding customer service, our leading-edge technology, and our excellent operational functionality—we will continue to invest in technology aimed at ensuring high reliability and safety. As we capture demand for an alternative to square cell batteries for smartphones and notebook PCs, we will also seize on growing demand outside of the ICT market, in robots, drones, AGVs, and energy storage systems (ESS) for solar and wind power generation.

Investments Aimed at Business Expansion

- Expansion of ATL production capacity
- Construction of a new R&D center in China
- Begin preparation for construction of new domestic production site with an eye toward start of mass production in fiscal 2020 for domestic growth sectors including robots and medical devices, etc.

Other Segment

Main Product Portfolio

Mechatronics (production equipment)

TDK is supplying the market with the most advanced factory automation equipment, including flip-chip bonders that make use of mechatronics technology.

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.

Business Model Continuity as Seen through the Value Chain

Across the entire value chain, from raw material procurement to development, design, manufacturing, logistics, and sales, TDK has established what it considers important themes, in terms of both strategy and ESG, and is engaged in efforts to achieve them.

- Overall Strategy
- *Monozukuri* (manufacturing excellence) Innovation
- Societal Factors
- Environmental Factors

Input	VALUE CHAIN 1 Procurement P56	2 Development and Design P57	3 Manufacturing P59	4 Logistics P61	5 Sales P61	Outcome

Input

Economy

Cost of sales
¥855.9 billion

Selling, general and administrative expenses
¥239.4 billion

Capital expenditures
¥167.6 billion

R&D expenses
¥91.3 billion

Society

Consolidated number of employees
99,693 people

Average number of years worked (TDK Corporation)
20.8 years

Education / seminar training costs (TDK Corporation)
¥242 million

Environment

Resources
210,945 t

Electric power
2,230,914 MWh

Fuel
1,137,091 GJ

Water utilization
13,701 km³

Strategic Fit

(Optimization of value chain to promote strategy)

Overall value chain

- Pursuit of integrated production, from materials to finished product
- Creating "black boxes" in core domains to ensure firm control of technological advantage
- Backflow of customer needs upstream
- Enhancement of profitability by speeding up the business cycle across all processes

Procurement

- Reliably secure magnetic materials
- Ensure raw material quality
- Procure alternatives to rare metals

Development and Design

- Speed up development cycle
- Develop areas of demand through our global 4-pole network
- Consolidate development resources in strategic sectors
- Develop new products based on long-term road map
- Integrate intellectual property within the Group
- Collaborate with IC manufacturers
- Manage and use intellectual property
- Develop products that do not use rare metals

Manufacturing

- Pursue location independent production to achieve same quality worldwide
- Pursue "zero defect" through upstream management
- Pursue production efficiency through the use of IoT
- Reduce inventory by shortening lead times

Logistics

- Ensure logistics quality (contribution to JIT)

Sales

- Strengthen relationships with customers
- Improve cash flows
- Effectively use information systems

ESG

Overall value chain

- Development of human resources to promote *Monozukuri* Innovation
- Development of global human resources
- Cultivation of a corporate culture that respects diversity
- Workstyle innovation
- Technology transmission
- Establishment and implementation of environmentally friendly policies

Procurement

- Ensure quality of purchased goods
- CSR check sheets/audits
- Green procurement
- Conflict minerals survey
- Consider supplier work environments

KPI

Fiscal 2018 Goal
CSR-compliant supplier ratio
Over 95%

Development and Design

- Reduce environmental load from a life cycle perspective
- Develop products that contribute to the environment

Manufacturing

- Reduce environmental load of plants
- Improve energy efficiency
- Consider production site labor environment
- Strengthen regional relationships

KPI

Fiscal 2018 Goal
Product-based CO_2 reduction contribution basic unit compared with previous year
Improved by 2.7%

Logistics

- Reduce environmental load of logistics

Sales

- Strengthen quality assurance structure
- Promote sales of environmentally friendly products

KPI

Fiscal 2018 Goal
Number of serious claims
0

Outcome

Economy

Net sales
¥1,178.3 billion

Operating income
¥208.7 billion

Free cash flows
¥89.0 billion

Society

Cumulative total of participants in IMD training
328 people

Cumulative total of participants in overseas trainee program
28 people

Number of companies given CSR check sheet improvement guidance*
7 companies

DRC conflict-free item ratio*
91%

Environment

CO_2
1,463,396 t-CO_2

Total emissions volume
77,915 t

Waste water
2,148 km³

*Targeting suppliers of TDK Corporation

VALUE CHAIN 1 Procurement

Strategic Fit

- Reliably secure magnetic materials
- Ensure raw material quality
- Procure alternatives to rare metals

ESG

- Ensure quality of purchased goods
- CSR check sheets/audits
- Green procurement
- Conflict minerals survey
- Consider supplier work environments

Specific Initiatives

Strategic Fit

Global Partnership Purchasing to Rapidly Provide High Quality Products

TDK seeks to build solid partnerships with its suppliers and maintain a relationship that benefits both, guided by our “global partnership purchasing principles.” Global partnership purchasing refers to the practice of local procurement of materials consumed overseas to ensure rapid product development, essential to a company such as TDK with manufacturing bases in Japan, Asia, North America, and Europe. Global partnership purchasing also emphasizes the crucial importance of close collaboration with our suppliers to TDK product quality and to raising customer satisfaction. TDK has established the TDK purchasing policies to put this principle into practice.

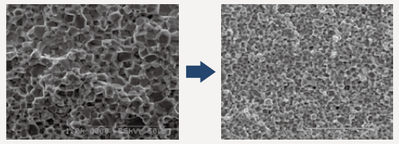
Strategic Fit

Assurance of Stable Supply

In unforeseen circumstances, such as the outbreak of a large-scale natural disaster, TDK, as a member of the supply chain, has a duty to share social responsibility with suppliers in meeting demand so as to ensure the stable supply of products required by customers. Recognizing that the securing of stable supplies is an important responsibility, TDK addresses this issue in three main ways: BCP/BCM surveys of suppliers; advance collection and organization of information for use in an emergency; and timely communication using the Supplier Partnership System.

With regard to rare minerals and other raw materials for which stable procurement carries risks associated with restrictions set by the producing countries, TDK also works to develop new production methods that reduce the use of such materials.

Development of neodymium magnet without dysprosium, a rare earth metal



Conventional neodymium magnet

Dysprosium-free neodymium magnet

ESG

Promotion of CSR Procurement

TDK treats CSR as a key component of its purchasing policy while striving to earn understanding from suppliers of the importance of CSR and encouraging increased awareness in that area. We incorporate provisions into contractual agreements keyed to specific conditions at each of our Group companies while continuously engaging in evaluations based on CSR check sheets, CSR audits, and other efforts. When problems are found in the details, individual requests for improvements are issued.

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

VALUE CHAIN 2 Development and Design

Strategic Fit

- Speed up development cycle
- Develop areas of demand through our global 4-pole network
- Consolidate development resources in strategic sectors
- Develop new products based on long-term road map
- Integrate intellectual property within the Group
- Collaborate with IC manufacturers
- Manage and use intellectual property
- Develop products that do not use rare metals

ESG

- Reduce environmental load from a life cycle perspective
- Develop products that contribute to the environment

Specific Initiatives

Strategic Fit

Acceleration of Development Speed through M&As and Business Tie-Ups

In the rapidly changing electronics industry, speed has become an increasingly important factor in anticipating needs and quickly delivering products, and recently TDK has been actively accelerating the speed of its business through M&As and business tie-ups.

We expect that the ability of fabless developer InvenSense to provide solutions, and the total value chain we have built through our collaboration with Qualcomm and our acquisition of ICsense, will contribute significantly to reducing prototype development lead times, and the Group as a whole is pushing strongly ahead toward the realization of a “First-to-Market” approach.

Strategic Fit

Provision of Rapid Response to Diverse Needs via Global 4-Pole Network

With an overseas sales ratio in excess of 90%, the TDK Group is expanding its R&D activities globally, with a network centered in Japan and connected to sites in Asia, the U.S., and Europe. By moving to transfer authority locally, and by conducting R&D close to areas of demand, we are able to quickly provide products in accordance with customer needs. At the same time, leveraging the significance each field of business has in those respective regions, we acquire the knowledge and technology to respond to the leading-edge needs of the times.

In addition, R&D and sales and marketing move as one to allow us to quickly catch up on the needs of our customers.

ESG

Development of Products Contributing to the Environment

In 1997, TDK introduced product assessment to evaluate the environmental impact of products throughout their entire life cycle. Only products approved through this screening are commercialized and distributed in the market. In addition, TDK focuses on the contribution of products and expertise to the reduction of CO_2 emissions. TDK began working to establish computing criteria for quantifying this environmental contribution in fiscal 2012, and in fiscal 2016, we formulated a set of guidelines for calculating of product contributions that reflect those results. By means of continued product assessment activities, we aim to promote the reduction of CO_2 emissions through products.

VALUE CHAIN 2 Development and Design

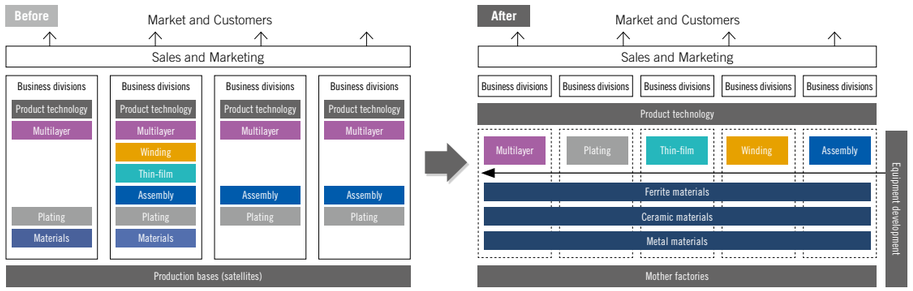
Column

The Akita Future Project

The Akita region is the birthplace of TDK. Beyond being where the passive components business is deeply rooted, the region also continues to be at the leading edge of *Monozukuri*. The Akita Future project, currently underway, was conceived with the goal of achieving sustainable growth based on the vision of our Medium-Term Plan. Under the project, TDK will create world-leading technologies and products, expanding a new *Monozukuri* worldwide.

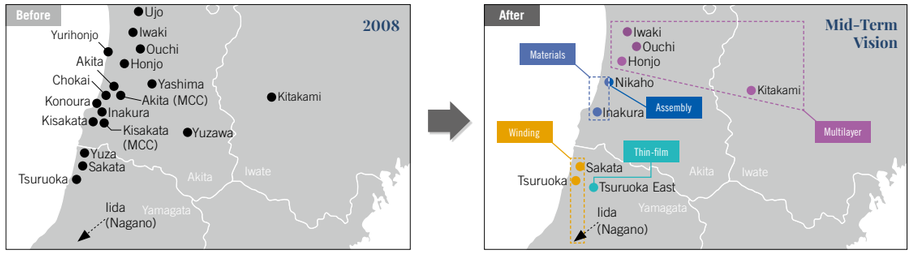
Creation of New Products around Elemental Technologies

TDK will surmount the business division structure previously organized vertically around products, create a structure centered on elemental technologies, and swiftly respond to market changes. New product development will also be accelerated.



Production Base Reorganization

Reorganization of production bases around individual elemental technologies for passive components will lead to strengthened *Monozukuri* capabilities. TDK will be responsible for materials and assembly, TDK Akita for multilayering, and TDK Shonai primarily for thin-film and winding.



TDK Museum

The museum introduces how TDK's products and technologies, centered on our strengths in ferrite and magnetism, have played a role in the evolution of society, and how TDK will be involved in the society of the future, all in an easy-to-understand, enjoyable, and hands-on manner. The goal of the museum is to introduce the history of TDK and electronics, and a vision for the future, while also contributing to making the Akita region a more attractive destination.

VALUE CHAIN 3 Manufacturing

Strategic Fit

- Pursue location independent production to achieve same quality worldwide
- Pursue "zero defect" through upstream management
- Pursue production efficiency through the use of IoT
- Reduce inventory by shortening lead times

ESG

- Reduce environmental load of plants
- Improve energy efficiency
- Consider production site labor environment
- Strengthen regional relationships

Specific Initiatives

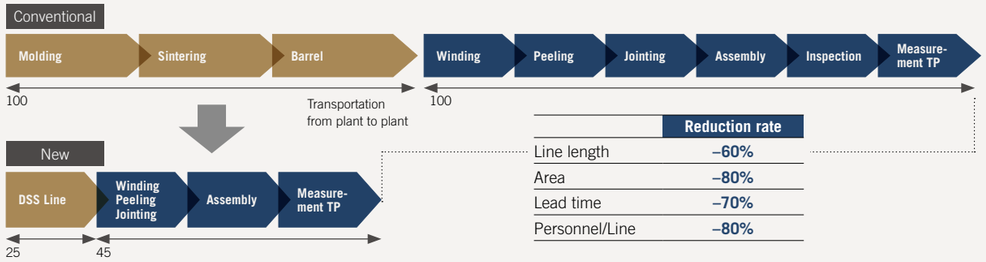
Strategic Fit

Acceleration of Cycle Times across All Divisions

TDK is engaged in a variety of measures intended to reduce cycle times in the manufacturing process. These include changes in manufacturing processes; a shift to location independent production and automation through the use of robots; reduction of inventory in downstream processes; and setup improvements utilizing IoT and big data.

In addition to pursuing greater efficiency on the front lines of production, TDK is actively engaged in measures designed to speed up the entire business cycle. This includes, for example, considering "business lead time" not as the time between the factory receiving orders and shipping products, the conventional approach, but as the time between sales receiving orders from customers and products actually being delivered. This will encourage a broader range of divisions to reduce "non-value-added time" and accelerate cycle times.

Integrated Production and Location Independent



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

ESG

Factories Designed to Improve Energy Efficiency

TDK's new factories in Akita Prefecture are designed with the goal of improving energy efficiency, including taking advantage of the winter weather to store accumulated snowfall, which is then used to assist in cold energy recovery. Solar panels installed on the roof of the Honjo Factory East Site have the capacity to supply up to 70% of the total lighting power consumed across the entire factory. Workplace environments are designed to be employee-friendly; parking lots, for instance, are installed with snow-melting equipment and in-factory arcades. The new factories are expected to serve as next-generation models for environmentally adaptive factory design.

Honjo Factory East Site

VALUE CHAIN 3 Manufacturing

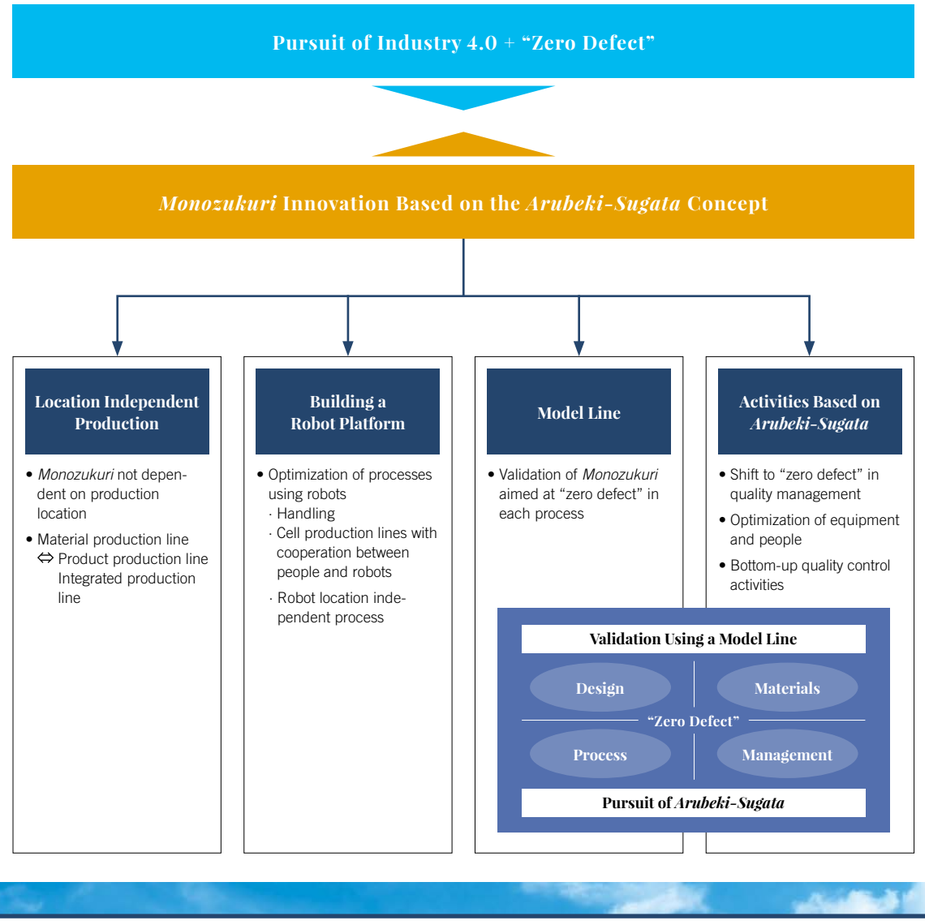
Column

Pursuing "Zero Defect" through Upstream Management and Building an Innovative *Monozukuri* Framework

The pursuit of "zero defect" quality is the basic philosophy behind *Monozukuri* at TDK.

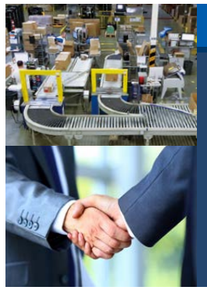
TDK is working to firmly establish a quality-oriented process to ensure product quality by creating 100% conforming products. This means ensuring product quality not by removing defective products during the final inspection process, but by working to improve quality across every process, from product design, to process design, to facility development.

In addition, TDK is working to build an innovative *Monozukuri* framework to support its new business model with a framework centered on four pillars: location independent production that ensures the same quality regardless of where production takes place worldwide; construction of a robot platform in pursuit of optimal cooperation between people and robots; validation of a model production line aimed at "zero defect"; and bottom-up *Arubeki-Sugata* (ideal process) quality control activities.



VALUE CHAIN 4 Logistics

VALUE CHAIN 5 Sales



Strategic Fit

- Ensure logistics quality (contribution to JIT)
- Strengthen relationships with customers
- Improve cash flows
- Effectively use information systems

ESG

- Reduce environmental load of logistics
- Strengthen quality assurance structure
- Promote sales of environmentally friendly products

Specific Initiatives

ESG

Reduction of the Environmental Load of Logistics

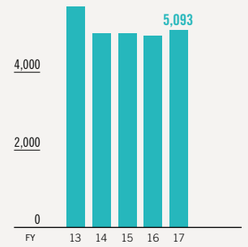
TDK is tackling the reduction of CO_2 emissions from logistics with the aims of contributing to the control of global warming, improving transportation efficiency, and reducing transportation costs.

In Japan, TDK set up a committee to improve energy conservation in distribution in fiscal 2007, when the revised Energy Conservation Act went into effect, and is making efforts to reduce logistics-related energy. TDK will expand its survey of CO_2 emissions from logistics to overseas sites and endeavor to promote their reduction in the TDK Group as a whole.

Concrete Activities

- Modal shift
- Improved loading efficiency through reduced delivery frequency
- Better efficiency of inter-plant transportation through the concentration of production sites
- Shortening of domestic land transport distances through the effective use of local ports
- Switch of means of transporting imported cargo from subsidiaries from air to boat

Trend of CO_2 Emissions from Logistics (Japan)



ESG

Activities for Improving Customer Satisfaction

For customers who purchase its mainstay electronic components, TDK assesses customer satisfaction levels using the following three methods. By offering comprehensive customer satisfaction from the perspectives of quality, delivery, cost, technologies, and services, TDK aims to become a highly trusted company.

- Supplier evaluation information, whereby our business customers evaluate TDK products
- Product-related complaint information from our customers
- Customer satisfaction evaluation, whereby sales staff members evaluate TDK products from a customer's point of view

Also, at the Huawei Technologies Co., Ltd.'s Suppliers Conference held in Shenzhen, China, in September 2017, TDK received the Excellent Supplier 2017 H1 Award in the Storage Cards Division. This award recognizes suppliers with outstanding quality, supply, technological capacities, and prices, and that have met standards determined by Huawei Technologies.

Human Resource Strategy

Andreas Keller
General Manager, Human Resources & Administration HQ

I have interacted with a great many employees to date, and it is never easy for people of diverse corporate cultures and cultural backgrounds to convey their thoughts to one another constructively. To create a sense of group solidarity, we are focusing on improving communication, and the most important elements in doing that are transparency and trust.

At TDK, we have established a Global Human Resources & General Affairs Department within the Human Resources & Administration HQ, and with the goal of improving transparency and trust, we are working to put in place a common Group global human resource management system, develop successors to important positions, and establish global systems for positions, evaluations, incentives, and communication training in English. Further, by making human resource information more visible and promoting the sharing of good practices within the Group, we will make more effective use of the capabilities of outstanding human resources worldwide, which in turn will strengthen the competitive power of the TDK Group.

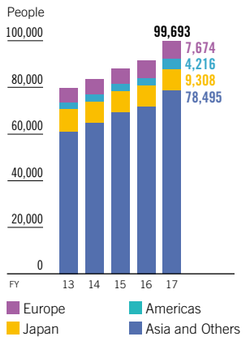
Human Resources & Administration HQ Organization

Note: As of April 2017

A Global-Scale Human Resource Base to Support Sustainable Growth

Approximately 90% of the TDK Group's employees on a consolidated basis are non-Japanese, and our human resource policy calls for HR systems that are rational and which have a sense of fairness, with an emphasis on a merit-based approach and equal opportunity. We strive to increase corporate value by placing and working to develop outstanding human resources in optimal positions regardless of nationality, race, gender, or other attributes.

Consolidated Number of Employees

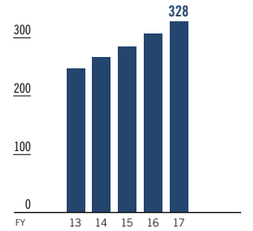


International Management Development (IMD) Training to Foster Global Leaders

IMD training seminars, which have been held since 1997, are held to help our internal leaders acquire truly global skills and develop strong, borderless solidarity within the Group. The training is for candidates for managerial positions at the TDK Group affiliates overseas. The seminars 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 global personal 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



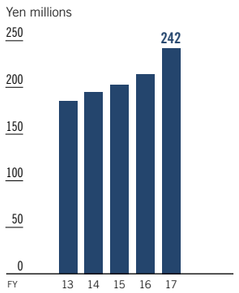
Securing and Fostering Human Resources with Strong Potential and Expertise

In the electronics industry, which is experiencing rapid changes in the business environment, 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.

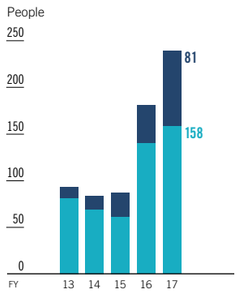
TDK believes that the ideal is to enable each employee who makes up an organization to work autonomously. Our human resource development target is to produce numerous autonomous personnel with the ability to think things through on their own, undertake new challenges with courage, persevere to optimize 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 "skill development support programs," the latter two of which are offered for those who need a higher level of professional training.

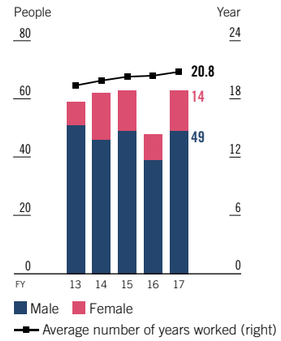
Education / Seminar Training Costs (TDK Corporation)



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



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



Message from the Chairman

I am exerting myself
to achieve “zero defect,”
our lifeline going forward,
with our front lines
and suppliers.

Takehiro Kamigama
Chairman

TDK is moving forward steadily, and dynamically, along the path it should take. As we aim to become the world’s largest sensor manufacturer, we are first striving to double sales in our sensor business—the kind of leap we need to make to keep things interesting. We also have major expectations for rechargeable batteries and power solutions as a whole. Still, there are several important issues to address if we are to ensure the success of that growth strategy.

The most important of these issues is quality. Having dealt with an accident in which a fire caused by a TDK humidifier resulted in the loss of precious human life, TDK and all of its employees are deeply cognizant of the weight of our responsibility to society with regard to quality. As the use of electronics in automobiles continues to progress, poor quality could lead to major accidents involving human life, making quality improvement and quality control more important than ever. This is why TDK is engaged in an across-the-board pursuit of *Monozukuri* (manufacturing excellence) that eliminates defects, and as part of strengthening compliance, I personally visit the front lines to spearhead our quality audits. Given our plans to bolster our expansion in modules and units, I am also meeting directly with the presidents of our component suppliers and asking for their cooperation in ensuring thorough quality control.

We also continue to strengthen our corporate governance. TDK’s Board of Directors has made progress in splitting its audit and executive functions, and our three outside directors are making use of their respective, extensive experience to provide shrewd advice to our executive team. Going forward, we will not only focus on a complete split of audit and executive functions in the formal sense, but will work to create a structure that is both effective and balanced. Governance with regard to the companies we have acquired in recent years is another important subject. Particularly crucial to ensuring the success of these acquisitions is the management of people. It is essential that we continue to engage in technology exchange and dialogue, and increase the motivation of the employees.

As we have done for the past more than 80 years, we must diligently invest in technology while continuing to think about and create the things required by society in the near future. This approach we must not fail to maintain. To continue tailoring the evolution of our products to society’s requirements will require that we preserve and continue to refine a consistent *Monozukuri*, from the materials that are the foundation of our products to the products themselves, and further, that we constantly lead in the development of methods that are different from other companies.

As we continue to aim for TDK’s name to become synonymous with magnetism, we will also work to achieve long-term, sustainable improvement in corporate value.

TDK Governance Snapshot

Promoting Diversity

2017
Non-Japanese Corporate Officers: **6 people**
Japanese Corporate Officers: **12 people** (As of the end of June 2017)

2012
Non-Japanese Corporate Officers: **4 people**
Japanese Corporate Officers: **14 people**

2004
Non-Japanese Corporate Officers: **1 person**
Japanese Corporate Officers: **19 people**

Actively Inviting Outside Officers

Outside Officers: **6 people**
Directors and Audit & Supervisory Board Members
Inside Officers: **6 people**
(As of the end of June 2017)

Outside Directors with Rich Management Experience

Makoto Sumita
Chairman and CEO of INNOTECH CORPORATION (present post)

Kazumasa Yoshida
Former Representative Director and President of Intel K.K.

Kazuhiko Ishimura
Chairman and Representative Director of Asahi Glass Co., Ltd. (present post)

Outside Directors fill the posts of chairman of the Nomination Advisory Committee and the Compensation Advisory Committee.

Director compensation is designed **to link to short-term and medium- to long-term corporate value.**

Standard Allowance

- **Medium- to long-term incentive (Stock-linked compensation stock options)** — Linked indicators: Operating income, ROE — **0.7**
- **Short-term incentive (Results-linked bonuses)** — Linked indicators: Operating income, ROE, Target of each division — **0.6**
- **Basic remuneration** — **1**

Everything Is Aimed at Long-Term, Sustainable Improvement in Corporate Value

TDK Basic Policy on Corporate Governance

The basic views to achieve sustainable corporate growth and increases 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 the provision of products and services that 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 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/corp/en/ir/tdk_management_policy/governance/basic/index.htm

Oversight

POINT

- TDK has established **its own items to be verified regarding independence to** ensure the independence of outside Directors and outside Audit & Supervisory Board Members.
- All outside Directors have **a deep understanding of technology and knowledge of global management.**
- Outside Audit & Supervisory Board Members comprise **professionals from important and diverse fields of expertise,** including finance, legal affairs, internal controls, risk management, and others.

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 the TDK Group 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, or where the other party to the relationship receives money or other assets from the TDK Group other than remuneration for Directors/Audit & Supervisory Board Members)
(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 Director/Audit & Supervisory Board Member 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 positions; the same shall apply hereinafter) cannot perform duties as an independent Director/Audit & Supervisory Board Member because they receive money or other assets from the TDK Group other than remuneration for Directors/Audit & Supervisory Board Members (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 Director/Audit & Supervisory Board Member because an organization to which such person belongs (hereinafter referred to as the "Relevant Organization") receives money or other assets from the TDK Group other than remuneration for Directors/Audit & Supervisory Board Members (when this income is equivalent to 2% or more of total annual remuneration)
(iii) When the TDK Group 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 the TDK Group or it would be difficult to find an alternative provider of the same services, etc.
(iv) Where it is recognized within the TDK Group 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 relatives at present or have applied to them during the past five years.

(i) A person to whom 1 or 2 above applies (except persons without material significance)
(ii) A person who executes business for TDK or a subsidiary of TDK (except persons without material significance)

Outside Directors and Outside Audit & Supervisory Board Members

Outside directors	Reasons for nomination	Chairman of the Board of Directors	Nomination Advisory Committee	Compensation Advisory Committee
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.	○	○ Committee Chairman	○
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.		○	○ Committee Chairman
Kazuhiko Ishimura	Mr. Ishimura has an abundance of experience and advanced, specialized knowledge regarding business management as well as a broad perspective.		○	○

Outside Audit & Supervisory Board Members	Reasons for nomination
Kazunori Yagi	Mr. Yagi has extensive knowledge related to finance and accounting, as well as an abundance of experience and knowledge concerning corporate management in the electronics industry.
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.
Kiyoshi Fujimura	Mr. Fujimura has extensive knowledge related to finance and accounting, as well as an abundance of experience and knowledge concerning corporate management of a general trading company.

Nomination

POINT

- TDK established the Nomination Advisory Committee, **chaired by an outside Director and comprising a majority of outside Directors.**
- The committee **contributes to ensuring the appropriateness of nominations** for TDK's Directors, Audit & Supervisory Board Members, and Corporate Officers, and transparency in the decision-making process.

Nomination Policies and Procedures

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 contributes to the securement of the transparency in the decision-making process and the reasonableness in the appointment of Directors, Audit &

Supervisory Board Members, and Corporate Officers by nominating candidates after deliberating on the expected requirements regarding nomination of Directors, Audit & Supervisory Board Members, and Corporate Officers. 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.

Inside Directors

Inside directors	Reasons for nomination
Takehiro Kamigama	Mr. Kamigama served as president and representative director since 2006, and demonstrated leadership in strengthening overall profitability and expanding business fields. As chairman and representative director since 2016, he oversees TDK's management as a whole. TDK has determined that he can be expected to continue fully performing his role in deciding key matters and overseeing the execution of business by the Board of Directors.
Shigenao Ishiguro	After working as head of the HDD magnetic head business, Mr. Ishiguro has served as president and representative director since 2016, and is promoting the creation of new business and management reforms. TDK has determined that, utilizing his extensive global management experience and insight, he can be expected to continue fully performing his role in deciding key matters and overseeing the execution of business by the Board of Directors.
Tetsuji Yamanishi	Mr. Yamanishi has experience in accounting and finance in domestic and overseas business, and currently serves as head of the Finance & Accounting HQ. He has demonstrated a high level of expertise and skill in the company's global financial and managerial administrative operations. TDK has determined that, utilizing his extensive experience and strong insights, he can be expected to continue fully performing his role in deciding key matters and overseeing the execution of business by the Board of Directors.
Seiji Osaka	Mr. Osaka has global management experience as head of the Sales & Marketing Group, and currently serves as head of the group responsible for corporate planning, corporate communications and the Board of Directors Office, in which capacity he works to draft and execute TDK's business strategy. TDK has determined that, utilizing his experience and insights, he can be expected to continue fully performing his role in deciding key matters and overseeing the execution of business by the Board of Directors.

Nomination Advisory Committee Chairman's Comments

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

Although Mr. Ishiguro just assumed the post of president in fiscal 2017, TDK has already begun to engage in vigorous discussion regarding the image of next-generation leadership corresponding to its strategic direction, and the building of a system for developing those leaders.

Through its M&As in recent years, TDK has progressed even further in its globalization, on both the structural and strategic sides. This is why management, led by Mr. Ishiguro, and we, the committee members, share a common recognition of the need to put in place a system that is highly transparent, even when regarded from outside the Company, for developing leaders and which goes beyond a system of automatic, escalator-style promotions. We also agree that, in terms of assessment measures, we need to evaluate whether these individuals have a global sensibility, and whether or not they are capable of executing long-term strategy. Under the leadership of Andreas Keller, general manager of Human Resources & Administration HQ and knowledgeable in global human resources, we are now considering specific systems for selecting candidates worldwide, not limited to Japanese individuals, and for establishing career paths. By 2018, we believe we will be able to announce a succession plan worthy of TDK as it takes on the challenge of transformation.

Remuneration for Directors and Audit & Supervisory Board Members

POINT

- **Designed to emphasize linkage to short-term and medium- to long-term financial results.**
- TDK constantly seeks to create competitive compensation programs in order to secure diverse, outstanding human resources.
- TDK seeks to set compensation levels that maintain competitiveness compared with other companies in the same industry and with companies of the same size in other industries.

Compensation Determination Process

TDK has established the Compensation Advisory Committee to serve as an advisory body to the Board of Directors. The committee is chaired by an outside Director and more than half of the members comprise outside Directors. It contributes to the securement of transparency in the remuneration decision-making process and the reasonableness of individual remuneration in light of corporate business performance, individual performance, and general industry standards by deliberating and reporting to the Board of Directors on the remuneration system and the level of remuneration pertaining to Directors and Corporate Officers.

Results Linkage System

Factor	Type of compensation	Strategic purpose of compensation	Method of calculation
Short-term results linkage system	Results-linked bonus	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.
Medium- to long-term results linkage system	Stock-linked compensation stock options	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-linked compensation) is conditioned on achieving certain financial results with the objective of increasing the linkage of officer compensation to 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 (Results-linked bonuses)**	+	**Medium- to long-term incentive (Stock-linked compensation stock options)**
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, an exercisable percentage fluctuates 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 2017)

Classification	Total number of payees	Total amount of remuneration (Yen millions)	Remuneration breakdown					
			Basic remuneration		Results-linked bonuses		Stock-linked compensation stock options	
			Number of payees	Amount paid (Yen millions)	Number of payees	Amount paid (Yen millions)	Number of payees	Amount paid (Yen millions)
Directors (outside Directors)	9 (3)	422 (45)	9 (3)	236 (45)	3	46	4	140
					Not eligible for the above remuneration			
Audit & Supervisory Board Members (outside Audit & Supervisory Board Members)	5 (3)	85 (27)	5 (3)	85 (27)	Not eligible for the above remuneration			
Total	14	506	14	321	3	46	4	140

*1. The number of Directors and Audit & Supervisory Board Members at the end of fiscal 2017 were seven and five, 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 two Directors who retired at the close of the 120th Ordinary General Meeting of Shareholders held on June 29, 2017, and the amount of remuneration paid to them.
*2. As for the amount of results-linked bonuses and stock-linked compensation stock options for Directors for fiscal 2017, it has been recorded as an expense.

Compensation Advisory Committee Chairman's Comments

Kazumasa Yoshida
Outside Director
Outside Director of Onkyo Corporation
Outside Director of CYBERDYNE, Inc.
Outside Director of Mamezou Holdings Co., Ltd.
Outside Director of FreeBit Co., Ltd.

As market conditions and customer needs drastically change, TDK has introduced a director compensation program centered on a strong linkage to financial results and on stock-linked compensation stock options, with the goals of further growth and a strengthening of its technology leadership.

At the same time, between 2014 and 2015 TDK held repeated, vigorous discussions centered on its Compensation Advisory Committee, intended to spur active engagement in two areas: 1) Recommendation of compensation linked to medium- to long-term performance in accordance with the Corporate Governance Code; and 2) A management direction that will accelerate global business operations and achieve a higher level of growth. In 2015, TDK introduced a new system of stock-linked compensation stock options, with performance benchmarks, built around achievement of the Company's Medium-Term Plan.

Further, TDK set out a clear direction for its business operations in line with this Medium-Term Plan, adding to its existing core businesses with the April 2017 launch of Sensor Systems Business Company, which will serve as the engine for creating new value.

TDK intends to vigorously engage in its shift to a business structure centered on these new initiatives, and in making further progress in the corresponding globalization of its management. To enable the Company's top management and officers to work toward sustainable growth and even higher goals, the Compensation Advisory Committee will continue active discussions aimed at building the optimal director compensation program and achieving further growth.

Execution

POINT

- **6 of 18 corporate officers are non-Japanese.**
- **72% of overseas Group subsidiaries have a non-Japanese president.**

Note 1: As of the end of June 2017
Note 2: Results of fiscal 2016

Promoting 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, and structures that enable local human resources to exercise leadership are taking root as they become more effective.

One initiative aimed at strengthening management through the promotion of diversity is the Global Management Meeting held once each month. Membership includes corporate officers at the senior vice president level and higher, business division heads, and regional managers from Europe, the Americas, and China, who gather together to discuss important issues including business strategies and corporate management. Amidst a rapidly changing business environment, discussions are held from a broad range of perspectives, and are a driving force in promoting further growth at TDK.

Future-Oriented Governance

TDK, which first embarked on globalization in the 1960s and has successfully grown since then, remains constantly aware of global standards, and has worked to strengthen its corporate governance structure with an eye to the future. Backed by changes in its business structure, today TDK continues to consider measures needed to achieve long-term, sustainable improvement in corporate value.

Factors behind Strengthening of Corporate Governance

- Particularly in consumer components in the ICT field, performance will be affected by short-term market fluctuations. At the same time, it can take from several years to as much as a decade to see the results of investment in R&D expenses, and management decisions need to be based on a medium- to long-term perspective.
- As a global company, ensuring business moves forward smoothly requires a governance structure that is also compatible with the standards of countries in Europe and the Americas.
- With non-Japanese employees representing in excess of 90% of the workforce on a consolidated basis, TDK needs to consider further globalization at the director level.

History of Corporate Governance Reforms

June 2002
- Number of Directors reduced from 12 to 7
- **First outside Director invited to join the Board**
- **Compensation Advisory Committee launched (chaired by an outside Director)**
- Funding of Directors' retirement bonuses suspended

June 2003
- Directors' term of office shortened from 2 years to 1 year
- One outside Audit & Supervisory Board Member added, for a total of 3

June 2004
- **First non-Japanese Corporate Officer appointed**

June 2005
- Introduction of stock-linked compensation stock options for Directors and Corporate Officers

June 2007
- Funding of Audit & Supervisory Board Member retirement bonuses suspended
- Compensation for outside Directors and Audit & Supervisory Board Members changed to basic remuneration alone

August 2008
- **Nomination Advisory Committee launched (chaired by an outside Director)**

June 2009
- 2 non-Japanese Corporate Officers appointed; one outside Director added for a total of 3

May 2015
- **First analysis and evaluation conducted of Board of Directors' effectiveness, and an outline of the results publicized**

June 2016
- TDK Basic Policy on Corporate Governance established

Results of Fiscal 2017 Board of Directors' Evaluation

Issues revealed through the Board of Directors' evaluation
- Further advancement of management supervisory function
- Ongoing validation of TDK's further strategic growth
- Group company governance
- Greater transparency in executive discussions (greater sharing of discussions at the management meeting regarding proposals put before it)

Matters already addressed
- Changed the composition of inside Directors to exclude those in charge of business divisions, and include only those with a big-picture perspective on the Group as a whole (the chairman, president, and those in charge of corporate strategy and finance)

Matters to be addressed on a continuing basis
- Ongoing validation of TDK's medium- to long-term growth strategy
- Management that balances the dynamism and governance of Group companies

Important Medium- to Long-Term Issues

- Building of an effective hybrid governance structure that combines monitoring-type governance (separation of management execution and supervisory functions) and management-type governance (Directors also serve as executive officers)
- Formulation and administration of a global human resource strategic plan from a broad perspective that encompasses the TDK Group as a whole

Directors, Audit & Supervisory Board Members, and Corporate Officers

(As of the end of June 2017)

Directors

Takehiro Kamigama

Representative Director
Chairman

Shigenao Ishiguro

Representative Director
President and CEO
General Manager of Manufacturing HQ
General Manager of Humidifier Countermeasures HQ

Tetsuji Yamanishi

Director
General Manager of Finance & Accounting HQ

Seiji Osaka

Director
General Manager of Corporate Strategy HQ
In charge of Human Resources

Makoto Sumita

Outside Director
Chairman of the Board
Chairman of Nomination Advisory Committee
Member of Compensation Advisory Committee

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
Member of Nomination Advisory Committee

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.
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)
Jul. 2016 Outside Director of FreeBit Co., Ltd. (present post)

Kazuhiko Ishimura

Outside Director
Member of Nomination Advisory Committee
Member of Compensation Advisory Committee

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 & GM of Electronics & Energy General Division of said company
Mar. 2008 President & COO & Representative Director of said company
Jan. 2010 President & CEO & Representative Director of said company
Jan. 2015 Chairman & Representative Director of said company (present post)
Jun. 2015 Outside Director of the Company (present post)
Jun. 2017 Outside Director of IHI Corporation (present post)

Audit & Supervisory Board Members

Junji Yoneyama

Full-Time Audit & Supervisory Board Member

Osamu Yotsui

Full-Time Audit & Supervisory Board Member

Kazunori Yagi

Outside Audit & Supervisory Board Member

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
Jun. 2013 Outside Audit & Supervisory Board Member of the Company (present post)
Mar. 2014 Outside Director of OYO Corporation (present post)
Jun. 2017 Outside Audit & Supervisory Board Member of Sojitz Corporation (present post)

Toru Ishiguro

Outside Audit & Supervisory Board Member

Summary of career

Born on Jun. 19, 1954
Apr. 1980 Registered as lawyer in Japan
Joined Hamada & Matsumoto
Apr. 1984 Registered as lawyer in New York, 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. (present post)
Jul. 2016 Director of Japan Investor Protection Fund (present post)
Jun. 2017 Director of Japan Exchange Regulation (present post)

Kiyoshi Fujimura

Outside Audit & Supervisory Board Member

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.
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 Presidents
Atsuo Kobayashi
Seiji Osaka
Joachim Zichlarz

Senior Vice Presidents
Noboru Saito
Tetsuji Yamanishi

Corporate Officers
Takakazu Momozuka
Mitsuru Nagata
Joachim Thiele
Keiichi Imamoto
Satoru Sueki
Norbert Hess
Michael Pocsatko
Hong Tian
Albert Ong
Dai Matsuoka
Osamu Hikita

Financial Information

Operating Results

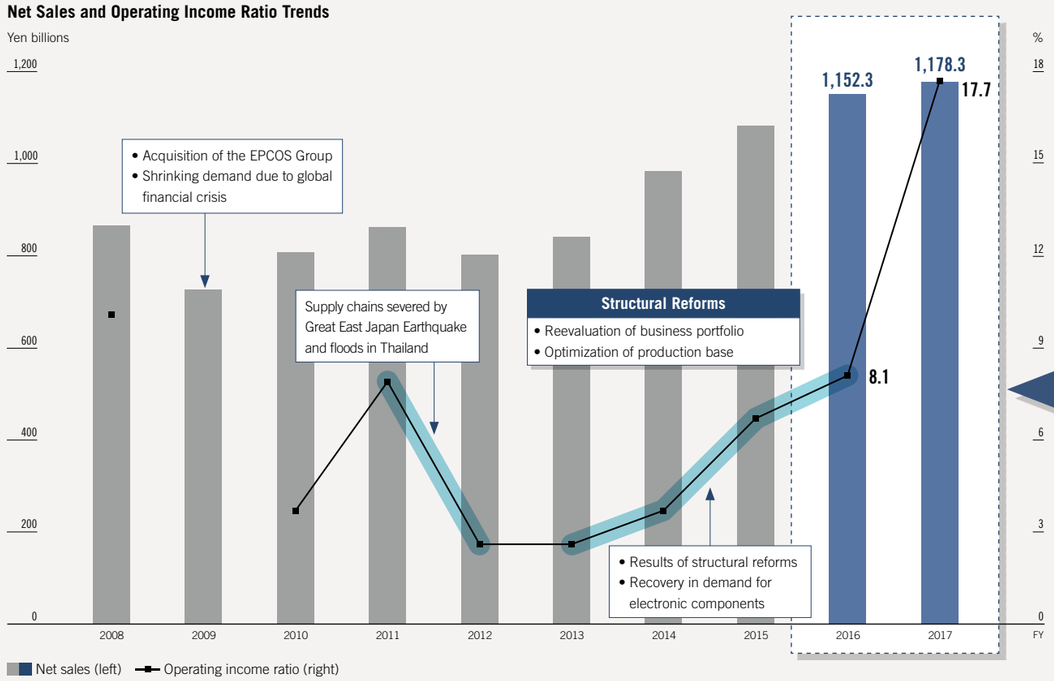
Ten Years of Financial Trends

After demand for electronic devices slowed with the financial crisis that occurred in 2008, and supply chains were disrupted as a result of the Great East Japan Earthquake and extensive flooding in Thailand in 2011, challenging business conditions continued for a period. In fiscal 2012, TDK began a large-scale organizational restructuring to create a corporate structure less vulnerable to changes in the external environment. An important part of this undertaking was reform of the profit structure, which placed particular emphasis on the magnetic application products business centered on HDD magnetic heads. The focus was on increasing 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 the strengths of the EPCOS Group, 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 the automotive and industrial and energy markets.

The operating profit 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 ¥1,178.3 billion in fiscal 2017.

Net Sales and Operating Income Ratio Trends



Average Exchange Rate during the Period

FY	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Rate vs. U.S.$	114.44	100.71	92.89	85.73	79.07	83.03	100.26	109.84	120.13	**108.46**
Rate vs. euro	161.59	144.07	131.18	113.12	109.06	107.05	134.42	138.88	132.67	**118.92**

2017

Fiscal 2017 Market Conditions and Operating Results

In the electronics market, production levels differed 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 and Europe. Meanwhile, production of PCs declined compared with the previous fiscal year. Production of HDDs also declined compared with the previous fiscal year due to the decreased demand for PCs and the continued replacement of HDDs inside PCs by SSDs.

While net sales were affected by continued appreciation of the yen against the U.S. dollar and the euro, sales of HDD magnetic heads were strong, as were sales of rechargeable batteries for smartphones due to expansion of the customer base. As a result, net sales set a new record, rising 2.3%, to ¥1,178,257 million. The cost of sales in fiscal 2017 increased 3.0% from fiscal 2016, to ¥855,948 million, due to an increase in net sales. While efforts were made to reduce costs through increased efficiency, improved yields, and discounts on raw materials, the impact of price discounts and a strong yen saw the cost of sales ratio rise by 0.5 percentage point year on year, to 72.6%. As a result, gross profit increased ¥1,177 million (0.4%) year on year, bringing the gross profit ratio to 27.4%.

Selling, general and administrative expenses in fiscal 2017 increased ¥12,261 million from fiscal 2016, to ¥239,446 million, while the ratio to net sales rose 0.6 percentage point, to 20.3%. The main factor in the increase was an increase of about ¥9.0 billion in expenses associated with the consolidation of Micronas, which was acquired in March of the previous year, and of Hutchinson, acquired in October of fiscal 2017. R&D expenses as a percentage of selling, general and administrative expenses in fiscal 2017 rose 7.5% year on year, to ¥91,254 million, due in part to *Monozukuri* (manufacturing exellence) development in the priority automotive, ICT, and industrial and energy markets, and to development of strategic growth products in areas where growth is expected going forward.

Note that in other operating income reported in fiscal 2017, capital gains of ¥144.4 billion were recorded in conjunction with the business tie-up with Qualcomm and the agreement to establish a joint venture, in addition to ¥21.2 billion in structural reform expenses, primarily from impairment losses.

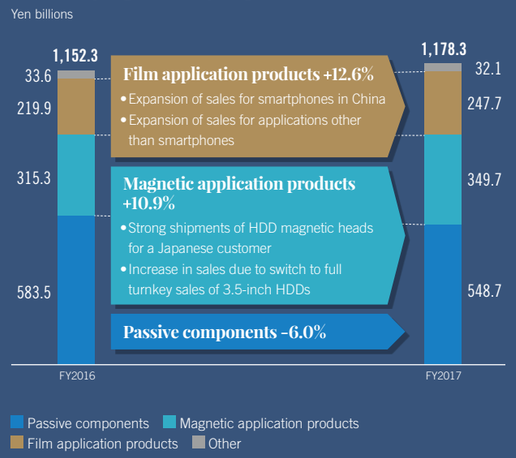
Other income (deductions) improved by ¥4,632 million year on year, to ¥3,057 million, due in part to a ¥2,762 million improvement in foreign exchange gains compared with the previous year.

TDK posted net income attributable to TDK of ¥145,099 million, resulting in diluted net income attributable to TDK per common share of ¥1,147.57. Return on equity (ROE) improved from 9.2% to 19.8%.

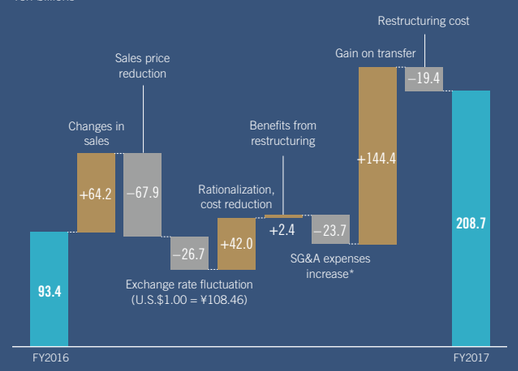
Effect of Foreign Exchange Fluctuations

Regarding average currency rates during fiscal 2017, the yen's value appreciated 9.7% versus the U.S. dollar and 10.4% versus the euro year on year. Exchange rate fluctuations had the effect of decreasing net sales by approximately ¥129.1 billion and operating income by approximately ¥26.7 billion in fiscal 2017. Additionally, TDK and certain overseas subsidiaries have entered into 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 risks 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.

Net Sales by Segment: Comparing Fiscal 2017 and 2016



Breakdown of Operating Income Changes



* Selling, general and administrative expenses shown on the graph include a portion of business transfer-related expenses.

Financial Condition

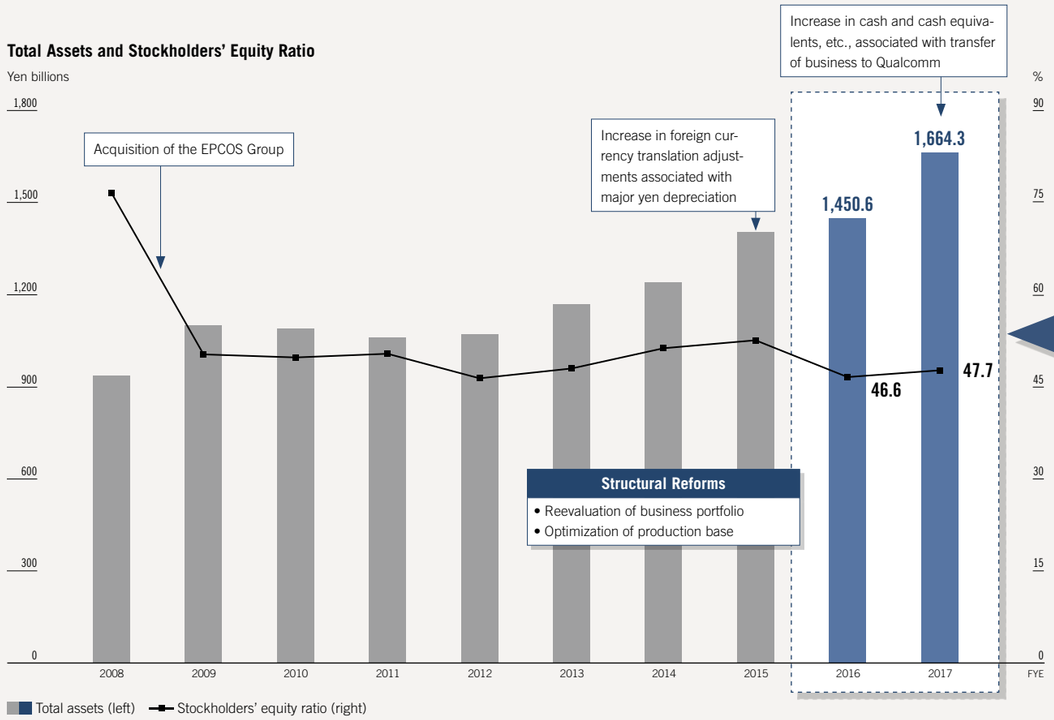
Analysis of Financial Position during Last 10 Fiscal Years

From the end of fiscal 2008 through the end of fiscal 2009, total assets increased due principally to the acquisition of the EPCOS Group. 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, and total assets are trending higher as a result.

In conjunction with the acquisition of the EPCOS Group, the company's stockholders' equity ratio fell significantly between the end of fiscal 2008 and the end of fiscal 2009, but it has been on a gradual increase since fiscal 2010. The stockholders' equity ratio fell 6.0 percentage points, to 46.6%, at the end of fiscal 2016 as a result of investment in new products and new business, as well as of active M&As, but rose by 1.1 percentage points year on year in fiscal 2017, to 47.7%, due to a significant increase in income with the transfer of business to Qualcomm.

Under its current Medium-Term Plan, TDK plans for ¥430–¥480 billion in new facility investments aimed at driving acceleration of strategic growth product expansion, strengthening of its overseas R&D base, acceleration of existing core business expansion, and acceleration of *Monozukuri* Innovation. In fiscal 2017, ¥167,631 million in capital expenditures were undertaken. While adhering closely to a policy of investing only upon consideration of the balance between market demand and supply, TDK will continue to engage in ongoing, active capital investment.

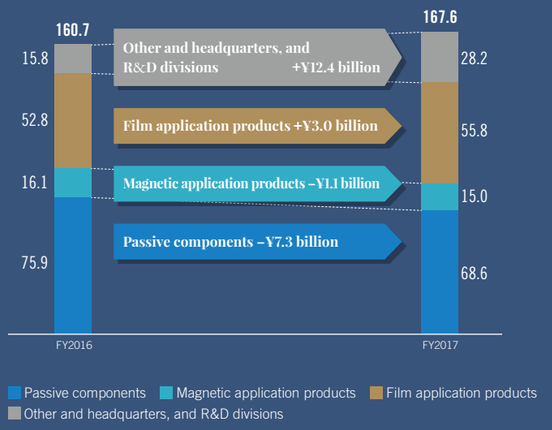
Total Assets and Stockholders' Equity Ratio



Status of Capital Expenditures in Fiscal 2017

In the Passive Components segment, capital expenditures totaled ¥68,605 million, primarily for the purpose of strengthening the business base and increasing the production capacity of inductive devices. Capital expenditures in the Magnetic Application Products segment totaled ¥14,954 million, mainly for the development and production of next-generation HDD magnetic heads with high recording densities. Capital expenditures in the Film Application Products segment totaled ¥55,834 million, mainly to boost production of lithium polymer batteries. Capital expenditures in Other totaled ¥7,246 million. Capital expenditures for the R&D divisions at the headquarters totaled ¥20,992 million, primarily for investments in building new plants and in internal IT infrastructure and fundamental research and development.

Capital Expenditures by Segment: Comparing Fiscal 2017 and 2016



Financial Position in Fiscal 2017

Assets

Total assets amounted to ¥1,664,333 million as of March 31, 2017, an increase of ¥213,769 million from March 31, 2016. Liquidity (cash and cash equivalents, short-term investments) increased by ¥79,087 million and net trade receivables increased by ¥28,691 million, while property, plant and equipment fell by ¥22,972 million.

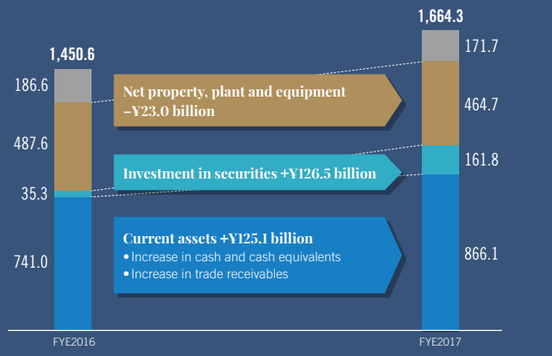
Liabilities

Total liabilities amounted to ¥862,215 million, a ¥96,284 million increase from the end of the previous fiscal year. While short-term debt fell by ¥81,003 million, long-term debt increased by ¥73,109 million and trade payables increased by ¥63,980 million.

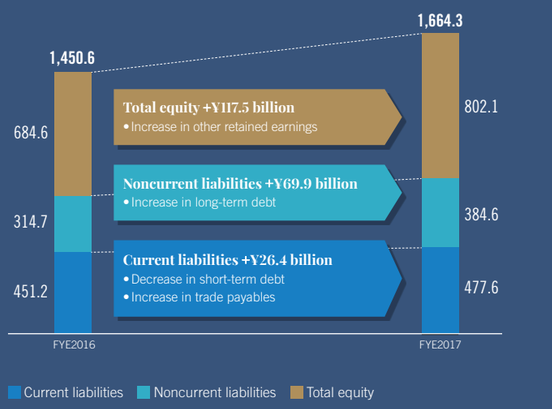
Net Assets

Total TDK stockholders' equity in net assets increased by ¥118,253 million, to ¥793,614 million. Other retained earnings increased by ¥126,376 million due to a significant increase in income due primarily to the recording of capital gains with the transfer of business to Qualcomm.

Total Assets: Comparing Fiscal 2017 and 2016



Total Liabilities and Net Assets: Comparing Fiscal 2017 and 2016



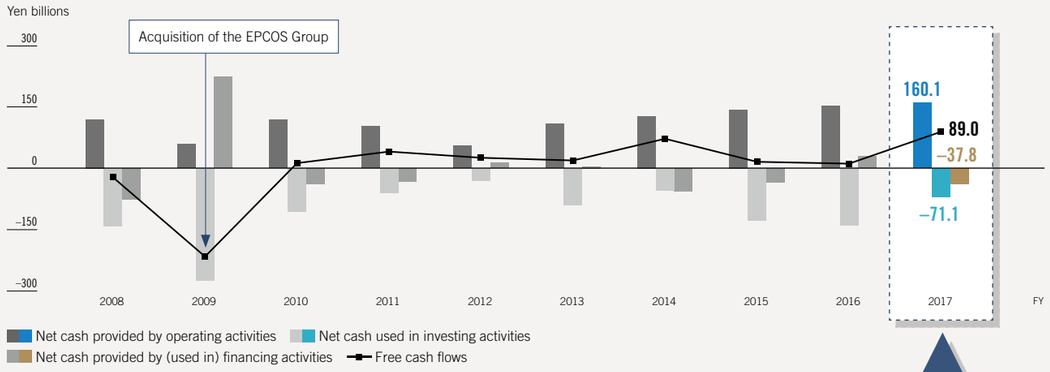
Cash Flow Status

Analysis of Cash Flows during Last 10 Fiscal Years

During fiscal 2009, TDK conducted a large-scale M&A (its acquisition of the EPCOS Group), and consequently its free cash flows fell significantly into negative territory. Most recently, the company acquired several companies in the sensor business, where market expansion is expected going forward, including Micronas of Switzerland, Tronics of France, ICsense of Belgium, and InvenSense of the United States. The Company has nevertheless maintained free cash flows in positive territory by steadily increasing cash flows through operating activities and by systematically conducting asset sales and business transfers.

TDK's principle is to use cash and deposits (which includes cash, deposits, and short-term investments) as liquid capital, while using funds generated from day-to-day business activities to cover operating capital and capital expenditure funds, and endeavors to maintain liquidity at 2.0 months' worth of monthly consolidated net sales or greater. Additionally, in order to improve its capital efficiency, TDK has introduced a Cash Management System (CMS) in Japan, the United States, Europe, and China. 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 elects to use funds within the TDK Group to the fullest extent possible. In addition, the Company has been managing cash on hand with a focus on safety and liquidity.

Cash Flows

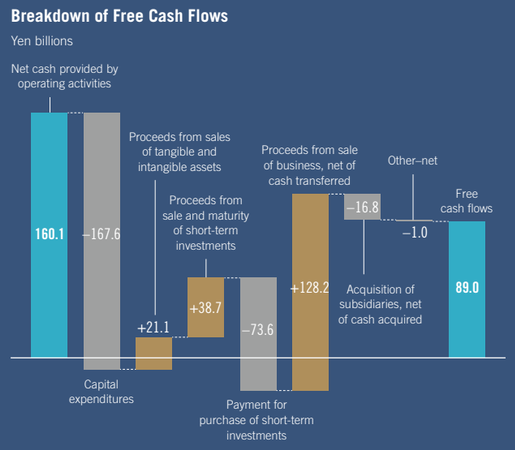


Free Cash Flows in Fiscal 2017

In order to accurately respond to rapid technological innovation in the electronics market and intensifying sales competition, and to push strongly ahead with expansion of its main businesses, TDK undertook ¥167,631 million in capital expenditures in fiscal 2017.

At the same time, free cash flows significantly improved in the same period as a result of the transfer of business to Qualcomm. Funds obtained as compensation for the business transfer are being utilized in new M&A activity in accordance with the Company's growth strategy, as TDK works to further bolster its financial and profit structure.

Breakdown of Free Cash Flows



Major Business Risks and Risk Management System

The TDK Group is active in many markets and regions around the world; the 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 address 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 related 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 material 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, and take countermeasures
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 related to M&As, 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 Groupwide management systems, reinforce IT security and facility security, and conduct employee training

Consolidated Balance Sheets

TDK Corporation and Consolidated Subsidiaries (U.S. GAAP)
As of March 31, 2017 and 2016

ASSETS

	2016		2017			Change
	Yen millions	%	Yen millions	%	U.S.$ thousands	Yen millions
Current assets	740,994	51.1	**866,136**	**52.0**	**7,733,357**	125,142
Cash and cash equivalents	285,468		**330,388**		**2,949,893**	44,920
Short-term investments	21,964		**56,131**		**501,170**	34,167
Net trade receivables	226,218		**254,909**		**2,275,973**	28,691
Inventories	157,129		**154,499**		**1,379,455**	(2,630)
Other current assets	50,215		**70,209**		**626,866**	19,994
Noncurrent assets	709,570	48.9	**798,197**	**48.0**	**7,126,759**	88,627
Investments in securities	35,335		**161,825**		**1,444,866**	126,490
Net property, plant and equipment	487,639		**464,667**		**4,148,813**	(22,972)
Other assets	186,596		**171,705**		**1,533,080**	(14,891)
Total	1,450,564	100.0	**1,664,333**	**100.0**	**14,860,116**	213,769

For convenience only, an exchange rate of U.S.$1 = ¥112 has been used.

LIABILITIES AND EQUITY

	2016		2017			Change
	Yen millions	%	Yen millions	%	U.S.$ thousands	Yen millions
Current liabilities	451,234	31.1	**477,594**	**28.7**	**4,264,232**	26,360
Short-term debt	158,683		**77,680**		**693,571**	(81,003)
Current installments of long-term debt	36,228		**42,517**		**379,616**	6,289
Trade payables	112,664		**176,644**		**1,577,179**	63,980
Accrued expenses	123,892		**148,609**		**1,326,866**	24,717
Other current liabilities	19,767		**32,144**		**287,000**	12,377
Noncurrent liabilities	314,697	21.7	**384,621**	**23.1**	**3,434,116**	69,924
Long-term debt, excluding current installments	140,826		**213,935**		**1,910,134**	73,109
Retirement and severance benefits	147,136		**125,202**		**1,117,875**	(21,934)
Other noncurrent liabilities	26,735		**45,484**		**406,107**	18,749
Total liabilities	765,931	52.8	**862,215**	**51.8**	**7,698,348**	96,284
Common stock	32,641		**32,641**		**291,438**	—
Additional paid-in capital	21,083		**15,349**		**137,044**	(5,734)
Legal reserve	34,221		**37,727**		**336,848**	3,506
Retained earnings	707,508		**833,884**		**7,445,393**	126,376
Accumulated other comprehensive income (loss)	(102,285)		**(108,575)**		**(969,420)**	(6,290)
Treasury stock	(17,807)		**(17,412)**		**(155,464)**	395
Total TDK stockholders' equity	675,361	46.6	**793,614**	**47.7**	**7,085,839**	118,253
Noncontrolling interests	9,272	0.6	**8,504**	**0.5**	**75,929**	(768)
Total equity	684,633	47.2	**802,118**	**48.2**	**7,161,768**	117,485
Total	1,450,564	100.0	**1,664,333**	**100.0**	**14,860,116**	213,769

Consolidated Statements of Income and Statements of Comprehensive Income (Loss)

TDK Corporation and Consolidated Subsidiaries (U.S. GAAP)
For the years ended March 31, 2017 and 2016

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

	2016		2017			Change	
	Yen millions	(%)	Yen millions	(%)	U.S.$ thousands	Yen millions	(%)
Net sales	1,152,255	100.0	**1,178,257**	**100.0**	**10,520,152**	26,002	2.3
Cost of sales	831,123	72.1	**855,948**	**72.6**	**7,642,393**	24,825	3.0
Gross profit	321,132	27.9	**322,309**	**27.4**	**2,877,759**	1,177	0.4
Selling, general and administrative expenses	227,185	19.7	**239,446**	**20.3**	**2,137,911**	12,261	5.4
Other operating expense (income)	533	0.1	**(125,797)**	**–10.6**	**(1,123,188)**	(126,330)	—
Operating income	93,414	8.1	**208,660**	**17.7**	**1,863,036**	115,246	123.4
Other income (deductions):							
Interest and dividend income	4,496		**4,152**		**37,071**	(344)	
Interest expense	(3,116)		**(3,428)**		**(30,607)**	(312)	
Foreign exchange gain (loss)	(2,394)		**368**		**3,286**	2,762	
Other–net	(561)		**1,965**		**17,544**	2,526	
Total other income (deductions)	(1,575)	–0.1	**3,057**	**0.3**	**27,294**	4,632	—
Income before income taxes	91,839	8.0	**211,717**	**18.0**	**1,890,330**	119,878	130.5
Income taxes	25,216	2.2	**66,157**	**5.6**	**590,687**	40,941	162.4
Net income	66,623	5.8	**145,560**	**12.4**	**1,299,643**	78,937	118.5
Less: Net income attributable to noncontrolling interests	1,795	0.2	**461**	**0.1**	**4,116**	(1,334)	–74.3
Net income attributable to TDK	64,828	5.6	**145,099**	**12.3**	**1,295,527**	80,271	123.8

For convenience only, an exchange rate of U.S.$1 = ¥112 has been used.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	2016	2017		Change
	Yen millions	Yen millions	U.S.$ thousands	Yen millions
Net income	66,623	**145,560**	**1,299,643**	78,937
Other comprehensive income (loss), net of taxes:				
Foreign currencies translation adjustments	(61,172)	**(18,866)**	**(168,447)**	42,306
Pension liability adjustments	(31,555)	**13,465**	**120,223**	45,020
Net unrealized gains (losses) on securities	(6,994)	**(274)**	**(2,446)**	6,720
Total other comprehensive income (loss)	(99,721)	**(5,675)**	**(50,670)**	94,046
Comprehensive income (loss)	(33,098)	**139,885**	**1,248,973**	172,983
Comprehensive income attributable to noncontrolling interests	1,371	**933**	**8,330**	(438)
Comprehensive income (loss) attributable to TDK	(34,469)	**138,952**	**1,240,643**	173,421

For convenience only, an exchange rate of U.S.$1 = ¥112 has been used.

Consolidated Statements of Stockholders' Equity

TDK Corporation and Consolidated Subsidiaries (U.S. GAAP)
For the years ended March 31, 2017 and 2016

Yen millions

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 (loss)							(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

Yen millions

2017	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, 2016	**32,641**	**21,083**	**34,221**	**707,508**	**(102,285)**	**(17,807)**	**675,361**	**9,272**	**684,633**
Equity transaction of consolidated subsidiaries and other		**(5,734)**		**(80)**	**(143)**	**397**	**(5,560)**	**(1,625)**	**(7,185)**
Cash dividends				**(15,137)**			**(15,137)**	**(76)**	**(15,213)**
Transferred to legal reserve			**3,506**	**(3,506)**			**—**		**—**
Comprehensive income									
Net income				**145,099**			**145,099**	**461**	**145,560**
Other comprehensive income (loss)					**(6,147)**		**(6,147)**	**472**	**(5,675)**
Total comprehensive income (loss)							**138,952**	**933**	**139,885**
Acquisition of treasury stock						**(3)**	**(3)**		**(3)**
Sale of treasury stock						**1**	**1**		**1**
Balance as of March 31, 2017	**32,641**	**15,349**	**37,727**	**833,884**	**(108,575)**	**(17,412)**	**793,614**	**8,504**	**802,118**

U.S.$ thousands

2017	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, 2016	**291,438**	**188,241**	**305,544**	**6,317,036**	**(913,259)**	**(158,991)**	**6,030,009**	**82,786**	**6,112,795**
Equity transaction of consolidated subsidiaries and other		**(51,197)**		**(714)**	**(1,277)**	**3,545**	**(49,643)**	**(14,509)**	**(64,152)**
Cash dividends				**(135,152)**			**(135,152)**	**(678)**	**(135,830)**
Transferred to legal reserve			**31,304**	**(31,304)**			**—**		**—**
Comprehensive income									
Net income				**1,295,527**			**1,295,527**	**4,116**	**1,299,643**
Other comprehensive income (loss)					**(54,884)**		**(54,884)**	**4,214**	**(50,670)**
Total comprehensive income (loss)							**1,240,643**	**8,330**	**1,248,973**
Acquisition of treasury stock						**(27)**	**(27)**		**(27)**
Sale of treasury stock						**9**	**9**		**9**
Balance as of March 31, 2017	**291,438**	**137,044**	**336,848**	**7,445,393**	**(969,420)**	**(155,464)**	**7,085,839**	**75,929**	**7,161,768**

For convenience only, an exchange rate of U.S.$1 = ¥112 has been used.

Consolidated Statements of Cash Flows

TDK Corporation and Consolidated Subsidiaries (U.S. GAAP)
For the years ended March 31, 2017 and 2016

	2016	2017	
	Yen millions	Yen millions	U.S.$ thousands
Cash flows from operating activities:			
Net income	66,623	**145,560**	**1,299,643**
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	83,224	**87,491**	**781,170**
Deferred income taxes	2,001	**30,723**	**274,312**
Impairment of long-lived assets	533	**16,811**	**150,098**
Impairment of goodwill	—	**2,600**	**23,214**
Gain on sale of business	—	**(149,538)**	**(1,335,161)**
Changes in assets and liabilities:			
Decrease (increase) in trade receivables	(7,262)	**(59,152)**	**(528,143)**
Decrease (increase) in inventories	(10,591)	**(21,709)**	**(193,830)**
Increase (decrease) in trade payables	16,460	**67,913**	**606,366**
Increase (decrease) in accrued expenses	(509)	**12,467**	**111,313**
Decrease (increase) in other assets and liabilities, net	75	**19,941**	**178,045**
Other–net	1,009	**7,029**	**62,759**
Net cash provided by operating activities	151,563	**160,136**	**1,429,786**
Cash flows from investing activities:			
Capital expenditures	(160,674)	**(167,631)**	**(1,496,705)**
Proceeds from sales of tangible and intangible assets	3,918	**21,085**	**188,259**
Proceeds from sale and maturity of short-term investments	30,348	**38,697**	**345,509**
Payment for purchase of short-term investments	(27,352)	**(73,632)**	**(657,429)**
Proceeds from sale and maturity of securities	4,833	**523**	**4,670**
Payment for purchase of securities	(1,112)	**(837)**	**(7,473)**
Proceeds from sale of business, net of cash transferred	1,668	**128,210**	**1,144,732**
Acquisition of subsidiaries, net of cash acquired	(15,165)	**(16,819)**	**(150,170)**
Receipt from collection of loans made by TDK	21,605	**603**	**5,384**
Other–net	1,346	**(1,310)**	**(11,697)**
Net cash used in investing activities	(140,585)	**(71,111)**	**(634,920)**
Cash flows from financing activities:			
Proceeds from long-term debt	22,700	**119,275**	**1,064,955**
Repayment of long-term debt	(1,289)	**(52,246)**	**(466,482)**
Increase (decrease) in short-term debt, net	50,213	**(81,063)**	**(723,777)**
Dividends paid	(13,864)	**(15,132)**	**(135,107)**
Acquisition of noncontrolling interest	(28,504)	**(8,914)**	**(79,589)**
Other–net	49	**327**	**2,920**
Net cash provided by (used in) financing activities	29,305	**(37,753)**	**(337,080)**
Effect of exchange rate changes on cash and cash equivalents	(19,919)	**(6,352)**	**(56,714)**
Net increase in cash and cash equivalents	20,364	**44,920**	**401,072**
Cash and cash equivalents at beginning of period	265,104	**285,468**	**2,548,821**
Cash and cash equivalents at end of period	285,468	**330,388**	**2,949,893**

For convenience only, an exchange rate of U.S.$1 = ¥112 has been used.

Corporate Information

TDK Corporation and Consolidated Subsidiaries (U.S. GAAP)
As of March 31, 2017

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
25,987

Common Stock
¥32,641,976,312

Securities Traded
Tokyo Stock Exchange (Listed on the 1st Section in October 1961)

Securities Code
6762

Number of Employees (Consolidated)
99,693

Transfer Agent
Sumitomo Mitsui Trust Bank, Limited
1-4-1, Marunouchi, 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

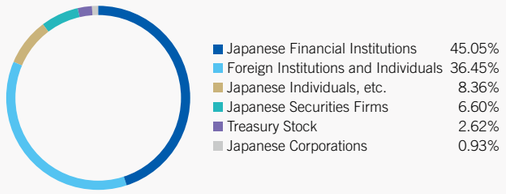
Depositary Bank
Citibank, N.A. Shareholder Services
P.O. Box 43077
Providence, Rhode Island 02940-3077
U.S.A.
Tel: 1-877-248-4237 CITI-ADR (toll free)
Tel: 1-816-843-4281 (out of U.S.)
Fax: 1-201-324-3284
URL: http://www.citi.com/adr
E-mail: citibank@shareholders-online.com

Principal Shareholders (10 largest shareholders)

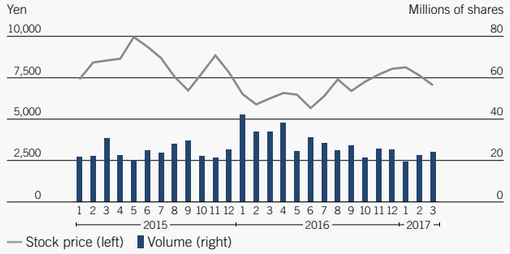
Name of shareholder	Number of shares held (thousands of shares)	Percentage of number of shares held in the total number of issued shares (%)
1. The Master Trust Bank of Japan, Ltd. (Trust account)	20,669	16.38
2. Japan Trustee Services Bank, Ltd. (Trust account)	12,880	10.21
3. Trust & Custody Services Bank, Ltd. (Securities investment trust account)	3,939	3.12
4. JP MORGAN CHASE BANK 380055	2,938	2.33
5. BNP Paribas Securities (Japan) Limited	2,126	1.68
6. Japan Trustee Services Bank, Ltd. (Trust account 5)	2,070	1.64
7. Goldman Sachs Japan Co., Ltd.	1,914	1.52
8. STATE STREET BANK WEST CLIENT - TREATY 505234	1,858	1.47
9. Japan Trustee Services Bank, Ltd. (Trust account 7)	1,693	1.34
10. Nippon Life Insurance Company	1,640	1.30
Total	51,727	40.99

Note: Other than the above, the Company holds 3,391 thousand shares of treasury stock.

Status by Ownership



TDK Stock Price and Volume



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http://www.global.tdk.com/corp/en/index.htm