

management policies and goals

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annual report 2000 e-material solution provider TDK Corporation

Advances in IT and the advent of a networked society have drastically altered TDK's operating environment and accelerated the pace of change. This is a time when the strong will become stronger. Only companies able to offer genuine value will survive. TDK must take a fresh look at its own strengths, identifying areas where we excel and then honing specialist skills in each. Otherwise, we will no longer be able to increase our stature in the 21st century. TDK can not afford to respond to rapid changes in our markets by conducting business as usual. Therefore, to bring about the necessary changes, we launched a medium-term plan called Exciting 108 that will extend from April 2000 to March 2004.

TVA and Cash Flow Management

In April 1999, TDK added TVA (TDK Value Added) and operating cash flow generation to the list of criteria used to evaluate business units. The aim is to create a system whereby businesses are managed so as to maximize returns on capital and maintain a sound balance sheet.

Monitoring improvements in TVA and cash flows has become a regular part of quarterly business unit reviews. Training programs are made available to allow individuals to gain a better understanding of TVA and the concrete steps required to increase it.

To make TVA even more integral to its operations, TDK inaugurated monthly TVA reports in April 2000. At the same time, TDK increased the emphasis placed on this value indicator when reviewing business units. Linking TVA to pay is another big step. TDK has begun exploring the possibility of establishing such a system.

By using TVA and cash flows as management tools, TDK plans to accelerate the process of channeling resources to the most productive activities. Benefits will appear in the form of higher returns on capital and, ultimately, growth in TDK's market capitalization.

TDK and Liquidity Management

Capital expenditures totaled approximately ¥85 billion in the fiscal year that ended on March 31, 2000. The majority was allocated to GMR heads, optical disks and components for mobile phones. In addition, approximately ¥13 billion was used to purchase Headway Technologies, Inc., a California-based GMR head manufacturer. As these expenditures resulted in a negative free cash flow of about ¥5 billion, TDK's cash and cash equivalents declined. (TDK had a positive free cash flow in each of the previous eight fiscal years.)

In the coming years, TDK will be concentrating investments in a number of fields in line with its medium-term business strategy:

- Recording—High-capacity devices, optical media, others
- Communications—Mobile equipment, Bluetooth networks, others
- Interfaces—Organic and inorganic EL displays, others
- Power and energy—Rechargeable batteries, power supplies, others
- Products using semiconductor technology

Furthermore, TDK plans to make acquisitions of companies that mesh with its core strengths

TDK takes many factors into account in setting the proper level of liquidity. Among them are increasing returns on capital, the medium-term business outlook, and economic and financial trends. In accordance with these factors, TDK plans to determine a suitable amount of cash and explore the possibility of using dividend increases, stock repurchases and other means to achieve the desired liquidity.