

2. Management Policies

(1) Fundamental Management Policy

TDK was established in 1935 as the world's first company to commercialize a magnetic material called ferrite. In the ensuing years, TDK has developed and commercialized passive components, magnetic application products and film application products, among other products. This drive has been based on the company's founding spirit: "Contribute to culture and industry through creativity."

To preserve its identity as a dynamic company, TDK believes that it must remain an organization that constantly provides even higher corporate value to all stakeholders, including shareholders, customers, suppliers, employees and society, by drawing on innovative thinking and a willingness to tackle new challenges.

(2) Targeted Management Indicators

To realize this fundamental management policy, the TDK Group conducts its business activities with reference to the following indicators.

(Important Fundamental Management Indicator)

* TVA (TDK Value Added)

TVA measures the added value newly created by the company's business activities and is an important decision-making tool for management.

TVA is a TDK Group proprietary value-added yardstick that measures the extent of earnings commensurate with invested capital. This indicator compares earnings after taxes but without deducting interest expenses with the cost of capital (stockholders' equity + interest-bearing liabilities).

(Indicator for Managing Environmental Performance)

* CO2 Emissions Reductions

As part of its environmental action plan to promote business activities in harmony with the natural environment, the TDK Group has set a target for CO2 emissions reductions.

(3) Medium- and Long-Term Management Strategy

The TDK Group has formulated a three-year, medium-term management plan, with the fiscal year ending March 31, 2016 as the inaugural year, with the aim of further increasing corporate value by sustained growth. The Group's basic policy is to evolve inter-Group links to achieve further growth. On this basis, TDK is pursuing a zero-defect quality strategy based on advanced technological capabilities, along with working to truly globalize its operations by speedy management.

Turning to TDK's businesses, TDK is continuing to accelerate sales expansion through new businesses as well as through the three segments of passive components, magnetic application products, and film application products, thereby boosting profitability. In addition to investing in core businesses, over the medium term TDK aims to achieve an operating margin of 10% or more, and ROE of 10% or more, while efficiently investing in new product development and new businesses. At the same time, as regards shareholder returns, TDK's policy is to continue paying stable dividends by leveraging the impact of these investments by growing earnings per share.

In line with the Corporate Governance Code that will start to be applied to listed companies in June 2015 with the aim of achieving sustained growth and improving medium- and long-term corporate value, the TDK Group will endeavor to implement appropriate information disclosure and ensure

transparency to further activate its constructive engagement with shareholders and investors and fulfill the role and obligations of the Board of Directors at the same time.

TDK will celebrate the 80th anniversary of its founding in December 2015. Taking advantage of this opportunity, TDK asks every individual employee in the TDK Group to hearken back to its founding spirit, namely, its resolve to “contribute to culture and industry through creativity,” while at the same time TDK is working to foster a corporate culture that continues to strive for growth.

(4) Pressing Issues

Overall, the world economy is experiencing a recovery sustained by an expanding U.S. economy. Nevertheless, there are concerns about slowdowns in the Chinese market and drops in the economies of resource-rich nations due to falls in crude oil prices. The automotive market and electronics markets such as smartphones are also expanding firmly, while there continues to be an increasing sophistication and thinness of the products, and an increasing strictness in their safety standards. In these circumstances, customers are becoming steadily more demanding as regards the levels of quality and performance of electronics components, particularly those used in automobiles.

In this situation, the TDK Group recognizes the importance of a quick implementation of its zero-defect quality strategy. TDK is pushing forward with further strengthening its production process with a management that unifies all stages from raw materials to manufacturing. Furthermore, TDK is accelerating the achievement of a complete reformation in manufacturing around the implementation of the three core targets of improving quality, innovating procurement and energy efficiency, and reducing costs.

The TDK Group, which has started its three-year, medium-term management plan and entered the significant stage of steering toward growth, is further strengthening its earnings base by implementing its growth strategies for the five businesses (inductive devices, high-frequency components, piezoelectric material products, recording devices (HDD heads), and energy devices (rechargeable batteries)) that have been positioned as core businesses. Moreover, TDK is also accelerating the expansion of the thin-film devices business, thereby maximizing the application of TDK’s thin-film technologies developed to date in high-precision sensors for automobiles and industrial equipment, and enabling the development of lighter, thinner and more compact wearable devices. At the same time, TDK is making an effort to steadily implement fundamental measures and achieve an early-stage transformation to a high-earnings structure in some of its business lines.

In order to support these various business developments, it is imperative to develop technologies and products with a medium- to long-term vision. The headquarter development function, which is responsible for doing this, is being reorganized into three development centers for information and communication device development, energy device development, and materials development, and TDK is building a development system that suits the characteristics of the various market sectors. TDK will also strengthen its research and development functions in the U.S., Europe and China in order to implement development activities that are even more suitable to the characteristics of each region.

Speedy management achieved by the delegation of authority is strongly required in the rapidly changing electronics market. To this end, TDK is reforming headquarter functions along with strengthening the headquarter functions for each overseas region, in order to realize headquarter functions appropriate for a global company.

In reinforcing its businesses, TDK will also take into account the environment. The Group will supply products that meet customer demands and that respond to social concerns such as energy conservation, legal and regulatory compliance, and safety, and will also take further steps to reduce the environmental impact of its business activities, by cutting CO2 emissions and other measures. As a corporate citizen, TDK will reaffirm the importance of prospering together with society and will ensure that laws and regulations are observed in Japan and other countries as it seeks to strengthen its corporate governance.

3. Basic Rationale for Selection of Accounting Standards

TDK started to prepare its consolidated financial statements using U.S. GAAP when it issued an American Depositary Receipt (“ADR”) in July 1974. In April 2009, TDK delisted its shares on the New York Stock Exchange but maintained its ADR program in the U.S., and continues to use U.S. GAAP when it prepares consolidated financial statements. This was done from the viewpoint of protecting shareholders or investors and enabling them to make comparisons with past disclosures of information.

As for the application of International Financial Reporting Standards (“IFRS”), TDK’s policy is to respond appropriately after taking into consideration the circumstances unfolding both in Japan and overseas.