

I-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 electronic materials, electronic devices, recording devices and recording media & systems. 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 is dedicated to creating value for all stakeholders, including shareholders, customers, suppliers, society and employees, by drawing on innovative thinking and a willingness to tackle new challenges. TDK firmly believes that it must remain an organization that is a constant source of exciting ideas that are of true value to stakeholders.

(2) Fundamental Policy for Distribution of Earnings

Returning earnings to shareholders is one of TDK's highest management priorities. As such, TDK's fundamental policy is to devote its efforts to a stable increase of dividends while taking into consideration a broad range of factors, including the return on equity (ROE), dividends as a percentage of equity (DOE) and the company's results of operation on a consolidated basis.

Retained earnings are used to invest in the development of new products and technologies in key fields, to upgrade production facilities and in other ways to make TDK more competitive and respond precisely to the rapid technological advances in the electronics industry.

(3) Medium- and Long-Term Management Strategy

In April 2004, TDK launched an initiative aimed at generating new growth with the overriding aim of becoming an exciting company, an ongoing theme at TDK.

The electronics industry, TDK's main market, is witnessing escalating competition due to progress in the digitalization and standardization of key devices. To accurately respond to changing market needs as product life spans shorten, TDK is dedicated to delivering new products that the market demands, without delay, precisely when those products are needed. With this in mind, TDK is aiming to increase the weighting of new products in its overall sales mix as its growth strategy over the medium term.

TDK also plans to take steps to refine its sophisticated technological and development capabilities in the core electronic materials and components business. TDK is aiming for growth by delivering the value customers demand in a timely manner through the development of products rooted in the company's core materials, process and evaluation technologies, which underpin its electronic materials and components business.

As a responsible corporate citizen, TDK believes that it is important to incorporate public, ethical, environmental and other considerations in its management processes and dealings with society. In particular, determined to play its part in preserving the environment for future generations, TDK has formulated a fundamental environmental plan, "TDK Environmental Action 2010," for contributing to the realization of a sustainable society.

(4) Corporate Ethics

TDK has formulated a corporate code of ethics to guide the activities of all members of TDK in their efforts to create an even better company. The corporate code of ethics, which is based on TDK's corporate motto and principles, specifies the rules that the company, management and employees must observe in the conduct of business. This code demonstrates TDK's commitment to constantly uphold corporate ethical standards and improve risk management. TDK takes every possible opportunity to educate staff on the corporate code of ethics.

(5) Strategy to Improve Corporate Governance

Companies must conduct their activities and manage their operations in a fair, impartial and transparent manner, abiding by laws and regulations, and with the recognition that their existence is supported by shareholders, customers, suppliers, society and employees. TDK put in place internal controls with this fundamental recognition in mind. It has also implemented a number of other measures in the same vein, such as appointing an outside director and statutory auditors, involving people outside the company in setting directors' remuneration, and ensuring that corporate ethics are strictly observed.

(5-1) Management structure and other corporate governance systems concerning decision-making, strategy execution and supervision

One of TDK's 7 directors is an outside director, who also serves as the chairperson of the Remuneration Committee, which was set up to ensure the fairness of directors' remuneration. Another committee, the Corporate Ethics Committee, was established to ensure that TDK upholds corporate ethical standards. Independent of this committee, TDK has a "helpline" that encourages employees to report matters relating to corporate ethics and offer suggestions. Moreover, having introduced the post of corporate officer, TDK has clearly demarcated responsibilities: directors are responsible for decision-making and oversight, while corporate officers have responsibility for executing day-to-day operations. Corporate officers execute policies set by the Board of Directors in their respective areas of responsibility.

TDK applies the Corporate Auditor System in accordance with the Commercial Code of Japan, and 3 of its 5 corporate auditors come from outside the company. The role of the corporate auditor is not restricted to the supervision of directors' activities. As required, they also audit business activities. In addition, the Management Review & Support Department is primarily responsible for auditing business activities.

Another defining aspect of TDK's corporate governance system is that it receives advice and cautionary counsel from outside legal counsel and independent auditors regarding risks associated with TDK's corporate activities.

(5-2) Personal, financial and trading relationships between the company and the outside director and outside corporate auditors, and other beneficial relationships

There are no personal or financial relationships between TDK and the outside director or the three outside corporate auditors.

(5-3) Measures taken to enhance corporate governance over the past year

To ensure that corporate ethical standards are being upheld, TDK has put in place a global corporate ethics framework that encompasses the activities of overseas subsidiaries as well as domestic ones. And, to comply with the U.S. Sarbanes-Oxley Act of 2002, a strict law relating to corporate governance that was prompted by a series of scandals involving major corporations, TDK formed a project team that includes outside experts to undertake a fundamental review and reinforce corporate systems. Furthermore, in the same vein, TDK restricts the work that is outsourced to independent auditors so as to preserve their impartiality and independence. Moreover, at the ordinary general meeting of shareholders held in June 2003, a resolution was approved that shortens the terms of directors to one year. This change was made to give the company the best management structure with which to respond flexibly to changes in its operating environment and to build greater trust with shareholders.

(6) Policy Regarding Reduction of TDK's Share Trading Unit

On August 1, 2000, TDK reduced the trading unit of its common shares from 1,000 to 100 shares to broaden the shareholder base and increase the liquidity of the company's shares. TDK now considers that its shares have sufficient liquidity. TDK will consider a further reduction of the trading unit based on its stock price and market needs as well as on a cost-benefit analysis.