

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, employees and society, 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) Policy Regarding Reduction of TDK's Share Trading Unit

On August 1, 2000, TDK reduced the share 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 believes 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.

(4) 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 & simulation technologies, which underpin its electronic materials and components business.

Reaffirming the importance of coexisting with society as a responsible corporate citizen, TDK examines how it can contribute to society as a company, and conducts its own social contribution activities based on two concepts: “Creativity” and “Culture.”

(5) Pressing Issues

The electronics industry, TDK’s field of operations, is finding renewed vigor on growth in the market for flat-panel TVs, DVD recorders and other digital home appliances and the greater use of electronics in motor vehicles. But digitalization is also fueling stiffer competition. In digital home appliances, the electronics industry has been thrust into an era of full-blown competition as rapid advances are made in the standardization of key devices while new products that fail to clearly set themselves apart are quickly engulfed by price competition and driven out of the market. Competing successfully in this era increasingly hinges on one’s ability to be different, which basically means supplying superior products.

Under these circumstances, TDK will strengthen its core technologies (materials, process and evaluation & simulation technologies) that will be key to businesses down the road as the driving force for expanding sales of competitive new products and responding to customer needs. In the electronics market, TDK is targeting three key fields that it believes harbor prospects for growth: IT home electronics; high-speed, large-capacity networks; and car electronics. Developing new products that squarely match customer demands and creating a system for supplying those products on a timely basis are important themes for TDK in these markets where rapid change is an underlying premise.

(6) 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, employees and society. TDK has put in place various systems of internal control 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.

(6-1) 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 Compensation Advisory Committee, which was set up to ensure the transparency of directors’ remuneration. Another committee, the Corporate Ethics Committee, was established to ensure that TDK upholds corporate ethical standards. At the same time, TDK is continuing to build a global corporate ethics framework that also encompasses all domestic and overseas subsidiaries. All subsidiaries have an ethics council. Independent of the Corporate Ethics Committee and these ethics councils, 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 has corporate auditors within the meaning of 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 directives from outside legal counsel regarding risks associated with TDK's corporate activities.

Moreover, to give the company the best managerial structure for responding flexibly to the various changes in its operating environment and to build greater trust with shareholders, the company has set the terms of directors to one year.

(6-2) 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.

(6-3) 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. Activities are ongoing to oversee and refine this system. 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.