Characteristics of Corporate Governance at the TDK Group

Aggressive Invitation of Outside Directors and Outside Audit & Supervisory Board Members

Having recognized the importance of supervisory functions for management at an early stage, TDK has actively endeavored to invite Outside Directors and Outside Audit & Supervisory Board Members into its organization.

Strengthening of Supervisory Functions Performed by Outside Directors

The post of Chairman of the Board is filled by an Outside Director. The posts of Chairman of the Nomination Advisory Committee and the Compensation Advisory Committee are each filled by Outside Directors.

Aggressive Promotion of Non-Japanese Corporate Officers

At TDK Corporation, the ratio of total sales from overseas exceeds 90%. As such, the Company aggressively promotes capable personnel in its organization regardless of their nationality.

Basic 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 unremittingly pursued originality and increased corporate value through provisions of products and services which have created new value, based on the founding spirit “contribute to culture and industry through creativity” as its corporate motto. In addition, the TDK Group will continue to build satisfactions, trust, and support among all stakeholders (shareholders, customers, suppliers, employees, and communities, among others), continue to be helpful by resolving social issues, and contribute to the development of a more sustainable society. The TDK Group clearly declares as its Corporate Charter of Business Behavior that the TDK Group will continue to respect human rights, comply with relevant laws and regulations, both domestic and international, and carry out its social responsibility domestically and overseas with a strong sense of responsibility domestically and overseas with a strong sense of social responsibility (CSR). To achieve this aim, the Directors, Audit & Supervisory Board Members, Corporate Officers, and all other members of TDK are made fully aware of the TDK Code of Conduct, which stipulates concrete standards of business conduct in compliance with TDK’s management philosophy, including the TDK corporate motto and corporate social responsibility, and principles, and social norms, including relevant laws, regulations, and international rules and the spirit thereof.

1. Adoption of the Company Auditor System and Strengthening of the Supervisory Function

TDK has adopted the Company Auditor System pursuant to the Companies Act of Japan and has appointed three independent Outside Audit & Supervisory Board Members (of the five Audit & Supervisory Board Members who are disinterested in TDK) to strengthen the supervision of TDK’s management.

2. Strengthening the Function of the Board of Directors and Increasing the Accountability of Directors

TDK has a small number of Directors to expedite the management decision-making process. At the same time, TDK has appointed disinterested, independent Outside Directors in order to enhance the supervision of TDK’s management. In addition, the Directors’ terms of office are set at one year to give shareholders an opportunity to cast votes of confidence regarding Directors’ performance every business year.

3. Adoption of a Corporate Officer System for Expediency of Business Execution

TDK has adopted a Corporate Officer system that separates the management decision-making and Director supervisory functions of the Board of Directors from the execution of business. Corporate Officers are in charge of business execution and carrying out decisions made by the Board of Directors and thereby expediently execute business operations in accordance with management decisions.

4. Establishment of Advisory Bodies to the Board of Directors (Business Ethics & CSR Committee, Disclosure Advisory Committee, Compensation Advisory Committee, and Nomination Advisory Committee)

The aim of the Business Ethics & CSR Committee is to ensure compliance with the TDK corporate mottos, understanding of corporate ethics, and improvement of awareness of corporate ethics. 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.

In addition, TDK aims to achieve its management targets and further improve corporate value through the creation of products by adhering to the corporate mottos. At the same time, TDK strives to foster a sound corporate culture and sincerely conduct business activities, always aware of its place as a member of society. Moreover, TDK will be accountable to stakeholders through comprehensive, accurate, timely, and impartial disclosure of information.

As mentioned above, TDK sincerely and devotedly seeks to achieve its management philosophy, and to establish the effective and orderly corporate governance systems to continue to ensure soundness, compliance, and transparency in its business operations.
History of Corporate Governance Reform

June 2005  Stock-based compensation stock options introduced for Directors and Corporate Officers

June 2007  Suspend reserve of Audit & Supervisory Board Member retirement benefits (Retirement benefit system abolished in June 2011)

June 2008  Foreigner assumed Corporate Officer post for first time

June 2009  Two non-Japanese assumed Corporate Officer post; two Outside Directors in service increased to three

August 2008  One Outside Director in service increased to two (Formed Nomination Advisory Committee (Chairman: Outside Director))

June 2010  Four non-Japanese assumed Corporate Officer post

June 2013  Director term shortened from two years to one year following change to Articles of Incorporation

June 2015  Directors meetings / Board of Directors and Board of Audit & Supervisory Board Members.

Katsuyoshi Yoshida  Mr. Yoshida has an abundance of knowledge and experience concerning the management of companies related to the electronics industry, global business, and consumer business as well as a broad perspective.

Ryotaro Ishihara  Mr. Ishihara has an abundance of experience and advanced, specialized knowledge regarding business management as well as a broad perspective.

Kazunori Yagi  Mr. Yagi has knowledge relative to financing and accounting, as well as an abundance of experience and knowledge concerning the management of companies related to the electronics industry.

Shinji Kurokawa  Mr. Kurokawa has experience and knowledge regarding corporate governance and internal control, and considerable insight.

Kenichi Fujimoto  Mr. Fujimoto has experience and knowledge concerning the management of companies related to the general trade business.

Criteria for Independence of Outside Directors and Outside Audit & Supervisory Board Members

In order to secure the independence of the Outside Directors and Outside Audit & Supervisory Board Members, it strives to determine, in its organization, the TDK Group has established its own “items to be verified regarding independence” with reference to criteria such as Rule 438-2 of the Securities and Exchange Law ("Securing Independence / Directors / Auditors") and Rule 3 (5) of Guidelines Concerning Listed Company Compliance, etc., both of which are stipulated by Tokyo Stock Exchange, Inc.

Items to be Verified Regarding Independence

(1) When it is recognized within TDK that the relevant Outside Director / Audit & Supervisory Board Member cannot perform duties as an Independent Outside Director / Audit & Supervisory Board Member because they receive money or other assets from TDK other than remuneration for officers (where there is a high degree of dependence)

(2) When it is recognized, objectively and reasonably, that the relevant Outside Director / Audit & Supervisory Board Member cannot perform duties as an Independent Outside Director / Audit & Supervisory Board Member because they receive money or other assets from TDK other than remuneration for officers (when this income is equivalent to 2% or more of total annual remuneration)
Remuneration for Directors and Audit & Supervisory Board Members

Remuneration Determination Process
TDK has in place a Compensation Advisory Committee acting as an advisory body to the Board of Directors, composed of Outside Directors (among whom one is committee chairman) and an officer in charge of personnel. The committee examines the remuneration system and the level of remuneration pertaining to Directors and Corporate Officers of the Company and reviews the transparency of the remuneration decision-making process and verifies whether the individual remuneration is reasonable in light of corporate business performance, individual performance, and general industry standards, among other factors.

Purpose of Remuneration System, Remuneration Level
TDK’s remuneration system is designed for the following purpose based on the consultation and deliberation of the Compensation Advisory Committee, an advisory body to the Board of Directors.

- To retain and motivate high quality Directors and Audit & Supervisory Board Members.
- To ensure the independence of Directors and Audit & Supervisory Board Members from corporate management.

Results Linkage System
A system whereby remuneration fluctuates depending on the single-year consolidated results (operating income, ROA, etc.) and the degree of attainment of results of the position in charge.

Mid- to long-term results linkage system (stock-linked compensation stock options)
Stock-linked compensation stock options are granted with the number of shares calculated based on their value at the time of grant depending on the amount of stock option remuneration determined for each position. This is an effective option grant similar to the disbursement of actual stock of the Company whereby recipients have the same advantage of a rising stock value of the Company and the same risk of it falling as regular shareholders. The introduction of this system is to further increase the ambition and morale of eligible Directors with respect to the enhancement of results and stock value.

The Company has established Corporate Stock Ownership Guidelines and makes an effort to ensure that eligible Directors hold at least a certain number of shares in the Company pursuant to their rank, including stock-linked compensation stock options.

Remuneration Breakdown

<table>
<thead>
<tr>
<th>Classification</th>
<th>Total number of payees</th>
<th>Total amount of remuneration (Millions of yen)</th>
<th>Basic remuneration</th>
<th>Result-linked bonuses</th>
<th>Stock-linked compensation stock options</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Number of papers</td>
<td>Amount paid (Millions of yen)</td>
<td>Number of papers</td>
</tr>
<tr>
<td>Directors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outside Directors</td>
<td>8 (4)</td>
<td>3,754 (40)</td>
<td>25 (40)</td>
<td>25 (40)</td>
<td>4 (8)</td>
</tr>
<tr>
<td>Audit &amp; Supervisory</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board members (Outside Audit &amp; Supervisory Board members)</td>
<td>5 (3)</td>
<td>85 (27)</td>
<td>5 (3)</td>
<td>85 (27)</td>
<td>Not eligible for the above remuneration</td>
</tr>
<tr>
<td>Total number of payees</td>
<td>13</td>
<td>4,059</td>
<td>38</td>
<td>4,059</td>
<td>4</td>
</tr>
</tbody>
</table>

The number of Directors and Audit & Supervisory Board Members at the end of fiscal 2015 under review was 7 and 5, 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 above include the amount of remuneration paid to one Outside Director who retired at the close of the 118th Ordinary General Meeting of Shareholders held on June 27, 2014.

Compliance and Information Management System

Permeation of Compliance Awareness
The TDK Group gives every employee a copy of the TDK Code of Conduct Handbook to use as guidelines for their corporate activities and strives to raise awareness by, among other things, displaying posters.

Furthermore, in order to deepen employees’ understanding of compliance, the TDK Group implements training for specific ranks and e-learning for all employees, as well as talks by responsible directors and lectures by outside speakers for managers.

Cartel Prevention Training
In recent years, violations of competition laws are being prosecuted with increasing severity, not only in Japan but also in the EU and the U.S. as well. As a result, there have been numerous cases where Japanese companies were found to be in breach of domestic or foreign antitrust laws (competition laws) through cartel activities. Offending companies were ordered to pay huge penalties, and criminal charges were brought against officers. In some cases, suppliers and consumers sued for damages, and shareholder derivative actions were also filed.

TDK’s Charter of Corporate Behavior calls for strict observance of each country’s laws and regulations, and for fulfillment of its obligations to society with integrity and a high ethical sense. Therefore, we implement anti-cartel training in our organization on a worldwide basis.

In Fiscal 2015, the following measures were carried out.
- Lawyers and other experts from outside the company were invited to give talks to persons in positions where a possible cartel risk exists, including managers, function chiefs, and members of sales, promotion, and planning departments. 22 such talks were held in locations including Japan, China, Taiwan, South Korea, Singapore, Malaysia, the U.S., and Europe, with a total of 821 persons attending.
- Training by e-learning was conducted.

Information Security Management Framework

Business Continuity Plan (BCP)
At TDK, in order to cut business continuity risk caused by factors including natural disasters, accidents, etc., we have implemented improvement strategies at each of our plants and sales offices to prevent disasters and epidemics, as well as instituted in-house power generators to offset electricity shortages. We work to both introduce and integrate business continuity planning to ensure that our critical business functions are not interrupted even in the event of a disaster, or if they are interrupted that they will resume as quickly as possible.

In response to greater business continuity risk in recent years, we also strive to improve business continuity planning on an ongoing basis.

Information Security
In July 2006, TDK set down its information security basic policy in order to maintain and improve information security. All employees carry out their work based on the six guidelines for action. The activities that specifically are being carried out are listed below. These activities together comprise TDK’s information security control system.

- Increasing management of information provided by customers as well as trade secret information.
- Controls based on information security management, primarily head office information systems.
- Compliance with the Private Information Protection Law, which was fully enacted in April 2005.

In Fiscal 2015, the following actions were implemented with a view to preventing leakage of information and cyber-attacks.
- Security training on prevention of information leaks
- Boosting PC security
- Bolstering security of Internet connections
- Eliminating e-mail that may include SPAM / viruses
- Limitations on Internet access
- Limitations on mobile access
- Limitations on external devices
Building a Viable Corporate Governance Framework
I lead TDK Corporation for conducting a variety of advanced initiatives over time in the name of strengthening corporate governance. During fiscal 2016 as well, the Company has become one of the first to implement a third-party evaluation system for its Board of Directors, which discusses issues based on the results of those evaluations. This and other efforts show that TDK Corporation is by no means settling for its current state of corporate governance, and is instead further pushing forward with initiatives aimed at strengthening it.

At TDK Corporation, three out of the company’s seven Directors are Outside Directors. Those Outside Directors also serve in the posts of Chairman of the Board and Chairmen of the Nomination Advisory Committee and Compensation Advisory Committee. With 13 years having passed since TDK Corporation first invited Outside Directors into its organization in 2002, the Outside Director system has taken root at the company in a viable form. It is clear to me that the company’sOutside Directors and Outside Audit & Supervisory Board Members also increase their opportunities to interact with members of the business execution side and endeavor to diffuse that agenda on the frontlines while also relating the actual status of those frontlines to management is essential. Additionally, while seven out of our 19 Corporate Officers at TDK Corporation are non-Japanese, my view is that it is soon time for us to promote non-Japanese to Outside Director posts as well as we continue striving to become a truly global company.

Management Accountability and its Increasing Importance
The pursuit of short-term profit growth targets by corporations as they boost indexes such as earnings efficiency, profitability, investment efficiency, and human productively is something that should be conducted as a matter of course in order to meet the expectations of investors. One of the attributes that defines the electronic components industry is that it takes time for the products of investment to blossom. Even when introducing the development or manufacturing of new materials or products, without gestating over a long period of time an end result that truly achieves differentiation will not come about. At the same time, the electronic components industry also easily succumbs to the impact of changes in the market environment. For precisely that reason, I sense that there are often differences in how that industry is perceived compared to a market that changes over a short period of time. Where that point is concerned, in the context of the introduction of the Corporate Governance Code of Japan and the Japanese Stewardship Code, I believe the current trend of investors and businesses with differing measures for investment and growth coming closer together is a desirable one, and that in fulfilling the key role that it has, management needs to aggressively arrange forums for dialogue with investors and patiently issue persuasive explanations even more than before.

Passing Down the “TDK WAY” that Underpins Our Sustainable Growth
During fiscal 2015, TDK Corporation showed increased momentum in the recovery of its business performance as exemplified by its net sales surpassing ¥1 trillion, a first for the Company. However, this does not mean that its underlying essential value has changed. Rather, I think that the current momentum is the by-product of the increasing penetration of the “TDK WAY” that has been in place since the Company’s founding, namely taking materials and leveraging their attributes to bring forth unique, competitive products with magnetics technology at their core, among our customers globally as well as inside Japan.

In the future as well, the incorporation of electronic components in large numbers will go beyond electronic products to take place across multiple industries, starting with automobiles. While it is impossible to foresee the future 10 to 20 years down the road, no matter how our flagship products may shift or how our customers may exhibit dynamic change, as long as TDK Corporation continues to evolve upon the “TDK WAY,” I am confident that the Company will remain highly recognized by greater society. Additionally, accommodating the requests of that society through value that leads to improved security and comfort in the form of environment-friendly products, products that feel good to use, and products that match consumer sensitivities is also an essential component of the company’s long-term sustainable growth. As TDK Corporation approaches its 100th anniversary, I believe its management will be called upon to fulfill the mission of continuing to communicate the founding spirit and values of TDK on a worldwide scale and share them across generations.

Focus

Analysis and Evaluation of Effectiveness of TDK Corporation’s Board of Directors

The Corporate Governance Code of Japan explicitly states that “The Board should endeavor to improve its function by analyzing and evaluating the effectiveness of the Board as a whole,” an indication that ensuring that effectiveness is an issue of extreme importance. In its aim to enhance the effectiveness of its Board of Directors and elevate its corporate value, in fiscal 2015 TDK Corporation had a third-party consultant evaluate that Board.

PURPOSE

The purpose of this evaluation was to perform a comparative analysis of how the effectiveness of the Board of Directors as a whole, both committees (the Nomination Advisory Committee and the Compensation Advisory Committee), each Director and each Audit & Supervisory Board Member, as well as TDK Corporation’s Board of Directors as a whole, were evaluated with respect to the size, composition, and audit functions as they pertain to the size, composition, and operational status of the Board, the qualities of its members, the status of each committee, and so forth. Moreover, with respect to discussion by the Board of Directors, it was found that a culture of respect for open discussion was in place, and that both Directors and Audit & Supervisory Board Members actively take part in and contribute to discussion.

RESULTS

The evaluation found that the Board of Directors of TDK Corporation contains a framework for exercising management audit functions as they pertain to the size, composition, and operational status of the Board, the qualities of its members, the status of each committee, and so forth. Moreover, with respect to discussion by the Board of Directors, it was found that a culture of respect for open discussion was in place, and that both Directors and Audit & Supervisory Board Members actively take part in and contribute to discussion.

PROCESS

The process used in the evaluation was to ask all Directors and Audit & Supervisory Board Members to provide their answers to a question form concerning the effectiveness of the Board of Directors as a whole, both committees, and each Director and each Audit & Supervisory Board Member, after conducting a detailed interview with each Director and Audit & Supervisory Board Member based on the nature of their responses. Using those responses and interviews as a reference, a report based on that third-party evaluation was provided to the Board of Directors. An analysis and evaluation of the effectiveness of the Board of Directors as a whole was then conducted by the Board.

CHALLENGES

The evaluation found that in order to establish an aggressive governance framework for realizing greater long-term shareholder value based on a growth strategy of compiling structural reforms, accelerating the Company’s globalization, and pursuing its growth, the Board of Directors needed to take greater time in discussing TDK Corporation’s medium- to long-term management challenges and the predominant risks in its growth strategy, among other factors. It was also found that a framework must be established that enables the Board to engage in such discussion.

Going forward, the Board of Directors of TDK Corporation will engage in sufficient discussion based on the above analysis and evaluation, and will push forward with formulating and swiftly executing response measures.
Corporate Governance

Directors, Audit & Supervisory Board Members, and Corporate Officers

As of June 26, 2015

Directors

Takehiro Kamigama  
President & CEO  
Mitsubishi Electric Corporation

Atsuo Kobayashi  
Chairman of the Board

Hiroyuki Uemura  
Chairman of Nomination Advisory Committee

Noboru Saito  
Chairman of the Board

Makoto Sumita  
Outside Director

Kazumasa Yoshida  
Outside Director

Kazuhiko Ishimura  
Outside Director

Kazunori Yagi  
Outside Audit & Supervisory Board Member

Toru Ishiguro  
Outside Audit & Supervisory Board Member

Corporate Officers

President & CEO  
Takehiro Kamigama

Executive Vice Presidents  
Atsuo Kobayashi  
Hiroyuki Uemura

Senior Vice Presidents  
Seiji Osaka  
Shinya Yoshihara  
Robin Zeng  
Joachim Zichlarz  
Shigeno Ishiguro

Corporate Officers

Takakazu Momozuka  
Mitsuru Nagata  
Joachim Thiele  
Keichi Imamoto  
Satoru Sueki

Christian Block  
Norbert Hess  
Hong Tian  
Tetsuji Yamanishi

Page 60

Annual Report 2015  
Toshiba Corporation

Page 61