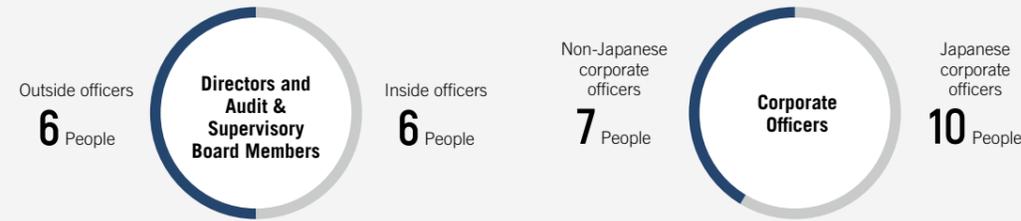


## Characteristics of Corporate Governance at the TDK Group

### Proactive Invitation of Outside Officers and Aggressive Promotion of Non-Japanese Corporate Officers

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. Also, the overseas sales ratio exceeds 90%. As such, the Company aggressively promotes capable personnel in its organization regardless of their nationality.



### Strengthening of Supervisory Functions Performed by Outside Directors

Three out of seven directors are 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 an outside director.

This helps ensure the transparency of HR and compensation processes and the validity of officer appointments and compensation.

## Governance of TDK from the Perspective of Board of Directors Evaluations

TDK sees ensuring the effectiveness of the Board of Directors as a crucial issue and takes measures to enhance the functioning of the Board.

### Overview of Board of Directors Evaluations

#### Details of evaluation submitted in fiscal 2015

The structure and function of the Board of Directors were highly evaluated. It was also pointed out, however, that establishing governance systems that can complete structural reforms accelerate the pace of globalization, as well as increase shareholder value over the long term. Based on strategies that pursue growth, more time will be needed for deliberations by the Board on medium- to long-term management issues and major risks in growth strategies. In addition, further strengthening of systems will be needed to enable such deliberations.

### Measures to address indications

#### 1. Reinforcing medium- to long-term deliberations

TDK reviewed the Board of Directors agendas and provided additional time for deliberating on medium- to long-term issues and major risks. The Board's schedule was also reviewed, and the following measures were implemented:

- 1 A Board of Directors meeting will be held at the beginning of each fiscal year to provide an overview of the business of each business company and to explain medium- to long-term policies.
- 2 Board of Directors meetings will be held twice annually to allow each business company to report on the subsequent progress of its business plans.

#### 2. Building systems to enable medium- to long-term deliberations

TDK reorganized its head office functions and established the Corporate Strategy HQ to reinforce strategic functions. The Corporate Strategy HQ comprises legal affairs, management planning, human resource development, and public relations functions, and is responsible for Board of Directors operations, legal responses, formulating and managing business strategies, organizational structures, human resource development, internal and external communications, and carrying out company wide business strategies.

#### Background to the fiscal 2016 Board of Directors evaluation

In fiscal 2016, some directors and Audit & Supervisory Board Members were replaced, and the Chairman of the Board of Directors was also replaced. TDK also adopted a Medium-Term Plan with fiscal 2016 as its first year and is working to increase corporate value even further through continuous growth based on this plan. In light of the changes to the composition of the Board of Directors and the current status of the transition to a new management stage, TDK determined that comprehensive verification of the effectiveness of the Board of Directors under the new system is necessary, and an external evaluation was conducted in fiscal 2016, as in the previous fiscal year.

### Implementation process

A questionnaire on the effectiveness of the Board of Directors as a whole, as well as of each committee, director, and Audit & Supervisory Board Member, was prepared based on the results of the fiscal 2015 evaluation and the current status of TDK's Board of Directors and business. Each director and Audit & Supervisory Board Member prepared written answers in response to a questionnaire. Based on the responses, a third-party organization conducted detailed interviews of each director and Audit & Supervisory Board Member with a focus on matters of particular importance to the Board. The third-party organization submitted a report to the Board based on the responses to the questionnaire and the results of the interviews. The Board of Directors verified and evaluated the current status of the Board based on the report and identified issues. The main items of the evaluation of the Board's effectiveness were as follows:

- Awareness of TDK's current status (business, responses to globalization, main risks, etc.)
- Scale and composition of the Board of Directors
- Operational status of the Board of Directors
- Composition and roles of the Nomination Advisory Committee and Compensation Advisory Committee
- Operational status of the Nomination Advisory Committee and Compensation Advisory Committee
- Support structures for outside directors
- Roles of and expectations toward the Advisory & Supervisory Board
- Relationships with investors and shareholders

### Results of Fiscal 2016 Evaluation of the Board of Directors

In fiscal 2016, new members joined the Board of Directors and Advisory & Supervisory Board, and a new Chairman was appointed to the Board of Directors. Under the leadership of the Chairman, who is an independent outside director, the culture of serious and open discussion was maintained, and substantive deliberations were actively conducted. In addition, confirmation was made that the audit functions of the Board of Directors were enhanced by focusing even more on medium- to long-term growth strategies. Confirmation was also made that appropriate measures were undertaken to address the issues identified in the prior evaluation as discussed in the previous item.

TDK became aware that under a climate of extreme change and a rapid pace of business, accelerating growth under the "true globalization policy" set forth in the Medium-Term Plan will require even further change in response by the Board of Directors and management systems. It was also confirmed that (1) enhanced deliberations on medium- to long-term issues; (2) development of a long-term succession plan; and (3) reinforcement of corporate functions in response to globalization are topics for continued deliberation over the medium to long term.

### Indications and the TDK Group's Responses

The Board of Directors discussed how it should respond to these issues. The following are matters regarding which action has already been taken or will be continued into the future:

#### Matters indicated in the Board of Directors evaluation for which measures have been taken

##### Review of the Board of Directors composition

- Composition of the Board of Directors as a whole and composition of inside directors
- Reinforcement of succession plans  
(The Nomination Advisory Committee will continuously consider these issues.)

#### Matters indicated in the Board of Directors evaluation for which measures will be taken in the future

##### Further enhancement of deliberations by the Board of Directors

- Verification of medium- to long-term plans and growth strategies
- Verification of the effects of investment and M&As
- Reinforcement of oversight regarding risks

The status of these measures will be confirmed in the next Board of Directors evaluation. TDK will verify the effectiveness of the Board of Directors each year and will continuously raise its effectiveness.

## TDK Basic Policy on Corporate Governance

The basic views to achieve sustainable corporate growth and an increase in corporate value over the medium to long term of the TDK Group are as follows:

- (1) Based on the founding spirit “Contribute to culture and industry through creativity” as the corporate motto of TDK, which was established in 1935 as the world’s first company to industrialize a magnetic material called ferrite, TDK unremittingly pursues originality and increases corporate value through provisions of products and services which have created new value.
- (2) TDK builds satisfaction, trust, and support among all stakeholders (shareholders, customers, suppliers, employees and communities, among others), continues to be helpful by resolving social issues, and contributes to the development of a more sustainable society.
- (3) TDK clearly declares as the “TDK Charter of Corporate Behavior” that TDK will continue to respect human rights; comply with relevant laws, regulations, and international rules and the spirit thereof; and carry out its social responsibility with a strong sense of ethics, domestically and overseas.

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.”

- (4) TDK aims to achieve its management targets and further improve corporate value through the creation of products by adhering to the corporate motto. At the same time, TDK strives to foster a sound corporate culture and sincerely conducts business activities, always aware of its place as a member of society.
- (5) TDK will be accountable to stakeholders through comprehensive, accurate, timely, and impartial disclosure of information. In addition, TDK enacted the “TDK Basic Policy on Corporate Governance,” setting forth the basic views and policy on corporate governance of TDK for the purpose of enhancing sustainable corporate growth and increasing of corporate value over the medium to long term of the TDK Group.

The full text of said policy is posted on the following website:  
[http://www.global.tdk.com/ir/tdk\\_management\\_policy/governance/basic/](http://www.global.tdk.com/ir/tdk_management_policy/governance/basic/)

## Reasons for Nomination as a Candidate for Inside Director

The TDK Group believes that a structure including inside directors with a focus on human resources who can engage in deliberations and perform verifications from the perspective of overall optimization is important. TDK determined that the following persons with the experience and knowledge indicated can be expected to fully perform their roles in deciding key matters and overseeing the implementation of business by the Board of Directors and has appointed them as inside officers.

Inside directors	Reasons for nomination as a candidate (set forth in the Notice of Convocation of the 120th Ordinary General Meeting of Shareholders held on June 29, 2016)
Takehiro Kamigama	After serving as head of the HDD magnetic heads business, Mr. Kamigama served as president and representative director since 2006 and has demonstrated leadership in strengthening overall profitability and expanding business fields.
Shigenao Ishiguro	After working in the business planning department in Europe, Mr. Ishiguro served as head of the HDD heads business. He has extensive global management experience and has delivered positive results, promoting the creation of new business and management reforms.
Noboru Saito	Mr. Saito has extensive global management experience accumulated from working for sales subsidiaries in the United States and Europe and is currently working on the formulation and implementation of the company’s business strategies as head of the department responsible for corporate planning, human resources, and corporate communications.
Tetsuji Yamanishi	Mr. Yamanishi has experience in accounting and finance in domestic and overseas business and currently serves as head of the Finance & Accounting Group. He has demonstrated a high level of expertise and skill in the company’s global financial and managerial administrative operations.

## Outside Directors and Outside Audit & Supervisory Board Members

TDK actively recruits outside directors in order to reinforce management oversight functions, conduct management with an awareness of shareholders and various other stakeholders, and establish effective and disciplined corporate governance. To oversee management, it is important that outside directors have a deep understanding of technology and knowledge of global management, and TDK believes that it is crucial that outside directors as a whole have such experience and skills as well as experience in different business sectors from the perspective of diversity. With regard to

outside Audit & Supervisory Board Members, it is important that they include persons with experience in a diverse range of fields important to the Group, including finance, legal affairs, internal controls, and risk management. Based on these qualifications, as of the end of June 2016, three of TDK’s seven directors were outside directors and three of its Audit & Supervisory Board Members were outside members, comprising a majority of the directors and Audit & Supervisory Board Members.

Outside directors	Reasons for nomination as a candidate	Attendance at meetings of the Board of Directors in fiscal 2016
Makoto Sumita	Mr. Sumita has an abundance of experience and knowledge in management as a manager of operating companies as well as a broad perspective.	16 times / 16 times
Kazumasa Yoshida	Mr. Yoshida has an abundance of experience and knowledge concerning the management of companies related to the electronics industry, global business, and consumer business as well as a broad perspective.	16 times / 16 times
Kazuhiro Ishimura	Mr. Ishimura has an abundance of experience and advanced, specialized knowledge regarding business management as well as a broad perspective.	10 times / 12 times (After nominated in June 2015)

Outside Audit & Supervisory Board Members	Reasons for nomination as a candidate	Attendance at meetings of the Board of Directors in fiscal 2016	Attendance at meetings of the Audit & Supervisory Board in fiscal 2016
Kazunori Yagi	Mr. Yagi has extensive knowledge related to finance and accounting, as well as an abundance of experience and knowledge concerning the management of companies in the electronics industry.	15 times / 16 times (After nominated in June 2015)	14 times / 15 times (After nominated in June 2015)
Toru Ishiguro	Mr. Ishiguro has specialized knowledge regarding the law as an attorney, specialized knowledge regarding corporate governance and internal control, and considerable insight in such areas.	12 times / 12 times (After nominated in June 2015)	11 times / 11 times (After nominated in June 2015)
Kiyoshi Fujimura	Mr. Fujimura has extensive knowledge related to finance and accounting, as well as an abundance of experience and knowledge concerning the management of general trading companies.	12 times / 12 times (After nominated in June 2015)	11 times / 11 times (After nominated in June 2015)

### Status of Board of Directors and Audit & Supervisory Board during Fiscal 2016

Board of Directors meetings	Number of Board of Directors meetings	16
	Outside directors’ rate of attendance at meetings	96%
Audit & Supervisory Board meetings	Outside Audit & Supervisory Board Members’ rate of attendance at meetings	96%
	Number of Audit & Supervisory Board meetings	15
	Outside Audit & Supervisory Board Members’ rate of attendance at meetings	96%

### Main Agenda Discussed by Board of Directors during Fiscal 2016

Capital expenditures for primary businesses
Strategies for priority businesses
Business tie-up with Qualcomm and establishment of joint venture company
Business tie-up with Micronas and takeover bid
Execution of agreement for joint venture with ASE to manufacture circuit boards with embedded ICs

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

In order to secure the independence of outside directors and outside Audit & Supervisory Board Members it invites into its organization, the TDK Group has established its own “items to be verified regarding independence” with reference to criteria such as Rule 436-2 of the Securities Listing Regulations (“Securing Independent Directors/Auditors”) and Rule III. 5. (3)-2 of Guidelines Concerning Listed Company Compliance, etc., both of which are stipulated by Tokyo Stock Exchange, Inc.

### Items to be Verified Regarding Independence

**1** In cases where the relevant outside director/Audit & Supervisory Board Member has a business relationship with TDK

An outside director/Audit & Supervisory Board Member shall be judged not to be independent if they are at present, or have been during the past five years, a party with a business relationship with TDK as described in (i) below or a person who executes business for such party, or if (ii) below applies to them.

- (i) When it is recognized, objectively and reasonably, that said business relationship is necessary for, or has a substantial influence on, the continued growth of TDK or the other party to such business relationship (when there is a high degree of dependence in the relationship, where the relationship is the source of 2% or more of consolidated sales, and where the other party to the relationship receives money or other assets from TDK other than remuneration for officers)
- (ii) When it is recognized within TDK that the relevant outside director/Audit & Supervisory Board Member is involved in the business relationship with the other party to such relationship

**2** In cases where the relevant outside director/Audit & Supervisory Board Member is a consultant, an accounting professional, or a law professional

An outside officer shall be judged not to be independent if any of the following cases apply to such person at present or have applied to such person during the past five years.

- (i) When it is recognized, objectively and reasonably, that the relevant outside director/Audit & Supervisory Board Member (including candidates for such position; the same shall apply hereinafter) 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)
  - (ii) Where 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 the organization to which such person belongs (hereinafter referred to as the “Relevant Organization”) receives money or other assets from TDK other than remuneration for officers (when this income is equivalent to 2% or more of total annual remuneration)
  - (iii) When TDK has a high degree of dependence on a professional or a Relevant Organization, such as a case where services, etc., rendered by such party are essential to the corporate management of TDK or it would be difficult to find an alternative provider of the same services, etc.
  - (iv) Where it is recognized within TDK that the relevant outside director/Audit & Supervisory Board Member is involved with the services, etc., provided by the Relevant Organization
- 3** In the case of a close relative of the relevant outside director/Audit & Supervisory Board Member
- An outside director/Audit & Supervisory Board Member shall be judged not to be independent if either of the following cases apply to their close relative at present or have applied to them during the past five years.
- (i) A person to whom **1** or **2** above applies (except persons with no material significance)
  - (ii) A person who executes business for TDK Corporation or a subsidiary of TDK Corporation (except persons without material significance)

## Remuneration for Directors and Audit & Supervisory Board Members

### Compensation Determination Process

TDK established the Compensation Advisory Committee chaired by an outside director and with outside directors as a majority of members as an advisory body to the Board of Directors. The committee deliberates and makes recommendations on compensation systems and levels for TDK's directors and corporate officers, contributing to ensuring transparency in the compensation decision-making process and the appropriateness of individual compensation in light of the company's financial results and individual performance.

contribute to financial results, and raising share prices and achieving sustainable increases in the corporate value of the Group as a whole. These programs emphasize the linkage with short-term and medium- to long-term financial results in deliberations and verifications by the Compensation Advisory Committee, an advisory body to the Board of Directors. TDK also seeks to create competitive compensation programs so that it can recruit diverse and outstanding human resources.

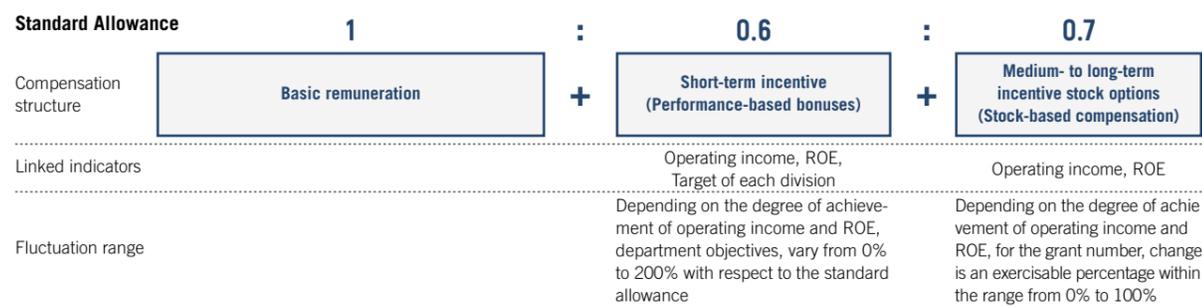
With regard to compensation levels, TDK seeks to set compensation that maintains competitiveness compared to other companies in the same industry and to companies of the same size in other industries. The Compensation Advisory Committee periodically confirms the appropriateness of compensation levels based on surveys of corporate executive compensation conducted by third parties.

### Objectives of Compensation Programs and Compensation Levels

TDK designs compensation programs with the aims of encouraging, to the maximum extent possible, conduct by officers that

### Results Linkage System

Factor	Type of compensation	Strategic purpose of compensation	Method of calculation
Link to short-term financial results	Performance-based bonuses	Intended to clarify the responsibility of directors and corporate officers to achieve consolidated financial results in each fiscal year and to increase motivation for raising short-term financial results.	In addition to consolidated financial results (operating income, ROE) in the relevant fiscal year, indicators are set for each division, and bonuses vary from 0% to 200% of base salary depending on the degree of attainment of targets.
Link to medium- to long-term financial results	Stock options (stock-based compensation)	A system for raising corporate value from a medium- to long-term perspective and for directors and corporate officers to share with shareholders not only the benefits of rising share prices, but also the risks of falling share prices. Intended to enhance the performance of the relevant officers and increase motivation and determination to raise corporate value.	The exercise of a portion of stock options (stock-based compensation) is conditioned on achieving certain financial results with the objective of increasing the linkage of officer compensation with medium- to long-term financial results and corporate value. For the conditions, consolidated financial results (operating income, ROE) under the Medium-Term Plan are set as indicators, and the number of options that can be exercised ranging from 0% to 100% of the options granted depends on the degree of achievement of those indicators. TDK established the Corporate Stock Ownership Guidelines and encourages officers to hold at least a certain number of shares (including stock options) set according to the officer's rank.



### Total Amount of Remuneration for Directors and Audit & Supervisory Board Members for the Business Year under Review (Fiscal 2016)

Classification	Total number of payees	Total amount of remuneration (Millions of yen)	Remuneration breakdown					
			Basic remuneration		Results-linked bonus		Stock-linked compensation stock options	
			Number of payees	Amount paid (Millions of yen)	Number of payees	Amount paid (Millions of yen)	Number of payees	Amount paid (Millions of yen)
Directors (outside directors)	9 (4)	418 (51)	9 (4)	224 (51)	4	100	4	94
Audit & Supervisory Board Members (outside Audit & Supervisory Board Members)	8 (5)	85 (27)	8 (5)	85 (27)	Not eligible for the above remuneration			
Total number of payees	17	502	17	308	4	100	4	94

Notes: 1. The number of directors and Audit & Supervisory Board Members at the end of fiscal 2016 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 shown above include the amount of remuneration paid to one outside director who retired at the close of the 119th Ordinary General Meeting of Shareholders held on June 26, 2015.

2. Performance-based bonuses and stock options (stock-based compensation) paid to directors are reported as expenses starting in fiscal 2016.

## TOPICS

### Initiatives to Reinforce Corporate Governance

#### 1 Role of the Nomination Advisory Committee and Appointment of the CEO

TDK established the Nomination Advisory Committee as an advisory body to the Board of Directors. The Committee is chaired by an outside director, and a majority of its members are also outside directors. It deliberates on expected qualifications of candidates for director, Audit & Supervisory Board Member, and corporate officer and recommends candidates so as to contribute to ensuring the appropriateness of the nomination process and transparency of the decision-making process. The Committee also deliberates on the independence of outside directors.

When nominating the CEO, the Committee formed an image of the ideal person suitable for the role of top executive and conducted repeated deliberations that also covered such issues as systems and the term of office. An outside expert organization was also utilized, and emphasis was placed on ensuring objectivity. (See pages 64–66 for further details.)

#### 2 Prerequisites for Ensuring the Effectiveness of the Board of Directors and Audit & Supervisory Board

One of TDK's fundamental policies is to keep the number of members on the Board of Directors low in order to achieve timely management decision making. The Articles of Incorporation specify that the number of Board members shall be no more than 10; the Board currently has seven members. The Articles also specify that the Audit & Supervisory Board shall have no more than five members; it currently has five members. The current composition of the Board of Directors, including both directors and Audit & Supervisory Board Members, is seven directors, of whom three are outside directors, and five Audit & Supervisory Board Members, of whom three are outside members, for a total of six outside officers. Thus, the ratio of inside officers to outside officers is 5:5.

#### 3 Measures to Reinforce Management Diversity

Approximately 90% of the TDK Group's sales are from overseas, and non-Japanese employees account for approximately 90% of the workforce, giving the Group a considerable global character. In order to respond to this global management environment, the Group is actively hiring non-Japanese managers, including corporate officers and business division heads, and 41% of corporate officers are non-Japanese nationals. Some 72% of overseas Group subsidiaries have a non-Japanese president, and structures that enable local human resources to exercise leadership are taking root as they become more effective. The TDK Group has a culture of continuously innovating through active discussions regardless of nationality, race, employer, or other factors.

#### Global Management Meeting shows strengths of integration

The Global Management Meeting (GMM) is a TDK Group body that meets at least once each month to discuss important issues, including business strategies, operations, and management. Membership includes corporate officers at the senior vice president level and higher, business division heads, and regional managers from Europe, the Americas, and China. Non-Japanese heads of business divisions and managers from regional headquarters participate to encourage discussion from a broader range of perspectives amid a rapidly changing business environment.

#### Examples of GMM Topics

- Establishment of joint venture with Company X
- Acquisition of business company in Europe
- Investment in Chinese manufacturing site to increase production
- Establishment of overseas R&D center

#### Examples of GMM Members

- President
- CEO of each Business Company
- COO of each Business Company
- Head of each regional headquarters
- CTO
- Officers responsible for head office functions



# Expectations and Thoughts for TDK

— TDK's Governance Viewed by an Outside Director



**Makoto Sumita**  
 Outside Director  
 Chairman of the Board of Directors  
 Chairman of the Nomination Advisory Committee  
 Chairman & CEO, INNOTECH CORPORATION

## High hopes for new President Shigenao Ishiguro

### — An outstanding presence capable of growing the business and raising TDK performance

I serve as chairman of the TDK Nomination Advisory Committee. In approaching the Committee's screening of candidates for president, I strongly believed that the role and the tenure of the President were key points. With 10 years having passed since former President Takehiro Kamigama assumed that post, along with other considerations, we thoroughly discussed what type of system to establish to ensure sustainable growth for TDK going forward.

Among the comments made, it was stated that in the case of TDK, a tenure of 10 years is certainly not short in view of the process from the manufacturing of materials through to

development in creating any given product. However, the term of president and the product development cycle do not necessarily coincide. The Committee held numerous meetings, with discussions rooted in the perspective of it being preferable for TDK to be led by someone cut out to serve the interests of our stakeholders, how to build a system in support of such a figure, and whether the term of office should be determined on that basis. We also held numerous interviews. This was not limited to the Nomination Advisory Committee, with similar interviews arranged by outside experts and other concerted efforts made to uphold fairness and transparency.

Former President Kamigama established a solid track record for structural reform, aggressive M&A, and other new approaches. We wanted someone capable of shouldering the role of bringing such progress to even greater fruition, and further raising the performance of TDK.

Regarding the HDD magnetic heads business, a sector for which the market has continued to be harsh, new President Shigenao Ishiguro has acted with poise and wisdom in firmly dealing with the issues at hand. He conveys the impression of someone ready to exercise the leadership needed to take charge and get the job done, even in the event of crisis. Furthermore, he has followed the practical road of reappraising the HDD magnetic heads development and production systems, while maintaining a global mindset. Upon the acquisition of Micronas, it is my understanding that Micronas management

initially expressed little desire in tying up with a Japanese company. Mr. Ishiguro responded by getting directly involved in the negotiations, persevering with continued discussions on how TDK was ready to put Micronas technology to fruitful use. An agreement was finalized in the end, with the continuation of brisk deliberations utilized to formulate a strategy geared to take full advantage of the TDK Group's sensor technology. We arrived at the decision that such skills are dearly needed to build the next-generation TDK.

President Ishiguro is truly a man who inspires confidence in his profound knowledge of key technologies, and the ability to generate results. We have high expectations that he will lead TDK with a firm hand, acting in a capacity much like that of a "baseball closer" in securing victories in the end.

## Grasping the philosophy of the Corporate Governance Code, building effective governance

### — Pursuit of genuine diversity in laying the groundwork for global development

A year has passed since the introduction of the Corporate Governance Code of Japan. While I understand that there is much debate over this matter, I also feel that the Corporate Governance Code provides a good opportunity to change how Japanese companies operate, thereby substantially raising their competitiveness over the medium to long term.

In my view, the decision to enact this code began with debate over how to improve the approaches of Japanese companies that have failed to demonstrate competitive strength on the global market. It is true that U.S. companies, overseas investors, and others have made harsh observations in this area. We must not conclude, however, that U.S. companies always approach their management with short-term vision. On the contrary, such enterprises tend to constantly redefine their business domains, striving to put their management on sound footing and further enhance competitiveness on a medium- to long-term basis. In other words, they carry on reforms to shape their businesses to meet the conditions of the new era. It is their board members, investors, and other

stakeholders, moreover, who strictly assess the appropriateness of those reforms. In my opinion, such mechanisms have been inadequate in Japan.

It is important to not simply improve appearances, achieve numerical targets, and make other superficial progress. Of greater significance is the degree of commitment that top managers devote to generating high business earnings over the medium to long term. In that sense, I believe that the Corporate Governance Code will bring positive change to Japanese companies from the inside.

There is a proverb that can be roughly translated as, "Ploughing the field but forgetting the seed." That is, even when the most outstanding rules are in place, failing to put them into practice will prevent progress in the desired direction. In that regard, I give TDK high marks for spreading recognition of the importance of governance throughout its entire management level, and the functioning of that governance in an effective manner. The Company took progressive steps in that direction from early on, such as disclosure of the

evaluations of its Board of Directors to the outside. On the business management front as well, TDK has stated its target figures for operating income and ROE in the Medium-Term Plan, with the Board engaging in ongoing deliberations of how best to reach those goals.

This attitude extends to the establishment of global governance as well. On this front, it is my impression that TDK has avoided the passive approach of adopting such governance in appearance alone. Recognition of the crucial need for such controls when deploying global operations has supported progress in this area. TDK has grown its business on the strength of respect for the methods used to hire local personnel and

advance commercial operations. This awareness can be seen in the extensive delegation of authority and consignment of management leadership to local operations, along with the fact that seven out of the 17 corporate officers at TDK are non-Japanese. While the term “diversity” has become a popular buzzword of late, TDK is truly pursuing the essence of “diversity” in the quest to heighten its corporate value. I view that degree of commitment as being rare among Japanese companies. In the near future, furthermore, I believe that we may also very well see non-Japanese appointed to head the top management team or posts close to that level.

**The continuing quest to earn high expectations in the eyes of investors**

**Supporting the TDK mission for dynamic reform through governance**

TDK is on the road to big change. These endeavors are not limited to aggressive M&A, with energetic pushes also underway toward major makeovers in the company’s business portfolio, consolidation and new establishment of its domestic and overseas bases, and on other fronts. One factor fueling this trend is moves by customers to switch from domestic Japanese manufacturers to Asian, North American, and other overseas makers recording striking growth. We have likewise seen increases in emerging overseas corporate ventures successful in innovation and other new category customers. Conventional Japanese business practices and other means used to date are no longer adequate to forge deep ties with such new customers and effectively address their needs. To quickly identify the requirements of customers advancing diversification in quality, delivery and cost, and establish speedy development and production systems, TDK must continue to dedicate itself to the never-ending pursuit of innovation.

Though TDK is bolstering its sales in electronic components for automobiles, today’s demands are not limited to safety alone. The level of electronic components geared for vehicles

built for autonomous driving and other new intelligence, sensors closely matched to mobility systems, and other customer demands directed at our products continues to intensify. To respond to such desires, bold steps must be taken to concentrate the technology, engineering capacity, and other TDK strengths to build systems capable of marketing such developments. I am confident that as it advances this type of process, TDK will succeed in raising the level of its competence overall.

Over these past 20 years, TDK has truly dominated the market in the HDD magnetic heads business. Knowledge of this particular pattern for success is a precious asset. There are ample opportunities for applying the know-how cultivated in HDD magnetic heads and other areas to sensors and actuators, energy units, next-generation electronic components and other strategic growth products. As one of our outside directors, I will continue to keep a keen watch, steeped in high expectations, on just how far TDK can progress in the electronic components industry, a field that has clearly entered a new stage in its development and growth.

**Major Business Risks and Risk Management System**

The TDK Group is active in many markets and regions around the world; overseas sales ratio of the Group has exceeded 90%. In addition, competition in the electronic components industry, to which the Group belongs, is severe due to increased technological innovation. In view of this situation, we have developed the following risk management measures to address major business risks that may significantly affect the TDK Group.

Details of Major Risks	Examples of Risk Management Measures
Changes in economic trends due to global problems and economic fluctuations	<ul style="list-style-type: none"> <li>Collect information on global political and economic developments in a timely manner</li> </ul>
Reduction of sales revenue or operating income due to foreign exchange rate fluctuations	<ul style="list-style-type: none"> <li>Increase purchases of raw materials in foreign currencies and local procurement of materials consumed overseas</li> <li>Procure foreign capital and foreign currency futures contracts</li> </ul>
Impacts from various problems in conjunction with conducting overseas business (international political risks, economic risks, social risks, etc.)	<ul style="list-style-type: none"> <li>Analyze and implement countermeasures to address risks in each country with a focus on global economic developments</li> </ul>
Greater than expected decline in Group product prices and prolonged low prices	<ul style="list-style-type: none"> <li>Continuously implement cost-cutting measures and efforts to raise profitability</li> <li>Identify unprofitable businesses and products and establish criteria for withdrawal</li> </ul>
Failure of continuous technological reform and new product development	<ul style="list-style-type: none"> <li>Review research and development systems based on analysis of market trends on an ongoing basis</li> <li>Manage development to conduct selection and consolidation of development topics</li> </ul>
Occurrence of quality-related problems, such as recalls and product liability claims	<ul style="list-style-type: none"> <li>Use proprietary quality technology and previously accumulated quality data</li> <li>Create quality assurance systems to ensure quality, from upstream development stages through to design reviews, internal quality inspections, supplier audits and guidance, and process management at every product stage, including planning, design, prototyping, and manufacturing</li> </ul>
Occurrence of major disputes regarding intellectual property	<ul style="list-style-type: none"> <li>Reinforce utilization of patent portfolio through management and acquisition of intellectual property rights relating to product functions, designs, etc.</li> </ul>
Inability to recruit and develop human resources as planned	<ul style="list-style-type: none"> <li>Actively recruit recent graduates and hire mid-career, experienced human resources</li> <li>Create programs intended to raise employee motivation, including enhancement of fair evaluation and benefits programs based on a goal-oriented management system; expand various educational programs intended to develop autonomous and global human resources; and transmit TDK’s <i>Monozukuri</i> DNA</li> </ul>
Suspension of supplies of raw materials, etc., or extreme increases in raw materials prices	<ul style="list-style-type: none"> <li>Purchase raw materials, among others, from multiple outside suppliers and create production systems premised on securing appropriate quantities in a timely manner</li> <li>Appropriately review suppliers</li> </ul>
Stricter regulatory restrictions by government agencies	<ul style="list-style-type: none"> <li>Continuously monitor related regulatory amendment trends, among others</li> </ul>
Impacts on the value of financial assets and financial liabilities from fluctuations in interest rates	<ul style="list-style-type: none"> <li>Use interest rate swaps to fix amounts of interest paid</li> <li>Maintain current assets at 2.0 months or more of consolidated monthly net sales</li> </ul>
Substantial reduction or termination of business as a result of deterioration of a customer’s financial performance or acquisition of a customer by a third party	<ul style="list-style-type: none"> <li>Conduct business with a variety of customers and set trading terms taking into consideration customer credit risks</li> </ul>
Occurrence of a natural disaster, interruption of power supplies, or epidemic	<ul style="list-style-type: none"> <li>Establish highly detailed business continuity plans</li> <li>Implement disaster preparedness measures and infectious disease control measures to prepare for unexpected natural disasters or epidemics and install generating facilities to prepare for electric power shortages</li> </ul>
Application of stricter environmental regulations	<ul style="list-style-type: none"> <li>Continuously monitor trends regarding revision of relevant regulatory systems and take countermeasures in advance</li> <li>Develop products and manufacturing methods with minimal environmental impact</li> <li>Undertake a range of environmental preservation measures</li> </ul>
Problems relating to mergers and acquisitions, including inability to recover invested funds and the occurrence of additional expenses	<ul style="list-style-type: none"> <li>Implement M&amp;As taking into consideration market trends and customer needs; the business results, financial status, technological superiority, and market competitiveness of target companies; and the Group’s business portfolio</li> </ul>
Data breaches concerning confidential information of customers and business partners	<ul style="list-style-type: none"> <li>Create and thoroughly implement Group wide management systems, reinforce IT security and facility security, and conduct employee training</li> </ul>

**Directors, Audit & Supervisory Board Members, and Corporate Officers** (As of June 29, 2016)

**Directors**



**Takehiro Kamigama**

Representative Director  
Chairman  
Number of shares held:  
10,000 shares



**Shigenao Ishiguro**

Representative Director  
President and CEO  
General Manager of Manufacturing HQ  
General Manager of Humidifier  
Countermeasures HQ of the Company  
Number of shares held:  
1,800 shares



**Noboru Saito**

Director  
General Manager of the Corporate  
Strategy HQ  
Number of shares held:  
3,200 shares



**Tetsuji Yamanishi**

Director  
General Manager of Finance &  
Accounting Group  
Number of shares held:  
1,000 shares



**Makoto Sumita**

Outside Director  
Chairman of the Board  
Chairman of Nomination Advisory  
Committee  
Number of shares held:  
– shares

**Summary of career**  
Born on Jan. 6, 1954  
Apr. 1980 Entered Nomura Research  
Institute, Ltd.  
Jun. 1996 Director of INNOTECH  
CORPORATION  
Apr. 2005 Executive Vice President &  
Representative Director of said  
company  
Jun. 2005 Director of IT Access Co., Ltd.  
Apr. 2007 President & CEO of INNOTECH  
CORPORATION  
Jun. 2011 Outside Audit & Supervisory  
Board Member of the Company  
Apr. 2013 Chairman & CEO of INNOTECH  
CORPORATION (present post)  
Jun. 2013 Resigned as Outside Audit &  
Supervisory Board Member of  
the Company  
Outside Director of the Company  
(present post)  
Feb. 2015 Chairman & CEO of INNOTECH  
FRONTIER, Inc. (present post)



**Kazumasa Yoshida**

Outside Director  
Chairman of Compensation Advisory  
Committee  
Number of shares held:  
– shares

**Summary of career**  
Born on Aug. 20, 1958  
Oct. 1984 Entered Intel Corporation  
Oct. 1999 Manager of Technology/OEM  
Alliance Business Strategy of  
Enterprise Service Group of  
said company  
Mar. 2000 General Manager of  
Communication Product Group  
of Intel K.K.  
May 2002 General Manager of Intel  
Architecture Business of said  
company  
Jun. 2003 Representative Director and  
President of said company  
Dec. 2004 Vice President of Sales and  
Marketing Group of Intel  
Corporation  
Jun. 2012 Outside Director of Onkyo  
Corporation (present post)  
Feb. 2013 Outside Director of Gibson  
Brands, Inc. (present post)  
Jun. 2013 Outside Director of CYBERDYNE  
Inc. (present post)  
Oct. 2013 Advisor of Intel K.K.  
Jun. 2014 Outside Director of the  
Company (present post)  
Jun. 2015 Outside Director of Mamezou  
Holdings Co., Ltd. (present post)



**Kazuhiko Ishimura**

Outside Director  
Member of Nomination Advisory  
Committee  
Member of Compensation Advisory  
Committee  
Number of shares held:  
– shares

**Summary of career**  
Born on Sep. 18, 1954  
Apr. 1979 Entered ASahi GLASS CO., LTD.  
Jan. 2006 Executive Officer of said  
company  
Jan. 2007 Senior Executive Officer and  
GM of Electronics & Energy  
General Division of said  
company  
Mar. 2008 President & COO and  
Representative Director of said  
company  
Jan. 2010 President & CEO and  
Representative Director of said  
company  
Jan. 2015 Chairman & Representative  
Director of said company  
(present post)  
Jun. 2015 Outside Director of the  
Company (present post)

**Audit & Supervisory Board Members**



**Osamu Yotsui**

Full-time Audit & Supervisory  
Board Member  
Number of shares held:  
2,800 shares



**Junji Yoneyama**

Full-time Audit & Supervisory  
Board Member  
Number of shares held:  
2,000 shares



**Kazunori Yagi**

Outside Audit & Supervisory  
Board Member  
Number of shares held:  
– shares

**Summary of career**  
Born on Apr. 1, 1949  
Apr. 1972 Entered Yokogawa Electric  
Corporation  
Oct. 1999 Vice President (Officer) and  
General Manager of Finance &  
Business Planning, in charge of  
Corporate Marketing of said  
company  
Apr. 2001 Senior Vice President and  
General Manager of Finance &  
Business Planning of said  
company  
Jun. 2001 Director, Senior Vice President  
and General Manager of  
Finance & Business Planning  
of said company  
Jul. 2002 Director, Executive Vice  
President and General  
Manager of Finance &  
Business Planning of said  
company  
Jul. 2005 Director, Executive Vice  
President and General  
Manager of Management  
Administration Headquarters of  
said company  
Jun. 2011 Advisor to said company,  
Outside Audit & Supervisory  
Board Member of Yokogawa  
Bridge Holdings Corporation  
(present post)  
Jun. 2012 Outside Director of JSR  
Corporation (present post)  
Jun. 2013 Outside Audit & Supervisory  
Board Member of the Company  
(present post)  
Mar. 2014 Outside Director of OYO  
Corporation (present post)



**Toru Ishiguro**

Outside Audit & Supervisory  
Board Member  
Number of shares held:  
– shares

**Summary of career**  
Born on Jun. 19, 1954  
Apr. 1980 Registered as lawyer in Japan  
Joined Hamada & Matsumoto  
Apr. 1984 Registered as lawyer in  
New York, the United States of  
America  
Jan. 1985 Partner of Hamada &  
Matsumoto  
Sep. 1987 Resident Partner of the London  
office of Hamada & Matsumoto  
Jun. 2000 Outside Corporate Auditor of  
Monex Securities Ltd.  
Dec. 2002 Partner of Mori Hamada &  
Matsumoto (present post)  
Jun. 2015 Outside Audit & Supervisory  
Board Member of the Company  
(present post)  
Jul. 2015 Outside Director of Daiwa Asset  
Management Co. Ltd.



**Kiyoshi Fujimura**

Outside Audit & Supervisory  
Board Member  
Number of shares held:  
– shares

**Summary of career**  
Born on Nov. 3, 1949  
Apr. 1972 Entered Mitsubishi Corporation  
Feb. 2002 Member of the Board,  
President and CEO of  
Mitsubishi Corporation  
Financial & Management  
Services (Japan) Ltd.  
Jun. 2003 Senior Corporate Auditor of  
Mitsubishi Corporation  
Jun. 2007 Senior Vice President of said  
company, CIO & CISO and  
Senior Assistant to person in  
charge of Work Restructuring &  
Internal Control System  
Apr. 2008 Executive Vice President of said  
company, CIO, Work  
Restructuring & Internal  
Control System  
Jun. 2008 Member of the Board,  
Executive Vice President of said  
company, CIO, Work  
Restructuring & Internal  
Control System  
Apr. 2009 Member of the Board,  
Executive Vice President of said  
company, Work Restructuring  
& Internal Control System,  
IT Service Business  
Development, CIO  
Apr. 2010 Member of the Board,  
Executive Vice President of said  
company, Audit & Internal  
Control System  
Jun. 2012 Adviser of said company,  
Outside Corporate Auditor of  
AJINOMOTO CO., INC.  
(present post)  
Jun. 2015 Outside Audit & Supervisory  
Board Member of the Company  
(present post)

**Corporate Officers**

**President and CEO**

Shigenao Ishiguro

**Senior Executive Vice President**

Hiroyuki Uemura

**Executive Vice President**

Atsuo Kobayashi

**Senior Vice Presidents**

Seiji Osaka

Noboru Saito

Joachim Zichlarz

**Corporate Officers**

Takakazu Momozuka

Mitsuru Nagata

Joachim Thiele

Keiichi Imamoto

Satoru Sueki

Christian Block

Norbert Hess

Michael Pocsatko

Hong Tian

Tetsuji Yamanishi

Albert Ong