

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 conducted research and development programs in ferrite and a variety of other electronic materials and components. This drive was based on the company's founding spirit: "Contributes to culture and industry through creativity."

To preserve its identity as a dynamic company, TDK is dedicated to creating value for all stakeholders 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.

2. Fundamental Policy for Distribution of Earnings

Returning earnings to shareholders is one of TDK's highest management priorities. As such, TDK allocates earnings based on a broad range of factors including the return on equity (ROE), dividends on equity (DOE) and the company's performance. Retained earnings are used in many ways to make TDK more competitive. Funds are required to support research and development programs to respond to the rapid technological advances in the electronics industry. TDK must create new technologies in such fields as optical and magnetic recording media, mobile communications, large-capacity recording devices, semiconductor-related products and data communications. In addition, TDK works to develop new products and technologies to respond to the increasingly borderless nature of markets.

3. Medium- and Long-Term Management Strategy

Information technology, notably the Internet, is bringing about dramatic increases in the speed at which companies must act. At the same time, market participants are now able to quickly distinguish between products of value and those offering no value. We have entered an age when only companies able to provide genuine value will survive. TDK is taking a fresh look at its unique attributes and strengths. By further refining specialized skills in these areas, TDK intends to become a company capable of increasing its value in the 21st century.

To meet the challenges of this operating environment, TDK launched its Exciting 108 medium-term management plan in April 2000. Scheduled to end in March 2004, the plan is structured to transform TDK into an exciting company and increase TDK's value. There are three fundamental elements:

(1) Become an e-material solution provider

TDK must be a speedy and dynamic company able to anticipate the needs of its customers. By drawing on its core expertise in electronic materials, TDK will then quickly formulate the value-added products required to solve customers' problems. This process is the essence of

providing e-material solutions. During Exciting 108, priority will be placed on recording and communications.

(2) Build a world-class management system

Management systems just as businesses themselves are becoming increasingly borderless. Personnel management practices are also on the verge of dramatic change. TDK needs to move swiftly to implement the necessary management systems.

(3) Aim for zero emissions

TDK's goal is to operate "eco-factories" with zero emissions. Doing so mandates that factories generate less waste, use more recycled materials and expand their own recycling. Eventually, TDK wants to reach the point where its plants rely completely on recycled materials and generate zero emissions.

By accomplishing these three objectives, TDK intends to maximize its corporate value, bring its activities in closer step with the environment and make greater contributions to society.

While TDK intends to adhere closely to the above policies, the difficult nature of its markets at present mandates that the company respond flexibly when implementing them.

4. Corporate Ethics

Fully aware that unethical acts can compromise a company's ability to continue doing business, TDK has in place a corporate code of ethics. TDK is committed to upholding corporate ethical standards and improving risk management.

5. Strategy to Improve Corporate Governance

Improving the soundness and transparency of the company and increasing shareholder value is partly dependent on improving corporate governance. That's why TDK has implemented the following measures, which were approved at its ordinary annual general meeting of shareholders on June 27, 2002 and at a subsequent meeting of the Board of Directors.

- (1) Energizing the Board of Directors: To strengthen the Board's supervisory functions, the company appointed 1 outside director and reduced the number of directors from 12 to 7.
- (2) Introduced the Post of Corporate Officer: TDK introduced a corporate officer system, which involved the appointment of 18 corporate officers, with the view to improving execution of day-to-day operations and raising management efficiency. The introduction of this system is intended to speed up decision-making by delegating greater authority to corporate officers and to clearly define responsibilities and authority with respect to the execution of day-to-day operations.
- (3) Established a Compensation Advisory Committee: Chaired by the outside director, a Compensation Advisory Committee, made up of the corporate officer in charge of personnel and outside experts, was formed to act as an advisory organ to the Board of Directors. And to align the interests of directors and corporate officers with those of shareholders, TDK introduced a remuneration system that more closely links pay with business results by increasing the weight of performance-linked compensation. TDK

will also cease providing for retirement allowances for directors. Furthermore, corporate officers as well as high-ranking managers of group companies have been made eligible to receive stock options, which were previously granted only to directors and high-ranking managers of the parent company.

6. Policy Regarding Reduction of TDK's Share Trading Unit

On August 1, 2000, TDK reduced the trading unit of its common share from 1,000 to 100 shares to broaden the shareholder base and increase the liquidity of the company's shares. TDK will consider a further reduction of the trading unit based on its stock price and market needs as well as on cost-benefit analysis. As of the present time, TDK has no firm plan or specific date in mind for a further reduction in the trading unit.