

## **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 also conducted research and development programs in respect of electronic materials, components and devices, as well as recording media. 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 in good quality.

### **(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 as a percentage of equity (DOE) and the company's results of operation. Retained earnings are used in many ways to make TDK more competitive. Funds are required to support research and development programs for new technologies and products to respond precisely to the rapid technological advances in the electronics industry. TDK must create new technologies and products in such fields as optical and magnetic recording media, mobile communications, large-capacity recording devices, semiconductor-related products and data communications. At the same time, TDK works to advance its operations on the international stage.

### **(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 are now in 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 its core competencies, 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:

#### **I. 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.

#### **II. 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.

#### **III. 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 intends to reach the point where its plants rely completely on recycled materials and generate no emissions at all.

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.

#### **(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. The corporate code of ethics demonstrates TDK's commitment to constantly upholding corporate ethical standards and improving risk management.

#### **(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, 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 external directors, 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 "hotline" that encourages employees to report matters and offer suggestions relating to corporate ethics. 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.

While TDK applies the Corporate Auditor System in accordance with the Commercial Code of Japan, 2 of its 4 corporate auditors come from outside the company. The role of corporate auditor is not restricted to the supervision of directors' activities. As required, they also audit business activities, as does the Management Review & Support Department.

Another defining aspect of TDK's corporate governance system is that it receives advice and warnings 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 two outside corporate auditors.

##### **(5-3) Measures taken to enhance corporate governance in fiscal 2003**

TDK established the Remuneration Committee, which is chaired by the outside director, with the aim of establishing a new remuneration structure for directors and to ensure that TDK's remuneration policy is fairly managed. The committee held 5 meetings during fiscal 2003 that were also attended by specialists from outside the company. As a result of the committee's activities, TDK has ceased providing for retirement allowances for directors, but has introduced stock options and established a new bonus system linked to business results for directors. Another governance development was the establishment of the Corporate Ethics Committee to create a framework for corporate ethics and to ensure that ethical standards are being upheld at TDK. A framework has been completed and a corporate ethics system

established that encompasses overseas subsidiaries. The chairperson of the Corporate Ethics Committee himself has educated staff at all bases and subsidiaries throughout Japan on TDK's corporate ethics framework.

**(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 cost-benefit analysis.