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, among other products. 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. Therefore, TDK's fundamental policy is to give consideration to a consistent increase in dividends based on factors such as the return on equity (ROE), dividends as a percentage of equity (DOE) and the company's results of operations on a consolidated basis.

Retained earnings are used to make aggressive investments for growth, mainly in the development of new products and technologies in key fields so as to respond precisely to the rapid technological advances in the electronics industry.

(3) Policy Regarding Reduction of TDK's Share Trading Unit

TDK believes that its shares now have sufficient liquidity. However, TDK will consider a reduction of the trading unit in the future based on its stock price, market needs and other factors 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, to which TDK belongs, is becoming extremely competitive as the advent of a full-fledged digital age shortens product lifespans. To achieve growth in the future in this operating environment, TDK must deliver new products that the market demands, without delay, precisely when those products are needed, while keeping a close eye on market movements. With this in mind, over the medium term, TDK will increase the share of sales of new products in consolidated net sales and execute various initiatives to drive growth.

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 core electronic materials and components business.

Strengthening its operations in this way is thus an important theme at TDK. TDK is also reaffirming the importance of coexisting with society as a responsible corporate citizen by conducting its own social activities based on two key corporate philosophies: “Creativity” and “Culture.” Furthermore, TDK will comply with the U.S. Sarbanes-Oxley Act of 2002 and all other applicable laws and regulations and it strengthens corporate governance.

(5) Pressing Issues

From a medium-term perspective, the electronics industry, TDK’s field of operations, is expected to see the growth of digital home appliances, the convergence of information and communications, as typified by the increasingly diverse functions offered by mobile phones, and the greater use of electronics in motor vehicles. These trends are expected to result in continued expansion in demand for the electronic components that TDK develops, manufactures and sells.

At the same time, however, in the dynamically changing electronics industry, a faster response than ever before will be required by the company’s electronic components business. TDK has continuously reformed and improved the structure of its businesses, but it believes that responding to the changes in the electronics industry requires making this process of reform and improvement an ongoing drive. Furthermore, in the digital era of the electronics industry, falling prices due to stiffer competition with new products, greater inventory risk and other challenges are unavoidable. Nevertheless, TDK is determined to be a company that can surmount these challenges and grow. And, to remain an attractive and exciting company, TDK aims to grow by creating greater value. In this vein, TDK will refine its core technologies (materials, process and evaluation & simulation technologies) while honing in on three key fields that it believes harbor prospects for growth: IT home electronics; high-speed, large-capacity networks; and car electronics. Increasing the company’s ability to generate earnings by supplying products and technologies imbuing value that these markets demand on a timely basis is a key issue. Moreover, TDK will take on the challenge of advancing along a growth trajectory while making investments that are prudent yet aggressive.

(6) Basic Stance on and 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 internal control systems 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 outside corporate auditors; involving people outside the company in setting directors’ remuneration; and building a corporate ethics system, in which reports are submitted directly to the Board of Directors, that includes education and diffusion programs and other activities.

(6-1) Management structure and other corporate governance systems concerning decision-making, strategy execution and supervision

TDK has adopted the corporate auditor system within the meaning of the Commercial Code of Japan, with three of its five corporate auditors coming from outside the company. Furthermore, one of TDK's seven directors is an outside director. 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.

Two full-time corporate auditors, three part-time corporate auditors and two staff members perform audits. The corporate auditors examine the performance of directors mainly from the perspective of legality by inspecting departments, examining important documents and attending important meetings. Collaboration among corporate auditors involves submitting reports and holding discussions at monthly meetings of the Board of Corporate Auditors.

The nine-member Management Review & Support Dept., an internal audit organization that reports to the CEO of TDK, carries our periodic audits and offers support from the perspective of the consistency of business execution and management policy and the rationality of management efficiency. In the period under review, the department proceeded to comply with the U.S. Sarbanes-Oxley Act of 2002, which requires companies to undertake self-evaluations of the establishment and operation of internal control systems.

Two certified public accountants, Seiichi Sasa and Hideaki Koyama, who belong to the independent registered public accounting firm KPMG AZSA & Co., conduct financial audits of the company. Nine accountants, eleven assistant accountants and four other staff also assist in these audits.

The corporate auditors, Management Review & Support Dept. and independent auditors hold regular meetings to share information about their respective audit plans and results as well as conduct audits. The Board of Corporate Auditors receives audit reports twice a year (interim and year-end) from the independent auditors and discusses these reports as well as evaluates the audits of the independent auditors.

To ensure the transparency of directors' remuneration, TDK has introduced bonuses linked to the company's results and, at the same time, has the outside director serve as chairperson of the Compensation Advisory Committee. Moreover, to ensure corporate ethical standards are upheld, a Business Ethics & CSR Committee was established at TDK and ethics councils were formed at domestic and overseas subsidiaries. These actions are part of ongoing efforts to build a global corporate ethics management framework that also encompasses domestic and overseas subsidiaries. To monitor the state of compliance with corporate ethical standards, a "helpline" has been established, creating an internal system that encourages employees to report matters involving corporate ethics and to offer suggestions.

The Compensation Advisory Committee and Business Ethics & CSR Committee report directly to the Board of Directors.

Another defining aspect of TDK's corporate governance system is the ability to receive 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 at 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 as well as domestic subsidiaries. Activities are ongoing to oversee and refine this system. Because TDK is listed on the New York Stock Exchange, it is subject to the U.S. Sarbanes-Oxley Act of 2002, an extremely strict law relating to corporate governance that was prompted by a series of scandals involving U.S. companies. To comply with this law, a project team that includes outside experts is undertaking a fundamental review of and rebuilding corporate systems, including those of subsidiaries. At the same time, TDK continues to identify and take countermeasures against risk factors associated with its business activities. In addition, TDK restricts the work that is outsourced to independent auditors so as to preserve their impartiality and independence.

(7) Matters Relating to the Parent Company

Not applicable.