

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 TDK'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.

(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 advances in mobile devices, and the greater use of electronics in motor vehicles. These trends are expected to result in continued expansion in demand for electronic components. In other words, there are strong prospects for growth in TDK's electronic components business as there are many business opportunities. Accordingly, a major theme for the TDK Group under these circumstances is to take full advantage of this potential, turning it into growth as quickly as possible. The electronics industry is defined by dynamic technological innovation and thus constantly requires a fast response from TDK's electronic components business. Timely and appropriate investment and business structural reforms are also constantly required. TDK has continuously reformed and improved the structure of its businesses. Indeed, TDK 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, rapid shifts in demand and the resulting risks associated with excess inventories and the loss of sales opportunities, and other challenges are unavoidable. Nevertheless, TDK is determined to build a framework to respond adequately to these business risks and remain a company that can 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 accelerate its growth by making investments that are prudent yet aggressive.

While taking these actions to reinforce its businesses, TDK also recognizes fulfillment of its corporate social responsibility as an important theme. As a corporate citizen, TDK is rededicating itself to prospering together with society. With this in mind, the company will actively conduct unique community and charitable activities as well as environmental activities based on a corporate philosophy that is rooted in the principles of "Creativity" and "Culture." Moreover, TDK will further upgrade its compliance program to ensure awareness of the TDK Code of Ethics, which prescribes concrete standards and guidelines for complying with all laws, regulations and social norms.

(6) Basic Stance on Corporate Governance

Based on the recognition that its existence is dependent on shareholders, customers, suppliers, employees and society, TDK has put in place the following management systems for the purposes of ensuring the legal compliance, transparency and soundness of management and of achieving management goals.

- 1) To strengthen the role of the Board of Directors and increase accountability, TDK has a small number of directors (seven) and there is one outside director, who has no conflicts of interest with TDK. Furthermore, the term of directors is one year.
- 2) The adoption of the corporate officer system expedites business execution by separating management decision-making and oversight from functions involving business execution.
- 3) TDK has adopted the corporate auditor system as provided for by Japan's Corporate Law and, to strengthen the management oversight function, a majority of these corporate auditors (three of the five auditors) are from outside TDK, having no conflicts of interest with the company.
- 4) TDK has established the Business Ethics & CSR Committee, Disclosure Committee and Compensation Advisory Committee as advisory bodies to the Board of Directors. Regarding the Business Ethics & CSR Committee, in July 2005 TDK established a CSR Task Force as a unit of its Business Ethics Committee. The task force is made up of individuals who play various roles in the execution of CSR activities. Due to this change, the committee was renamed the Business Ethics & CSR Committee. This action gives TDK the means to make further progress in strengthening corporate governance and upgrading the quality of management.

(7) Matters Relating to the Parent Company

Not applicable