

Basic Views on Corporate Governance

This is an English translation of Basic Views on Corporate Governance including Disclosure Based on the Principles of the Corporate Governance Code (Excerpt from the Corporate Governance Report filed with the Tokyo Stock Exchange on December 5, 2018).

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The status of the corporate governance of TDK Corporation (“TDK”) is as mentioned below.

I Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information

1. Basic Views

The basic views to achieve sustainable corporate growth and increase of corporate value over mid-to long-term of the corporate group of TDK (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 supplies 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 to the society 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 Directors, Audit & Supervisory Board Members, Corporate Officers and employees constituting 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.

TDK has established “TDK Basic Policy on Corporate Governance” as its basic views and policy regarding corporate governance of TDK, which is posted on the website of TDK.

■TDK Basic Policy on Corporate Governance

http://www.global.tdk.com/ir/tdk_management_policy/governance/

[Reasons for Non-compliance with the Principles of the Corporate Governance Code]

[Update]

[Principle 4.11 Preconditions for Board of Directors and Audit & Supervisory Board Effectiveness]

Directors are examined and nominated by the Nomination Advisory Committee based on the balance among knowledge, experience and skills as well as the diversity so that they can fulfill their roles and responsibilities effectively. Thus far, Outside Directors have been elected among human resources who have diverse experience and expertise such as corporate managers, lawyers, etc. and Outside Audit & Supervisory Board Members have been elected among human resources who have diverse experience and expertise such as corporate managers, lawyers, accountants, etc.

TDK does not have female Directors at present. TDK is aware of issues relating to gender diversity and considering to secure female Directors.

[Disclosure Based on the Principles of the Corporate Governance Code] [Update]

The following item is updated in response to the amendment to the Corporate Governance Code in June 2018, etc.

[Principle 1-4 Cross-Shareholdings]

[Principle 2-6 Roles of Corporate Pension Funds as Asset Owners]

[Principle 3-1 (4) Board policies and procedures in the appointment/dismissal of the senior management and the nomination of director and audit & supervisory board member candidates]

[Supplementary Principle 4-11-1 Preconditions for Board of Directors and Audit & Supervisory Board Effectiveness (View on Balance, Diversity and Appropriate Board Size)]

[Principle 1-4 Cross-Shareholdings]

TDK’s basic policy regarding cross-shareholdings is to consistently enhance corporate value of the

TDK Group through such shareholdings and TDK holds shares of other companies for the purpose of either (1) strategic shareholding for the development of its business or (2) maintenance and improvement of business relationships.

As to cross-shareholdings, TDK verifies the rationality of continuous holding of such shares and the number of such shares, etc. stock by stock every year at Meetings of the Board of Directors, etc. based on the purpose of such shareholding, situation of transactions, profitability relative to the cost of capital, financial condition, etc., and if the necessity to hold shares of a particular stock has decreased, TDK discusses and negotiates with the issuing company of the stock and promotes the reduction through sale, etc. of such shares.

In exercising voting rights as to its cross-shareholdings, TDK determines to approve or disapprove with full respect for the issuing company's management policies, etc. and considering whether the proposal is appropriate in light of the purpose of strategic shareholding for the development of TDK's business or maintenance and improvement of business relationships, whether the proposal can continuously increase the corporate value of TDK, the issuing company's social responsibilities, whether there is any act which may harm the trust of shareholders, etc. Also, TDK conducts a dialogue with the issuing company regarding the content of the proposal, etc. as appropriate.

[Principle 1-7 Related Party Transactions]

The TDK Group stipulates in the "TDK Code of Conduct" that directors, officers and employees of the TDK Group should avoid any situations that may involve or even appear to involve conflicts between their personal interests and the interests of the TDK Group, and in case that any such situation may arise, each of them must make prompt and full disclosure in writing to his or her supervisor or manager. At the same time, Directors are prohibited from conducting any transactions for the benefit of his/herself or any third parties without an approval from TDK under the Regulations of the Directors' Business.

Directors and Corporate Officers are required to give prior notice to the Board of Directors regarding their conflicts of interest transactions. Also, the Board of Directors reinforces monitoring by inspecting transactions between TDK and Director, Audit & Supervisory Board Member or any of his/her relative within the second degree through "Confirmation on Disclosure Information of Directors and Audit & Supervisory Board Members" once a year and attempting to assess actual conditions of other companies at which Director or Audit & Supervisory Board Member holds any concurrent position.

Further, the Audit & Supervisory Board regularly confirms conflicts of interest issues with Directors and Corporate Officers.

The TDK Group has no shareholders which fall under major shareholders, etc.

[Principle 2-6 Roles of Corporate Pension Funds as Asset Owners]

TDK manages corporate pension funds through TDK Pension Fund (the “Fund”).

TDK selects and allocates to the Fund human resources who have appropriate credentials for managing corporate pension funds and contributes to a proper management system. Also, TDK has established a structure in which the Fund and labor union, etc. collaboratively control and supervise the management of corporate pension funds in order to manage conflicts of interest which may arise between corporate pension beneficiaries and TDK appropriately.

The Fund establishes a policy asset mix and manages corporate pension funds from a mid- to long-term perspective applying advice from management consultants, in order to secure earnings over the long term for ensuring that pension benefits are paid to the beneficiaries into the future.

The Fund conducts comprehensive evaluations of the asset managers, including not only quantitative evaluation of their performance, etc. but also qualitative evaluation of their investment policy, operational process, compliance, etc., through quarterly regular management reporting meetings.

[Principle 3-1 Full Disclosure]

(1) Company objectives (*e.g.*, business principles), business strategies and business plans

TDK was established in 1935 as the world’s first company to industrialize a magnetic material called ferrite. Since then, TDK has been developing and commercializing electronic components and other products. This drive has been based on TDK’s founding spirit “Contribute to culture and industry through creativity” as its Corporate Motto.

To preserve its identity as a dynamic company, TDK believes that it must remain an organization that constantly provides even higher corporate value to all stakeholders, including shareholders, customers, suppliers, employees and society, by drawing on innovative thinking and a willingness to tackle new challenges. TDK has formulated its corporate strategy and a three-year, medium-term management plan based on such management policy.

The details are posted on the website of TDK.

■TDK’s Corporate Motto

http://www.global.tdk.com/about_tdk/corporate_motto/

■TDK’s Management Policy (Including Medium- and Long-Term Management Strategy and Three-Year, Medium-Term Management Plan)

https://www.global.tdk.com/corp/en/ir/tdk_management_policy/index.htm

(2) Basic views and guidelines on corporate governance based on each of the principles of the Code
TDK has established “TDK Basic Policy on Corporate Governance” as its basic views and policy regarding corporate governance of TDK, which is posted on the website of TDK.

■TDK Basic Policy on Corporate Governance

http://www.global.tdk.com/ir/tdk_management_policy/governance/

(3) Board policies and procedures in determining the remuneration of the senior management and

directors

“Policies in determining the remuneration of Directors and Corporate Officers”

TDK designed its remuneration system for the purpose of promoting as much as possible behavior on the part of Directors and Corporate Officers geared towards enhancing corporate results and stock value and constantly increasing the corporate value of the overall TDK Group by constantly pursuing the formulation of a competitive remuneration system to secure diverse and excellent human resources that focuses on linkage with short-term as well as medium- to long-term results.

The remuneration of Directors and Corporate Officers is comprised of (i) basic remuneration, (ii) results-linked bonus as a short-term performance linkage system and (iii) stock-linked compensation stock options as a medium- to long-term performance linkage system.

Results-linked bonus is designed to fluctuate in accordance with the consolidated operating results in a single year (operating income, ROE) and the degree of attainment against target values in the business of which each Director or Corporate Officer is in charge. As to a part of stock-linked compensation stock options, performance conditions are added to the conditions for exercising stock options for the purpose of further increasing the linkage between remuneration for Directors and Corporate Officers and TDK’s medium- to long-term performance and corporate value.

The ratio of performance-linked remuneration (in case of the standard payment) to basic remuneration for Directors will be as provided below.

Basic Remuneration: Results-Linked Bonus: Stock-Linked Compensation Stock Options

1: 0.6: 0.7

“Procedures in determining the remuneration of Directors and Corporate Officers”

TDK has in place a Compensation Advisory Committee acting as an advisory body to the Board of Directors, which is chaired by an independent Outside Director and of which half or more of the members are composed of independent Outside Directors. The Committee examines the remuneration system and the level of remuneration pertaining to Directors and Corporate Officers of TDK and contributes to the securement of transparency of the remuneration decision-making process and appropriateness of individual remunerations in light of corporate business performance, individual performance and general industry standards, among other factors.

The remuneration of Directors and Corporate Officers of TDK is discussed by the Compensation Advisory Committee and resolved by the Board of Directors.

The details are posted on the website of TDK.

■Policies and Procedures in Determining the Remuneration of Directors and Corporate Officers of TDK

http://www.global.tdk.com/ir/tdk_management_policy/governance/remuneration/

(4) Board policies and procedures in the appointment/dismissal of the senior management and the

nomination of director and audit & supervisory board member candidates

TDK has in place a Nomination Advisory Committee as an advisory body to the Board of Directors which is chaired by an independent Outside Director and of which half or more of the members are composed of independent Outside Directors.

This Nomination Advisory Committee discusses the conditions expected with regard to nominations for the posts of Director, Audit & Supervisory Board Member and Corporate Officer and makes nominations. In this way, it helps ensure the appropriateness of the elections of Directors, Audit & Supervisory Board Members and Corporate Officers, and the transparency of the decision-making process.

The independence of Outside Directors and Outside Audit & Supervisory Board Members are determined in accordance with the “Items to be verified regarding independence” established by TDK.

The Nomination Advisory Committee deliberates on the appropriateness of the policy for nomination of Directors and Corporate Officers, etc. and determines on the eligibility of Directors and Corporate Officers when they are newly appointed or reappointed on an annual basis. Also, the standards and procedures for dismissal of Directors and Corporate Officers during their term of office are provided in the Regulations of the Directors’ Business and the Regulations of the Corporate Officers’ Business.

(5) Explanations with respect to the individual appointments/dismissals and nominations based on (4)

As to the explanations with respect to the individual appointments/dismissals and nominations, please see the Notice of Convocation of Shareholders Meeting posted on the website of TDK.

■ Notice of Convocation of the 122nd Ordinary General Meeting of Shareholders

http://www.global.tdk.com/ir/ir_events/general/122_1.htm

[Supplementary Principle 4-1-1 Roles and Responsibilities of the Board (1) (Scope and Content of the Matters Delegated to the Management)]

Matters to be resolved or reported at the Meeting of the Board of Directors are stipulated in the Regulations of the Board of Directors. Such matters include management policies, business plans, and important corporate acquisitions. Particular delegations of business execution authorities are stipulated in the Job Authority Regulations and the scope of the matters delegated is clarified thereby.

While matters required to be resolved at the Meeting of the Board of Directors under applicable laws and regulations or the Articles of Incorporation and decisions on important business execution shall be resolved at the Meeting of the Board of Directors, certain matters are delegated to the management (Corporate Officers) under the Job Authority Regulations to accelerate decision-making

according to changes in the business environment.

[Principle 4-8 Effective Use of Independent Directors]

TDK's basic policy is to elect independent Outside Directors which account for one-third or more of the Directors, and at present, three out of seven Directors are independent Outside Directors.

Independent Outside Directors advise on TDK's business in general from an independent standpoint based on their abundance of experience and broad perspective, and play a role to enhance the function of management decision-making and supervision.

Also, an independent Outside Director serves as chair of the Board of Directors as part of TDK's efforts to enhance corporate governance.

Further, TDK has in place a Nomination Advisory Committee and Compensation Advisory Committee as an advisory body to the Board of Directors to enhance independence, objectivity and accountability of the function of the Board of Directors regarding nomination and compensation of Directors and Corporate Officers. At present, more than half of the members of each Committee are composed of independent Outside Directors and each Committee is chaired by an independent Outside Director.

[Principle 4-9 Independence Standards and Qualification for Independent Directors]

In order to secure the independence of the Outside Directors and Outside Audit & Supervisory Board Members TDK invites, TDK has established the "Items to be verified regarding independence" of TDK with reference to such criteria as Rule 436-2 of the Securities Listing Regulation regarding securing independent Directors/Audit & Supervisory Board Members and Rule III. 5. (3)-2 of the Guidelines Concerning Listed Company Compliance, both of which are stipulated by Tokyo Stock Exchange, Inc. The outline of these items is as follows.

■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 a party, or if (ii) below applies to them.

(i) Where it is recognized, objectively and reasonably, that such business relationship is necessary for, or has a substantial influence on, the continued operation of the TDK Group or the other party to such business relationship (where there is a high degree of dependence in the relationship, where the relationship is the source of 2% or more of consolidated net sales, or where the other party to the relationship receives money or other assets from the TDK Group other than remuneration for

Director/Audit & Supervisory Board Member)

(ii) Where it is recognized within the TDK Group that the relevant Outside Director/Audit & Supervisory Board Member is involved in a business relationship with the other party to such business 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 Director/Audit & Supervisory Board Member 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) Where 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 Director/Audit & Supervisory Board Member because they receive money or other assets from the TDK Group other than remuneration for Director/Audit & Supervisory Board Member (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 Director/Audit & Supervisory Board Member because an organization to which such person belongs (hereinafter the "Relevant Organization") receives money or other assets from the TDK Group other than remuneration for Director/Audit & Supervisory Board Member (where this income is equivalent to 2% or more of total consolidated net sales)

(iii) Where the TDK Group has a high degree of dependence on a professional or a Relevant Organization, such as a case where services, etc., rendered by such parties are essential to the corporate management of the TDK Group or it would be difficult to find an alternative provider of the same services, etc.

(iv) Where it is recognized within the TDK Group that the relevant Outside Director/Audit & Supervisory Board Member is involved in 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 without material significance)

(ii) A person who executes business for TDK or a subsidiary of TDK (except persons without material significance)

As to qualification of Outside Director/Audit & Supervisory Board Member, reasons for recommending as a candidate for Outside Director/Audit & Supervisory Board Member are

stipulated in the proposal regarding the election of Directors/Audit & Supervisory Board Members in the Notice of Convocation of Ordinary General Meeting of Shareholders.

[Supplementary Principle 4-11-1 Preconditions for Board of Directors and Audit & Supervisory Board Effectiveness (View on Balance, Diversity and Appropriate Board Size)]

TDK's basic policy is to have a small number of Directors to expedite the management decision-making. The number of Directors shall be an appropriate number no more than ten in accordance with the Articles of Incorporation and currently seven Directors are in office.

The number of Audit & Supervisory Board Members shall be no more than five in accordance with the Articles of Incorporation and currently four Audit & Supervisory Board Members are in office.

As to the current Board composition, the total number of the Directors and Audit & Supervisory Board Members is eleven, out of which five are Outside Directors or Outside Audit & Supervisory Board Members.

Directors are examined and nominated by the Nomination Advisory Committee based on the balance among knowledge, experience and skills as well as the diversity so that they can fulfill their roles and responsibilities effectively.

Thus far, Outside Directors have been elected among human resources who have diverse experience and expertise such as corporate managers, lawyers, etc. and Outside Audit & Supervisory Board Members have been elected among human resources who have diverse experience and expertise such as corporate managers, lawyers, accountants, etc.

[Supplementary Principle 4-11-2 Preconditions for Board of Directors and Audit & Supervisory Board Effectiveness (Disclosure regarding Concurrent Duties of Directors and Audit & Supervisory Board Members)]

TDK confirms positions of directors, audit & supervisory board members or the management held at other companies by Directors and Audit & Supervisory Board Members and approves them by resolution at the Meeting of the Board of Directors every term.

Further, positions held at other companies by Outside Directors and Outside Audit & Supervisory Board Members are also confirmed by the Nomination Advisory Committee every term.

Positions held at other companies by Directors and Audit & Supervisory Board Members are disclosed in the Notice of Convocation of Shareholders Meeting and Annual Securities Report.

[Supplementary Principle 4-11-3 Preconditions for Board of Directors and Audit & Supervisory Board Effectiveness (Analysis and Evaluation and Disclosure of Effectiveness)]

TDK conducts an evaluation of the effectiveness of the Board of Directors each year in order to verify whether the functions expected of the Board of Directors are properly performed and enhance such functions.

In the Board of Directors evaluation for the fiscal year ended March 2018, the Board of Directors first conducted an investigation to all members who were to participate in Meetings of the Board of Directors, including Audit & Supervisory Board Members, and conducted an evaluation of the effectiveness of the Board of Directors, including the Advisory Committees to the Board of Directors (Nomination Advisory Committee and Compensation Advisory Committee), under the initiative of the chair of the Board of Directors who was an independent Outside Director.

Next, the Board of Directors had an outside third-party institution evaluate the results of the said evaluation to ensure objectivity and neutrality, and then the Board of Directors conducted the final evaluation.

■Evaluation Method

The Board of Directors first delivered a survey sheet to all Directors and Audit & Supervisory Board Members and they conducted a self-evaluation with respect to the composition, agendas, discussions and operation of the Board of Directors and the Advisory Committees. The Board of Directors summarized the results of the said survey sheets, extracted common issues and problems and further collected opinions through individual interviews with a focus on important issues found there. The chair of the Board of Directors who was an independent Outside Director conducted the individual interviews by having a one-to-one meeting with all Directors and Audit & Supervisory Board Members individually and having a free and frank exchange of opinions with them. The opinions collected from the individual interviews were summarized in an anonymous form, the chair of the Board of Directors reported the results thereof at a Meeting of the Board of Directors and the Board of Directors discussed and evaluated such results.

The method, object, results of analysis and contents of report regarding this evaluation were evaluated from external and objective viewpoints by the third-party institution and then the Board of Directors conducted the final evaluation.

■Evaluation Results

The Board of Directors confirmed that a system for exercising the functions of the Board of Directors (management supervisory and important decision-making functions) had been established and maintained in terms of the scale, composition and operation of the Board of Directors, quality and characteristics of its members, and the status and condition of the Committees.

The Board of Directors confirmed that the Outside Directors and Outside Audit & Supervisory Board Members consisted of members with diverse experience and expertise and on the other hand, the internal Directors consisted of only officers who look down at the overall TDK Group and did not include managers of business operation, and that a balanced system which helps the Board of Directors perform its functions had been maintained.

Also, with respect to deliberations at the Meetings of the Board of Directors, the Board of Directors

confirmed that the chair of the Board of Directors who was an independent Outside Director promoted free and active discussion and thereby the culture of discussing productively and substantively regardless of whether internal or outside and whether Director or Audit & Supervisory Board Member had been maintained.

The Board of Directors confirmed that opinions of Outside Directors and Outside Audit & Supervisory Board Members from external viewpoints were properly fed back to the business execution side and contributed to the deepening of management analysis and that the management supervisory and important decision-making functions of the Board of Directors were properly performed and the effectiveness of the Board of Directors had been demonstrated through deliberations and verifications at Meetings of the Board of Directors.

Furthermore, the mid- to long-term growth strategy, which was considered the issue to be addressed on a continuous basis in the Board of Directors evaluation for the fiscal year ended March 2017, was intensively deliberated and verified on several occasions at Meetings of the Board of Directors and the results of the discussions were reflected on the final Medium-Term Plan.

■Future Issues

With respect to issues to be addressed by the Board of Directors in the future, the Board of Directors recognized that, in order to steadily implement the new Medium-Term Plan, it would be important to properly demonstrate the supervisory and advisory functions on a continuous basis, further strengthen the corporate governance and compliance systems, including timely sharing important matters with the Board of Directors as well as responding to global business deployment, and further enhance the operational efficiency of the Board of Directors.

Going forward, TDK will continue to improve the effectiveness of the Board of Directors in order to achieve its sustained growth and enhance its corporate value.

[Supplementary Principle 4-14-2 Training Policy for Directors and Audit & Supervisory Board Members]

TDK properly provides Directors and Audit & Supervisory Board Members (including Outside Directors and Outside Audit & Supervisory Board Members) with opportunities to gain knowledge about TDK through factory tours, explanations about business conditions, etc. for the purpose of their training.

Also, TDK renders Directors and Audit & Supervisory Board Members an external training service, etc. regarding basic legal knowledge related to their duties.

[Principle 5.1 Policy for Constructive Engagement with Shareholders]

TDK's policy is to make efforts to gain understanding regarding the financial conditions and management strategy of the TDK Group through constructive engagement with shareholders and to

take the following measures to achieve sustained growth and improve medium- to long-term corporate value of the TDK Group by reflecting valuable input from shareholders to the management.

(1) Appointing a member of the management or a director regarding engagement with shareholders
President and Representative Director and Corporate Officer in charge of accounting have constructive engagements with investors, including, among others, domestic and overseas shareholders, and explain to them about financial conditions, management strategy, etc. of the TDK Group.

(2) Measures to ensure positive coordination between internal departments

The department in charge of IR plays a central role in regularly exchanging information and cooperating among Corporate Officers in charge and other related persons of relevant departments.

(3) Measures to promote general investor meeting and other IR activities

In addition to regular quarterly financial results briefings, TDK holds medium- to long-term business strategy meetings, factory tours, etc. and promotes understanding of investors. TDK promotes disclosure of information as well by publishing a part of the materials at the website of TDK.

(4) Measures to relay to the senior management and the board

Situations of engagements with shareholders and investors are relayed to the Board of Directors, Executive Committee, and Corporate Officers in charge, etc. before announcement of financial results and in each case.

(5) Measures to control insider information when conducting engagement

TDK has established the Insider Trading Prevention Standard as its internal rule and manage insider information properly by fully enforcing the said Regulations and conducting educational activities.