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.

(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. For example, during the past fiscal year, TDK made two corporate acquisitions, ramped up production capacity to respond to growing demand for components, and scrapped and built production facilities in order to stay on top of a shifting product mix. 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 will also place priority on corporate social responsibility and corporate governance. As a corporate citizen, TDK is rededicating itself to prospering together with society. With this in mind, the company will conduct its own community and charitable 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 that all laws and regulations are observed in Japan and other countries.

(6) Basic Stance on and Strategy to Improve 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 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 improving the quality of management.

Measures taken to enhance corporate governance over the past year
To comply with the U.S. Sarbanes-Oxley Act of 2002, a project team that includes outside experts performed a review of internal control procedures and management systems, including those of subsidiaries, and established a framework for evaluating these procedures and systems. At the same time, TDK continued to identify and analyze risk factors and to reinforce and effectively utilize internal controls. In addition, TDK restricts the work that is outsourced to independent auditors so as to preserve their impartiality and independence.

In the fiscal year ended March 31, 2006, the directors and corporate auditors were paid remuneration of ¥193 million and ¥57 million, respectively. The total amount paid to directors and corporate auditors was thus ¥250 million. Furthermore, bonuses totaling ¥99 million were paid to TDK directors. The amount of remuneration based on work prescribed by Article 2, Paragraph 1 of the Certified Public Accountant Law of Japan that was paid to independent auditors KPMG AZSA & Co. was ¥320 million.

(7) Matters Relating to the Parent Company
Not applicable