

## **Issue of Stock Acquisition Rights as Stock Options for a Stock-Linked Compensation Plan**

June 18, 2014

TDK Corporation's (the "Company") Board of Directors today passed a resolution to issue stock acquisition rights as stock options to Directors (excluding Outside Directors) and Corporate Officers for a stock-linked compensation plan, as detailed below. This resolution is subject to approval of the election of Directors and Corporate Officers at the Company's Ordinary Annual General Meeting of Shareholders and the Board of Directors' meeting scheduled for June 27, 2014.

### **I Reason for issuance of stock acquisition rights as stock options for a stock-linked compensation plan**

The purpose of this stock-linked compensation is to provide Directors and Corporate Officers with further incentive for improving the Company's operating results and share price. This is accomplished by structuring the compensation so that eligible individuals share with the Company's shareholders the benefits of an increase in the Company's share price as well as the risk of a decrease.

### **II Details of the stock acquisition rights to be granted**

#### **1. Name of stock acquisition rights**

TDK Corporation 2014 Stock-linked Compensation Stock Acquisition Rights

#### **2. Number of stock acquisition rights**

364 (176 to 4 Directors and 188 to 12 Corporate Officers)

The above number of stock acquisition rights is the number scheduled to be allotted. Where there is a decrease in the total number of stock acquisition rights allotted due to non-subscription by eligible individuals and for other reasons, the total number of stock acquisition rights to be issued shall be the total number of stock acquisition rights allotted.

#### **3. Class and number of shares to be issued upon the exercise of the stock acquisition rights**

The class of share to be issued upon the exercise of stock acquisition rights shall be the Company's common stock, and the number of shares for each stock acquisition right (hereinafter the "number of shares granted") shall be 100.

However, in the event that the Company conducts a stock split, distributes shares free of charge, or consolidates its common stock after the determination date of this proposal to shareholders, the "number of shares granted" shall be adjusted according to the following method of calculation. This adjustment will apply to the "number of shares granted" for those stock acquisition rights that have not already been exercised

prior to the relevant date. Moreover, fractions of less than one share arising out of the above adjustments shall be discarded.

$$\begin{aligned} &\text{Post-adjustment "number of shares granted"} = \\ &\text{Pre-adjustment "number of shares granted"} \times \text{stock split or stock consolidation} \\ &\text{ratio} \end{aligned}$$

Moreover, in other cases where circumstances arise requiring the "number of shares granted" to be adjusted after the determination date, the "number of shares granted" shall be adjusted appropriately.

#### **4. Method for calculating the amount to be invested when exercising stock acquisition rights**

The amount to be invested when exercising each stock acquisition right shall be the amount to be paid for each share that can be granted due to the exercise of stock acquisition rights, which shall be ¥1, multiplied by the "number of shares granted."

#### **5. Exercise period for stock acquisition rights**

The exercise period shall be the period beginning July 6, 2014 and ending July 5, 2034.

#### **6. Other conditions for exercising stock acquisition rights**

(1) Stock acquisition rights holders, excluding (2) below, shall not be able to exercise stock acquisition rights in the period from July 6, 2014 to July 5, 2017, but are able to exercise stock acquisition rights on or after July 6, 2017.

(2) Stock acquisition rights holders shall be permitted to exercise stock acquisition rights until July 5, 2017 in cases specified in 1. and 2. below, as long as it is within the time frame stipulated.

1. In the event that a stock acquisition rights holder loses his or her position as either director or employee of the Company (including full-time executive adviser, consultants and contract employees, but excluding part-time executive adviser, consultants and part-time contract employees. \*This definition is applicable throughout this resolution.)

Seven years from the day after losing the position

2. In the event that a proposal for approval of a merger agreement, under which the Company is to be dissolved, or a proposal for approval of a stock exchange agreement or a proposal for share transfer that makes the Company a wholly owned subsidiary, is approved at a meeting of shareholders of the Company.

A period of 15 days from the day following the approval date

(3) On or after July 6, 2017, in the event that a stock acquisition rights holder loses his or her position as either a director or employee of the Company, the individual may exercise his or her rights up to seven years from the day after losing the position as long as it is within the exercise period for stock acquisition rights.

- (4) In the event that a stock acquisition rights holder relinquishes his or her stock acquisition rights, such stock acquisition rights cannot be exercised.

**7. Items concerning increases in common stock and additional paid-in capital if shares are issued due to the exercise of stock acquisition rights**

- (1) In the event that shares are issued due to the exercise of stock acquisition rights, common stock shall increase by half the limit for increase in common stock calculated in accordance with Article 17-1 of the Japanese generally accepted accounting principles. Any amount less than one yen arising shall be rounded up to the nearest yen.
- (2) In the event that shares are issued due to the exercise of stock acquisition rights, additional paid-in capital shall increase by the amount remaining after deducting the increase in common stock prescribed in (1) above from the limit for increase in common stock in (1) above.

**8. Restrictions on the acquisition of stock acquisition rights due to transfers**

Regarding the acquisition of stock acquisition rights due to transfers, approval is required by resolution of the Company's Board of Directors.

**9. Provisions for the acquisition of stock acquisition rights**

No provisions for the acquisition of stock acquisition rights are specified.

**10. Method of calculation for amount to be paid for stock acquisition rights**

The amount to be paid for stock acquisition rights shall be the option price per share computed based on the following formula and base numbers multiplied by the "number of shares granted."

$$C = Se^{-qT} N(d) - Xe^{-rT} N(d - \sigma\sqrt{T})$$

In this formula,

$$d = \frac{\ln\left(\frac{S}{X}\right) + \left(r - q + \frac{\sigma^2}{2}\right)T}{\sigma\sqrt{T}}$$

1. C = option price per share
2. S = share price: the closing price (regular way) of the Company's common stock on the Tokyo Stock Exchange on July 5, 2014 (or the closing price on the nearest preceding trading day if there is no closing price on that date)
3. X = Exercise price: ¥1
4. T = Expected life: 9.6 years
5.  $\sigma$  = Volatility: for 9.6 years (the variation rate computed based on the closing price (regular way) on each trading day of the Company's common stock from November 27, 2004 through July 5, 2014)
6. r = risk-free interest rate (the interest rate on Japanese government bonds for the remaining years corresponding to the expected life)

7.  $q$  = dividend yield: for 9.6 years (the annual average dividend yield from November 27, 2004 through July 5, 2014)  
(Dividend per share/closing price on the trading day before the dividend record date)
8.  $N(\cdot)$  = cumulative distribution function of the standard normal distribution

Note: The amount calculated in accordance with the above formula is the fair value of the stock acquisition rights. It is not applicable to the issue of stock acquisition rights with specially favorable terms.

Note: The Company shall pay monetary compensation equivalent to the amount to be paid for stock acquisition rights to eligible persons, and the right to claim this compensation shall be offset with the obligation to pay the amount to be paid for stock acquisition rights.

**11. Allotment date of stock acquisition rights**

July 5, 2014

**12. Payment date for stock acquisition rights**

The payment date shall be July 5, 2014.

**13. Number of stock acquisition rights allotted and number of eligible persons**

176 stock acquisition rights will be allotted to 4 Directors (excluding Outside Directors) and 188 stock acquisition rights will be allotted to 12 Corporate Officers.

**Contact for media**

Contact	Phone	Mail
Mr. Sumio Marukawa     TDK Corporation	+81 3 6852-7102	<a href="mailto:pr@jp.tdk.com">pr@jp.tdk.com</a>