

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

June 16, 2017

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.

### **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 2017 Stock-linked Compensation Stock Acquisition Rights

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

1,372 (567 to 4 Directors and 805 to 15 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 subject to the stock acquisition rights**

The class of shares subject to the stock acquisition rights shall be shares of the Company's common stock, and the number of shares subject to each stock acquisition right (hereinafter "the number of shares to be granted") shall be 100. However, in the event that the Company conducts a stock split of its common stock (including distributing shares of its common stock free of charge, and so on hereinafter with regard to references to stock splits), or consolidates its common stock on or after the allotment date of the stock acquisition rights (hereinafter the "allotment date"), the number of shares to be granted shall be adjusted according to the following method of calculation. Moreover, fractions of

less than one share arising out of the above adjustments shall be discarded.

Post-adjustment “number of shares granted” =

Pre-adjustment “number of shares granted” × stock split or stock consolidation ratio

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. Amount of assets 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 by the exercise of the respective stock acquisition right (hereinafter “the exercise price”), 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 9, 2017 and ending July 8, 2037.

#### **6. 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.

#### **7. 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 a resolution of the Company’s Board of Directors.

#### **8. Provisions for the acquisition of stock acquisition rights**

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

## **9. Policy on determining details of stock acquisition right issuance of a company subject to organizational restructuring**

In cases where the Company conducts a merger (only where the Company is dissolved in the merger), an absorption-type company split or incorporation-type company split (only where the Company is the splitting company), or a share exchange or share transfer (only where the Company becomes a wholly owned subsidiary) (the above collectively hereinafter “organizational restructuring”), the Company shall issue stock acquisition rights of the stock company specified under Article 236 (1) (viii) (a)-(e) of the Companies Act (hereinafter “the restructured company”) to stock acquisition right holders who hold remaining stock acquisition rights (hereinafter “remaining stock acquisition rights”) immediately before the effective date of the organizational restructuring in each case (in the case of an absorption-type merger, the effective date of the absorption-type merger; in the case of an incorporation-type merger, the establishment date of the company newly incorporated through the merger; in the case of an absorption-type company split, the effective date of that absorption-type company split; in the case of an incorporation-type company split, the establishment date of the company newly incorporated through the company split; in the case of a share exchange, the effective date of the share exchange; and in the case of a share transfer, the establishment date of the wholly owning parent company established through the share transfer, and so on hereinafter). However, the rights may be issued only if provisions for issuing stock acquisition rights of the restructured company in accordance with the following conditions are included in the relevant absorption-type merger agreement, incorporation-type merger agreement, absorption-type company split agreement, incorporation-type company split plan, share exchange agreement, or share transfer plan.

### **(1) Numbers of stock acquisition rights of the restructured company to be issued**

The numbers of rights issued shall be the same as the numbers of remaining stock acquisition rights held by the respective stock acquisition right holders.

### **(2) Class of the restructured company’s shares subject to stock acquisition rights**

Shares of the restructured company’s common stock.

### **(3) Number of the restructured company’s shares subject to stock acquisition rights**

To be determined in accordance with 3. above after considering the conditions of the organizational restructuring and other factors.

### **(4) Amount of assets to be invested when exercising stock acquisition rights**

The value of the assets to be invested upon exercise of the issued stock acquisition rights shall be the amount obtained by multiplying the exercise price after restructuring, determined as follows, by the number of the restructured company’s shares subject to the stock acquisition rights, as determined in (3) above. The exercise price after the restructuring shall be

one yen for each share of the restructured company that can be issued through exercise of the each issued share acquisition right.

(5) Exercise period for stock acquisition rights

The exercise period shall start from whichever is the later of the starting date of the exercise period for acquisition rights stipulated in 5. above and the effective date of the organizational restructuring, and shall continue until the final day of the exercise period of the stock acquisition rights stipulated in 5. above.

(6) Items concerning increases in common stock and additional paid-in capital if shares are issued due to the exercise of stock acquisition rights

To be determined in accordance with 6. above.

(7) 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 a resolution of the Board of Directors of the restructured company.

(8) Provisions for the acquisition of stock acquisition rights

To be determined in accordance with 8. above.

(9) Other conditions for exercising stock acquisition rights

To be determined in accordance with 11. below.

**10. Treatment of fractions of less than one share arising upon exercise of the stock acquisition rights**

Fractions of less than one share within the shares issued to stock acquisition right holders upon exercise of the stock acquisition rights are to be discarded.

**11. 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 9, 2017 to July 8, 2020, but are able to exercise stock acquisition rights on or after July 9, 2020.

(2) Stock acquisition right holders may exercise stock acquisition rights within the respective periods stipulated by the following cases (a) and (b) within the period in 5. above (however, in the case of (b), excluding the case where a stock acquisition right holder is to be allotted stock acquisition rights of a restructured company pursuant to 9. above under the provisions of a merger agreement, share exchange agreement, or share transfer plan).

(a) In the event that a stock acquisition rights holder loses his or her position as either officer (director, audit & supervisory board member

and corporate officer) 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.)

Seven years from the day after losing the position

(b) In cases where the General Meeting of Shareholders has approved by resolution either a proposal for a merger agreement in which the Company is to be dissolved, or a proposal for a share exchange agreement or share transfer plan in which the Company is to become a wholly owned subsidiary (or in cases where a resolution of the General Meeting of Shareholders is not necessary, a resolution of the Board of Directors).

15 days from the day following the date of the approval

(3) (1) and (2) (a) above shall not apply to persons to whom stock acquisition rights are transferred by inheritance.

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

## 12. Method of calculation for amount to be paid for stock acquisition rights

The amount to be paid for each stock acquisition right shall be the amount obtained by multiplying the option price per share (rounded to the nearest one yen) by the number of shares to be granted, where the option price is calculated using the Black-Scholes model using the basic parameters (2) to (7) below.

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

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 7, 2017 (or the base price on the following trading day if there is no closing price on that date)
3. X = Exercise price: ¥1
4. T = Expected life: 8.1 years
5.  $\sigma$  = Volatility: for 8.1 years (the variation rate computed based on the closing price (regular way) on each trading day of the Company's common stock from June 1, 2009 through July 7, 2017)
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: dividend per share (actual dividend for the fiscal year ended March 31, 2017) / share price determined by (2) above
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.

### 13. Allotment date of stock acquisition rights

July 8, 2017

### 14. Payment date for stock acquisition rights

July 8, 2017

### 15. Number of stock acquisition rights allotted and number of eligible persons

567 stock acquisition rights will be allotted to 4 Directors (excluding Outside Directors) and 805 stock acquisition rights will be allotted to 15 Corporate Officers.

#### Contact for media

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