Corporate Governance

Management at TEL emphasizes enhancement of corporate value while earning the trust of all of our stakeholders (people who have a stake in our success).

Our Approaches to Corporate Governance

Reflecting the ongoing globalization of management practices, TEL's fundamental policy is to strictly observe standards for corporate ethics and to comply with laws and regulations. We are also dedicated to establishing and reinforcing internal control and risk management systems, and to maintaining the transparency and objectivity of our business activities. The primary objective of this policy is to conduct our business in a way that prioritizes the creation of corporate value while earning the trust of shareholders and all other stakeholders.

On Our Corporate Governance System

TEL is implementing its corporate governance system with the following three goals:

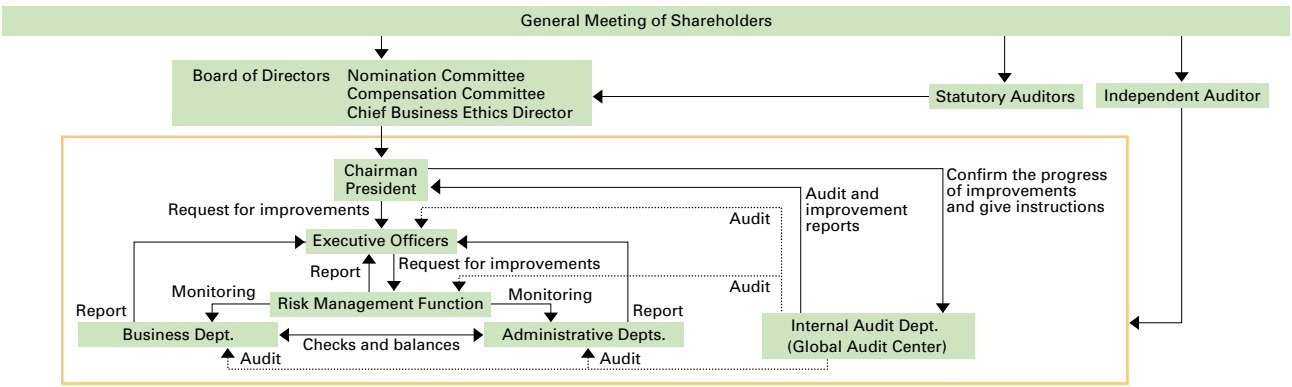
1) Ensuring the transparency and soundness of business operations; 2) facilitating quick decision-making and the efficient execution of business operations; and 3) building an effective system for the timely and suitable disclosure of information.

We have adopted the corporate auditor system. TEL has a board of directors with twelve members, including two external directors, and we have four corporate auditors, two of whom are from outside the company. In addition, we have separated the functions of the directors from those of the executives who oversee business operations. The compensation of representative directors is determined by the Compensation Committee that is part of the board of directors. In addition, the Nomination Committee selects director candidates for submission to the general meeting of shareholders and a CEO candidate to be elected by the board of directors. Both committees consist of three members of the board of directors, excluding the Chairman and President. In April 2003, we adopted the executive officer system to further clarify the roles of the board of directors and executives in charge of business operations.

Internal Control System and Risk Management System

All activities at TEL are based on adherence to the highest standards of corporate ethics and compliance with laws, regulations and international rules. To accomplish this, we have named a director to oversee ethics and established ethical standards and we are taking measures to see that these standards are strictly observed. Reflecting the even greater importance we now place on internal control and risk management systems, we have upgraded the internal audit functions of the Global Audit Center. We have also added to the General Affairs Department's crisis management functions, such as taking measures targeting business risk and operational risk.

Changes to Dividend Policy and Executive Compensation System

TEL has adopted a new dividend policy with the goal of a 20% pay-out of consolidated net income from the fiscal year ended March 2006. Beginning with the fiscal year that ended March 2005, we also eliminated retirement allowances (which were fixed compensation) from the compensation of directors, statutory auditors and executive officers. This action was aimed at achieving further gains in corporate value and management transparency. Along with this revision, a part of the compensation for directors, auditors and executive officers has been linked to operating results, with an upper limit of 3% of consolidated net income. As a result, the portion of compensation that is based on results more clearly corresponds to consolidated net income and compensation is more closely connected to consolidated performance and share price.

Corporate Governance System