

[Cover]

Document to be filed:	Annual Securities Report
Provision to base upon:	Article 24, paragraph 1 of the Financial Instruments and Exchange Act
Filing to:	Director-General of the Kanto Local Finance Bureau
Date of filing:	June 23, 2020
Fiscal year:	124th term (from April 1, 2019 to March 31, 2020)
Company name (Japanese):	TDK <i>Kabushiki-Kaisha</i>
Company name (English):	TDK CORPORATION
Title and name of representative:	Shigenao Ishiguro, Representative Director, President and CEO
Location of head office:	2-5-1, Nihonbashi, Chuo-ku, Tokyo, Japan
Telephone number:	+81-3-6778-1060
Contact person:	Tetsuji Yamanishi, Representative Director and Executive Vice President
Place of contact:	2-5-1, Nihonbashi, Chuo-ku, Tokyo, Japan
Telephone number:	+81-3-6778-1060
Contact person:	Tetsuji Yamanishi, Representative Director and Executive Vice President
Place where the document to be filed is available for public inspection	Tokyo Stock Exchange, Inc. (2-1, Nihonbashi-kabutocho, Chuo-ku, Tokyo, Japan)

A. COMPANY INFORMATION

I. Overview of the Company

1. Trends in principal management benchmarks

(1) Management benchmarks (consolidated)

Term	120th term	121st term	122nd term	123rd term	124th term
Accounting period	From April 1, 2015 to March 31, 2016	From April 1, 2016 to March 31, 2017	From April 1, 2017 to March 31, 2018	From April 1, 2018 to March 31, 2019	From April 1, 2019 to March 31, 2020
Net sales (Millions of yen)	1,152,255	1,178,257	1,271,747	1,381,806	1,363,037
Income from continuing operations before income taxes (Millions of yen)	91,839	211,717	89,811	115,554	95,876
Net income attributable to TDK (Millions of yen)	64,828	145,099	63,463	82,205	57,780
Comprehensive income (loss) attributable to TDK (Millions of yen)	(34,469)	138,952	52,473	80,335	(7,821)
TDK stockholders' equity (Millions of yen)	675,361	793,614	824,634	877,290	843,957
Net assets (Millions of yen)	684,633	802,118	831,232	883,756	848,564
Total assets (Millions of yen)	1,450,564	1,664,333	1,905,209	1,992,480	1,943,379
TDK stockholders' equity per share (Yen)	5,354.79	6,288.55	6,532.01	6,946.70	6,681.15
Net income attributable to TDK per share (Yen)	514.23	1,150.16	502.80	651.02	457.47
Diluted net income attributable to TDK per share (Yen)	504.66	1,147.57	501.47	649.45	456.44
Stockholders' equity ratio (%)	46.6	47.7	43.3	44.0	43.4
Return on stockholders' equity (%)	9.2	19.8	7.8	9.7	6.7
Price earnings ratio (PER) (Times)	12.2	6.1	19.1	13.3	18.3
Net cash provided by operating activities (Millions of yen)	151,563	160,136	91,310	140,274	222,390
Net cash used in investing activities (Millions of yen)	(140,585)	(71,111)	(246,099)	(140,179)	(41,964)
Net cash provided by (used in) financing activities (Millions of yen)	29,305	(37,753)	110,088	9,435	(121,769)
Cash and cash equivalents at end of term (Millions of yen)	285,468	330,388	279,624	289,175	332,717
Number of employees (Person)	91,648	99,693	102,883	104,781	107,138

Notes: 1. Net sales do not include consumption taxes, etc.

2. Net assets per share, equity ratio and return on equity have been replaced with stockholders' equity per share, stockholders' equity ratio and return on stockholders' equity because TDK Corporation prepared consolidated financial statements based on U.S. GAAP.

3. From first quarter starting April 1, 2016, Update No. 2015-03 "Simplifying the Presentation of Debt Issuance Costs", published by Financial Accounting Standards Board has been adopted. Issuance cost for corporate bonds have been subtracted from total assets for the past terms.

(2) Filing company's management benchmarks (non-consolidated)

Term	120th term	121st term	122nd term	123rd term	124th term
Accounting period	From April 1, 2015 to March 31, 2016	From April 1, 2016 to March 31, 2017	From April 1, 2017 to March 31, 2018	From April 1, 2018 to March 31, 2019	From April 1, 2019 to March 31, 2020
Net sales (Millions of yen)	264,304	244,361	292,146	309,326	303,810
Current income (loss) (Millions of yen)	(14,376)	78,686	3,454	(15,269)	(10,624)
Net income (loss) (Millions of yen)	(26,447)	72,377	3,685	(36,063)	(35,618)
Capital stock (Millions of yen)	32,641	32,641	32,641	32,641	32,641
Total number of issued shares (Thousands of shares)	129,591	129,591	129,591	129,591	129,591
Net assets (Millions of yen)	284,544	342,249	327,866	273,157	219,309
Total assets (Millions of yen)	751,913	774,572	942,543	935,939	874,708
Net assets per share (Yen)	2,246.11	2,701.20	2,585.20	2,150.67	1,724.62
Cash dividends per share (Yen)	120.00	120.00	130.00	160.00	180.00
[Interim dividends per share] (Yen)	[60.00]	[60.00]	[60.00]	[80.00]	[90.00]
Net income (loss) per share (Yen)	(209.79)	573.72	29.20	(285.60)	(282.00)
Diluted net income per share (Yen)	—	572.43	29.13	—	—
Equity ratio [%]	37.7	44.0	34.6	29.0	24.9
Return on equity [ROE] [%]	(8.6)	23.2	1.1	(12.1)	(14.6)
Price earnings ratio [PER] [Times]	—	12.3	328.4	—	—
Dividend payout ratio [%]	—	20.9	445.2	—	—
Number of employees [Person]	4,542	4,644	5,055	5,330	5,521
Total shareholder return (%) (Benchmark: TOPIX index)	74.6 (89.2)	85.4 (102.3)	116.6 (118.5)	107.7 (112.5)	106.4 (96.1)
Highest(Yen)	10,450	8,470	10,860	12,940	12,880
Lowest(Yen)	5,230	5,170	6,380	7,070	6,740

Notes:

1. Net sales do not include consumption taxes, etc.
2. Diluted net income per share in the 120th, 123rd, and 124th terms are not presented because, although there were potentially dilutive shares, net losses per share were reported.
3. Highest and lowest share prices were those recorded on the first section of the Tokyo Stock Exchange.

2. Description of business operations

TDK Corporation prepares its consolidated financial statements according to U.S. generally accepted accounting principles (U.S. GAAP). It discloses information based on these consolidated financial statements pertaining to its subsidiaries and affiliates based on the definitions of U.S. GAAP. The same applies to “II. Review of operations” and “III. Facilities.”

As of March 31, 2020, the TDK Group (“TDK”) is comprised of TDK Corporation (the “Company”), 141 consolidated subsidiaries and 5 equity-method affiliates. Segment categories are manufacturing and sales of “Passive Components,” “Sensor Application Products,” “Magnetic Application Products,” “Energy Application Products” and “Other” (not included in the other four segments).

The following table presents a description of business operations and the respective placement of the Company and subsidiaries and affiliates with respect to these business operations.

Category	Main products	Major companies
Passive Components	Ceramic capacitors, Aluminum electrolytic capacitors, Film capacitors, Inductive devices (Coils/Ferrite cores/Transformers), High-frequency components, Piezoelectric material products and Circuit protection components	The Company TDK Europe GmbH TDK Electronics AG TDK Hong Kong Co., Ltd. TDK(Shanghai)International Trading Co., Ltd. 61 other companies (Domestic: 4, Overseas:57) (Total: 66 companies)
Sensor Application Products	Temperature and Pressure Sensors, Magnetic Sensors, MEMS Sensors	The Company InvenSense, Inc. TDK-Micronas GmbH 18 other companies (Domestic: 2, Overseas: 16) (Total: 21 companies)
Magnetic Application Products	HDD Heads, HDD suspension assemblies, Magnets	The Company SAE Magnetics (H.K.) Ltd. Magnecomp Precision Technology Public Co., Ltd. Headway Technologies, Inc. Hutchinson Technology Incorporated 12 other companies (Domestic: 0, Overseas: 12) (Total: 17 companies)
Energy Application Products	Energy devices (Rechargeable batteries), Power supplies	The Company Amperex Technology Ltd. TDK-Lambda Corporation 23 other companies (Domestic:1, Overseas: 22) (Total: 26 companies)
Other	Mechatronics (production equipment), other	The Company TDK Taiwan Corporation 19 other companies (Domestic: 8, Overseas: 11) (Total: 21 companies)

3. Status of subsidiaries and affiliates

Name	Location	Capital	Principal business	Holding rate of voting rights (%)	Business relationship
(Consolidated subsidiaries – Overseas)					
Ningde Amperex Technology Ltd. *1 , *2	Ningde, China	RMB 839,909,052	Energy Application Products	100 (100)	Manufacturing and sales of TDK products Interlocking directorate: No
Amperex Technology Ltd.*1 , *3	Hong Kong, China	US\$ 277,588,100	Energy Application Products	99.7 (57.5)	Manufacturing and sales of TDK products Loans to TDK Interlocking directorate: Yes
SAE Magnetics (H.K.) Ltd. *1 , *4	Hong Kong, China	HK\$ 50,000	Magnetic Application Products	100 (100)	Manufacturing and sales of TDK products Loans to TDK Interlocking directorate: Yes
TDK Hong Kong Co., Ltd.*1	Hong Kong, China	HK\$ 25,500,000	Passive Components and Magnetic Application Products	100	Manufacturing and sales of TDK products Loans from TDK Interlocking directorate: No
Navitasys Technology Ltd. *1	Hong Kong, China	US\$ 10,000,000	Energy Application Products	100 (100)	Manufacturing and sales of TDK products Interlocking directorate: No
Dongguan Amperex Technology Ltd. *1	Dongguan, China	RMB 485,509,727	Energy Application Products	100 (100)	Manufacturing and sales of TDK products Interlocking directorate: No
TDK Xiamen Co., Ltd. *1	Xiamen, China	RMB 681,074,000	Passive Components	100 (100)	Manufacturing and sales of TDK products Interlocking directorate: No
TDK (Zhuhai FTZ) Co., Ltd.	Zhuhai, China	RMB 29,390,675	Passive Components	100 (100)	Manufacturing and sales of TDK products Interlocking directorate: No
TDK (Zhuhai) Co., Ltd.	Zhuhai, China	RMB 161,627,185	Passive Components	100 (100)	Manufacturing and sales of TDK products Interlocking directorate: No
TDK (Suzhou) Co., Ltd.	Suzhou, China	RMB 93,324,615	Passive Components	100 (100)	Manufacturing of TDK products Interlocking directorate: No
TDK Dalian Corporation *1	Dalian, China	US\$ 87,816,000	Passive Components	100 (80)	Manufacturing of TDK products Interlocking directorate: No
SAE Magnetics (ChangAn) Limited *1	Dongguan, China	RMB 753,848	Passive Components	100 (100)	Manufacturing of TDK products Interlocking directorate: Yes
TDK (Shanghai) International Trading Co., Ltd.	Shanghai, China	RMB 1,659,160	Passive Components	100 (100)	Sales of TDK products Interlocking directorate: Yes
TDK Electronics Hong Kong Limited	Hong Kong, China	HK\$ 2,000,000	Passive Components	100 (100)	Sales of TDK products Interlocking directorate: No
TDK China Co., Ltd. *1	Shanghai, China	RMB 260,973,200	Investment in and financing to subsidiaries and affiliates and their management	100	Loans from TDK Interlocking directorate: Yes
TDK Electronics AG *1	Munich, Germany	EUR 66,682,270	Passive Components	100 (100)	Manufacturing and sales of TDK products Interlocking directorate: Yes
TDK Hungary Components Kft.	Szombathely, Hungary	EUR 9,670,320	Passive Components	100 (100)	Manufacturing and sales of TDK products Interlocking directorate: No
TDK Electronics GmbH & Co OG	Deutschlandsberg, Austria	EUR 14,500,000	Passive Components	100 (100)	Manufacturing and sales of TDK products Interlocking directorate: No
TDK-Micronas GmbH	Freiburg, Germany	EUR 500,000	Sensor Application Products	100	Manufacturing and sales of TDK products Loans from TDK Interlocking directorate: No
TDK Europe GmbH *1	Munich, Germany	EUR 46,545,000	Passive Components	100 (100)	Sales of TDK products Interlocking directorate: No
TDK Europe S.A. *1	Windhof, Luxembourg	EUR 20,974,825	Investment in and financing to subsidiaries and affiliates and their management	100	Loans to TDK Interlocking directorate: Yes

Name	Location	Capital	Principal business	Holding rate of voting rights (%)	Business relationship
TDK Germany GmbH	Dusseldorf, Germany	EUR 25,000	Investment in and financing to subsidiaries and affiliates and their management	100 (100)	Interlocking directorate: Yes
Headway Technologies, Inc. *1	California, U.S.A.	US\$ 163,161,945	Magnetic Application Products	100	Manufacturing and sales of TDK products Interlocking directorate: Yes
InvenSense, Inc. *1	California, U.S.A.	US\$ 79,923	Sensor Application Products	100 (100)	Manufacturing and sales of TDK products Interlocking directorate: Yes
TDK Corporation of America	Illinois, U.S.A	US\$ 3,800,000	Passive Components	100 (100)	Sales of TDK products Interlocking directorate: Yes
TDK U.S.A. Corporation *1	New York, U.S.A.	US\$ 850	Investment in and financing to subsidiaries and affiliates and their management	100	Loans from TDK Interlocking directorate: Yes
Magnecomp Precision Technology Public Co., Ltd. *1	Ayutthaya, Thailand	US\$ 96,333,296	Magnetic Application Products	99.8	Manufacturing and sales of TDK products Interlocking directorate: Yes
TDK Taiwan Corporation	Taipei, Taiwan	NT\$ 424,125,200	Passive Components	95.4 (95.4)	Manufacturing and sales of TDK products Loans from TDK Interlocking directorate: Yes
TDK Electronics Korea Corporation	Seoul, Republic of Korea	KRW 1,000,000,000,000	Passive Components	100 (100)	Sales of TDK products Interlocking directorate: No
TDK (Thailand) Co., Ltd.	Ayutthaya, Thailand	THB 699,000,000	Magnetic Application Products	100 (100)	Manufacturing and sales of TDK products Interlocking directorate: No
TDK Singapore (Pte) Ltd.	Singapore	US\$ 126,050	Passive Components	100 (100)	Sales of TDK products Loans to TDK Interlocking directorate: No
(Consolidated subsidiaries – Domestic) TDK-Lambda Corporation	Chuo-ku, Tokyo	(Millions of yen) 2,976	Energy Application Products	100	Manufacturing and sales of TDK products Loans from TDK Interlocking directorate: Yes
TDK Akita Corporation	Yurihonjo City, Akita Prefecture	200	Passive Components	100 (100)	Manufacturing of TDK products Loans to TDK Interlocking directorate: No
TDK Shonai Corporation	Tsuruoka City, Yamagata	110	Passive Components	100 (100)	Manufacturing of TDK products Loans to TDK Interlocking directorate: No
TDK-EPC Corporation *1	Chuo-ku, Tokyo	100	Investment in and financing to subsidiaries and affiliates and their management	100	Loans to TDK Interlocking directorate: Yes
106 other companies					
(Equity-method affiliates) TODA KOGYO CORP.,	Hiroshima City, Hiroshima Prefecture	(Millions of yen) 7,477	Manufacturing and sales of a magnetic material	20.6	Interlocking directorate: Yes
Semiconductor Energy Laboratory Co., Ltd.	Atsugi City, Kanagawa Prefecture	4,348	Research and development of semiconductor products	31.7	Interlocking directorate: No
3 other companies					

- Notes: 1. Descriptions in the “Principal business” column are names of business segments or other specific business activities.
2. Figures in parentheses in the “Holding rate of voting rights” column indicate indirect holding rates included in the figures outside the parentheses.
3. Descriptions of “Interlocking directorate” include corporate officers of the Company.
4. *1: Applies to specific subsidiaries.
5. *2: Net sales of Ningde Amperex Technology Ltd. exceeded 10% of net sales of TDK.
The major items of income are as follows:
- | | |
|--------------------------------|------------------|
| i. Net sales | ¥443,925 million |
| ii. Income before income taxes | ¥133,626 million |
| iii. Net income | ¥114,125 million |
| iv. Net assets | ¥294,827 million |
| v. Total assets | ¥475,109 million |

6. *3: Net sales of Amperex Technology Ltd. exceeded 10% of net sales of TDK.

The major items of income are as follows:

i. Net sales	¥244,804 million
ii. Income before income taxes	¥79,804 million
iii. Net income	¥75,315 million
iv. Net assets	¥ 136,870 million
v. Total assets	¥203,246 million

7. *4: Net sales of SAE Magnetics (H.K.) Ltd. exceeded 10% of net sales of TDK.

The major items of income are as follows:

i. Net sales	¥167,108 million
ii. Income before income taxes	¥5,139 million
iii. Net Income	¥4,694 million
iv. Net assets	¥139,418 million
v. Total assets	¥168,724 million

4. Status of employees

(1) Status of consolidated companies

(As of March 31, 2020)

Name of business segment	Number of employees (Person)
Passive Components	31,978
Sensor Application Products	6,819
Magnetic Application Products	13,786
Energy Application Products	44,915
Other	7,308
Corporate (Common)	2,332
Total	107,138

(2) Status of filing company (the Company)

(As of March 31, 2020)

Number of employees (Person)	Average age (Years old)	Average years of service (Years)	Average annual salary (Yen)
5,521	43.4	17.9	7,785,972

Name of business segment	Number of employees (Person)
Passive Components	1,658
Sensor Application Products	110
Magnetic Application Products	599
Energy Application Products	292
Other	660
Corporate (Common)	2,202
Total	5,521

- Notes:
1. The number of employees indicates the number of working employees.
 2. Average annual salary includes bonuses and surplus wages.
 3. The number of employees shown as Corporate (Common) is the number of employees who belong to the administrative departments.

(3) Status of labor union

The filing company and some of its subsidiaries have labor unions.

II. Review of operations

1. Management policies, Management environment and Pressing issues

The forward looking statements in this report are based on judgment current as of March 31, 2020.

① Fundamental Management Policy

TDK was established in 1935 as an entrepreneurial venture to industrialize a magnetic material called ferrite invented at Tokyo Institute of Technology.

Based on the company's founding spirit "Contribute to culture and industry through creativity." as its Corporate Motto, TDK has promoted the development of new products that respond to market needs as well as the advancement of materials and process technologies, and also has promoted globalization and diversification while actively utilizing M&A and collaborating with external parties. As a result, TDK is developing passive components, sensor application products, magnetic application products and energy application products as its main business.

TDK wishes to continue to be an energetic company that constantly creates even higher value for all stakeholders, including shareholders, customers, suppliers, employees and society, by having an innovative thinking and a willingness to tackle new challenges, and by leveraging the strengths of each company of the TDK Group and mobilizing the power of the entire TDK Group.

② Medium- and Long-Term Management Strategy

The business environment revolving around electronics is now standing on the threshold of a period of major upheaval.

Transformation has begun in earnest, with an energy transformation (EX) driven by the shift from fossil fuels to renewable energy and a digital transformation (DX) driven by the permeation of digital technologies, such as the Internet of Things (IoT; technology for connecting a variety of things to the Internet) and Artificial Intelligence (AI), to every aspect of society.

Under its medium- and long-term management strategy, the TDK Group is pursuing two core priorities: (1) "contribute to the solution of energy and environmental issues" and (2) "contribute to making society more efficient through the use of data."

The aforementioned trends of EX and DX will dramatically increase the demand for electronic components. With this in mind, TDK will strive to expand its four main businesses: Passive Components, Sensor Application Products, Magnetic Application Products, and Energy Application Products. TDK aims to achieve sustainable growth and increase corporate value by refining the materials and process technologies it has cultivated, and strengthening provision of solutions that respond to market needs. In addition, TDK will pursue a zero-defect quality strategy based on advanced technological capabilities, along with working to further globalize its business operations through speed-focused management.

In the three-year medium-term plan running through the year ending March 31, 2021 ("fiscal 2021"), the TDK Group is targeting a return on equity (ROE) of over 14%. The Group will work to enhance its overall profitability and capital efficiency, while effectively investing in new product development and new businesses, in addition to investing in its main businesses.

The TDK Group will continuously strive to contribute to the solution of various social issues on a global scale by implementing its corporate motto, "Contribute to culture and industry through creativity."

③ Pressing Issues of TDK

The global economy is expected to suffer a substantial downturn that will likely persist over an extended period of time due to the global spread of coronavirus disease 2019 (COVID-19). As a result, the COVID-19 pandemic could have a lasting negative impact on the international community after it has ended, drastically reshaping the social and industrial landscape. The business environment surrounding the TDK Group could also be altered tremendously.

However, even amid these changes in the social and industrial landscape, the trends of EX and DX should continue to grow in the electronics market. These trends are expected to bring about the creation of new markets in the TDK Group's business fields. Significant growth opportunities will be presented to the TDK Group by trends that include the widespread adoption of renewable energy and electric vehicles in EX, the growing use of the fifth-generation mobile communications system (5G) and the practical use of Advanced Driving Assistance Systems (ADAS) in automobiles in DX. There will also be growing adoption of IoT, wearable products, and cloud services. It is imperative for TDK to steadily capture these growth opportunities without falling behind these major changes. To this end, TDK will actively conduct research and technological development, with a view to launching competitive new products in a timely fashion and expanding production capacity in line with demand.

Chart: Examples of opportunities brought forth by EX and DX within TDK operations

	EX	DX
Passive Components	<p><Industrial Equipment></p> <p><u>Widespread adoption of renewable energy</u></p> <p>Aluminum Electrolytic Capacitors, Film Capacitors, Piezoelectric Material Products, Circuit Protection Components, Inductive Devices</p> <p><Automotive></p> <p><u>Widespread adoption of electric vehicles</u></p> <p>Inductive devices, Ceramic capacitors, Aluminum Electrolytic Capacitors, Film Capacitors</p>	<p><ICT></p> <p><u>Growing use of 5G</u></p> <p>High-Frequency Devices, Inductive Devices, Ceramic capacitors</p> <p><u>Growing use of IoT, wearable products</u></p> <p>High-Frequency Devices, Inductive Devices, Piezoelectric Material Products, Circuit Protection Components</p> <p><Automotive></p> <p><u>Growing use of ADAS</u></p> <p>Ceramic capacitors, Inductive Devices</p>
Sensor Application Products	<p><Automotive></p> <p><u>Widespread adoption of electric vehicles</u></p> <p>Temperature and Pressure Sensors, Magnetic Sensors</p>	<p><ICT></p> <p><u>Growing use of 5G, Growing use of IoT, wearable products</u></p> <p>All Sensor Application Products</p> <p><Automotive></p> <p><u>Growing use of ADAS</u></p> <p>Magnetic Sensors, MEMS Sensors</p>
Magnetic Application Products	<p><Automotive></p> <p><u>Widespread adoption of electric vehicles</u></p> <p>Magnets</p> <p><Industrial Equipment></p> <p><u>Widespread adoption of renewable energy</u></p> <p>Magnets</p>	<p><ICT></p> <p><u>Growing use of cloud services</u></p> <p>HDD Heads, HDD Suspension Assemblies</p>
Energy Application Products	<p><Automotive></p> <p><u>Widespread adoption of electric vehicles</u></p> <p>Power Supplies</p> <p><Industrial Equipment></p> <p><u>Widespread adoption of renewable energy</u></p> <p>Rechargeable Batteries, Power Supplies</p>	<p><ICT></p> <p><u>Growing use of 5G</u></p> <p>Rechargeable Batteries</p> <p><u>Growing use of IoT, wearable products</u></p> <p>Rechargeable Batteries</p>

TDK also recognizes that acquiring and appropriately allocating management resources is a pressing issue for realizing growth. Accordingly, TDK will revise the Group's entire business portfolio as necessary. Human resources are one of TDK's most important management resources. With non-Japanese employees accounting for more than 90% of the TDK Group's workforce, TDK believes that diverse and abundant human resources are a key source of its competitiveness. To enhance its human resources further, TDK identify talented human resources from across the entire TDK Group, and work to train and make the most of these individuals.

The current medium-term plan positions improving the value the TDK Group imparts to society as one of its high-priority issues. The Sustainability Promotion HQ established in April 2019 is taking the lead in bolstering initiatives toward this goal. TDK aims to drive further growth by bolstering its business initiatives using the SDGs—the international development goals listed in “The 2030 Agenda for Sustainable Development” adopted at a UN Summit in September 2015—as a framework, and contributes to society through sustainable business activities.

In line with the Group's globalization, TDK is working to strengthen Group governance by redeveloping rules that clearly delineate the responsibilities and authorities of each Group company and by continuously striving to make its corporate philosophy more widely and better known throughout the Group.

2. Business risks

For the purpose of the company-wide measures against factors that obstruct the achievement of the business targets and business operations of the TDK group, TDK has established an ERM Committee to promote enterprise risk management. The ERM Committee identifies, analyzes and evaluates risks that require cross-functional responses and introduces measures in cooperation with related divisions to promote enterprise risk management.

The results of risk analysis and evaluation, as well as the status of countermeasures, are discussed by the Executive Committee Meeting and reported to the Board of Directors.

(ERM: Enterprise Risk Management)

Listed below are items that, among those relating to “Review of operations” and “Consolidated Financial Statements and Notes to Consolidated Financial Statements” stated in the Annual Securities Report, may significantly influence investor decisions. The following risks include forward-looking statements based on judgments current as of the filing date of the Annual Securities Report on June 23, 2020. However, it is difficult to reasonably predict when each risk will materialize if at all.

(1) Risks concerning changes in economic trends

The electronics industry, TDK's field of operations, is highly susceptible to social and economic trends in the U.S., Europe, Asia, particularly China and Japan, which are the main markets for end products. In addition, markets in these countries and regions are constantly exposed to various risk factors such as political issues, international issues, and economic fluctuations. Although TDK monitors such world risk trends and takes timely measures in response to them, there is no guarantee that adequate and timely measures can always be taken. And, if changes beyond our expectations occur in such business environments, such changes could significantly affect business results.

(2) Risks concerning fluctuations in currency exchange

TDK conducts business activities globally. Indeed, more than 90% of net consolidated sales are accounted for by overseas sales, and many transactions are conducted in currencies other than the yen, such as the U.S. dollar or euro. A sudden appreciation of the yen against these currencies could affect earnings such as by reducing net sales and operating income. In order to mitigate these risks, TDK is working to purchase more raw materials in foreign currencies and increase the local procurement of supplies consumed overseas. Foreign currency fluctuations also give rise to conversion differences with respect to our investments in overseas assets and liabilities, which are converted into yen in our consolidated financial statements. We estimate that appreciation of one yen against the U.S. dollar and euro would push down TDK group's annual operating profit by about 1.2 billion yen and 200 million yen respectively. Measures are taken against fluctuations in foreign currency exchange rates, including procuring foreign currency-denominated funds and concluding forward foreign exchange contracts; however, sudden or significant fluctuations in exchange rates could have a significant adverse effect on TDK's financial position and business results.

(3) Risks concerning interest rate fluctuation

TDK, as necessary, has financial assets, such as cash deposits and government bonds, and financial liabilities such as loans from banks, corporate bonds, and lease obligations. Fluctuations in interest rates over such assets and debts could affect the interest income, and interest expense, and the value of financial assets and liabilities, which could have a significant effect on TDK's financial position and business results.

(4) Risks concerning natural disasters, electricity supply and pandemics

TDK has many production factories and research and development facilities in Japan and overseas. These facilities and plants have taken disaster-protection and infection-control measures and purchased their own power generation facilities to cope with electricity shortages in preparation for unexpected natural disasters and infection outbreaks. However, significant damage could be incurred at these facilities and plants due to an event beyond business continuity planning (BCP) assumptions, such as a large earthquake, tsunami, typhoon, flood or volcanic eruption; a large-scale blackout or electricity shortages caused by them; or an infection outbreak. In the event of interruption to manufacturing, disruption of transportation routes, damage to or disconnection of information and communications infrastructure, impairment of central functions, or significant damage to our customers themselves due to the impact of such occurrences, orders and supply could be affected for a long period of time. This situation could have a significant effect on business results.

In order to cope with the pandemic of COVID-19, TDK established a Crisis Management Corporate Headquarters headed by the president in January of this year and is working on measures to reduce the risk of its employees being infected. Examples of such measures include securing hygiene products such as masks and disinfectants, education for employees about hygiene management such as thorough hand washing and proper wearing of masks, securing social distance in factories, and promotion of work from home. While implementing these measures, we are working closely with local governments to continue production activities while ensuring the health and safety of employees.

Regarding the impact of COVID-19 on the economy and our business performance, we have made and announced the business performance projections for the fiscal year ending March 31, 2021 on the assumption that the global real GDP growth rate in 2020 will be -4%. However, if the economic recovery is delayed due to the further spread of infection, or if our business sites are closed or the supply chain is disrupted, it may have a significant impact on our business performance.

(5) Risks in international business activities

TDK conducts operations globally, and its overseas sales accounts for more than 90% of total sales on a consolidated basis.

In many of our target markets and emerging countries that are expected to see economic development going forward, TDK may be exposed to international political risks such as war, terrorism or other events, domestic political and economic risks such as fluctuations in currency exchange, tariff raising, import/export restrictions, and social risks including labor problems stemming from differences in cultures and customs, and diseases. There may be unknown risks in building relationships with trading partners due to differences in commercial and business customs. If these risks materialize, they could reduce or halt manufacturing activities, force the stagnation of sales activities and in turn have a significant adverse effect on business results.

In particular, our group's sales to China exceed 50% of total sales on a consolidated basis. In order to establish a system for supplying both local customers and foreign-owned companies that have been setting up operations in China, we have many factories in China. As a result, our tangible fixed assets in China are 268.7 billion yen, and the amount of production at our Chinese factories exceeds 50% of the total amount of production of entire Group. If problematic events occur in China due to above-mentioned political factors (such as changes in laws and regulations), economic factors (such as the continuity of high growth and status of infrastructure development such as electric power supply) or social environment factors, there could be a significant effect on business results. While most production is in the areas of demand, we are appropriately reviewing the location of factories, taking into account country risks and other factors.

(6) Risks concerning corporate social responsibility

TDK has, for the sustainable development of society, recognized corporate social responsibility, such as care for the global environment, improvement of the working environment, and respect for human rights, as important management issues and has been working to realize it in the business operation including supply chain management. As one example of care for the global environment, and as part of TDK's climate change strategy, we set a target in 2015 to reduce CO₂ emissions basic-unit in a life-cycle perspective by half by 2035.

However, in case there are problems related to environmental pollution, industrial health and safety such as industrial accident, child labor, forced labor, or human right such as discrimination to foreign workers despite of our efforts, decline of social trust in TDK, suspension of business transactions, or withdrawal of partial business may have a significant effect on our business results.

In case related laws, regulations, international initiatives' standards, or customer requirements for CO₂ reduction, etc., are materially tightened, expenses to adapt to such tightening may become unexpectedly high, or a part of business may be withdrawn. This could have a significant effect on our business results.

On the other hand, TDK manufactures and sells many products that contribute to creating renewable energy or reducing energy consumption in the final products. We believe that the increasing of public awareness of climate change risk is an opportunity to expand the demand for these products.

(7) Risks of taxation

TDK has manufacturing bases and sales entities throughout the world, and we conduct a lot of international transactions between group companies. We pay close attentions to make transaction prices appropriate from the perspective of transfer pricing taxation and customs laws in each applicable country. However, due to the difference in opinion with tax authorities or customs authorities, we may incur additional tax burden as a result of indication that the transaction price is inappropriate. And, due to the enforcement, introduction, amendment or abolition of tax laws or their interpretations and operations around the world, we may incur an increase of tax burden.

With respect to deferred tax assets, we have periodically evaluated their feasibility according to the prospect of future taxable income and the profit plan to be realizable by tax. When the future profit plan cannot be realized, or when the evaluation of feasibility is reviewed due to the enforcement, introduction, amendment or abolition of tax laws or their interpretations and operations, we have to increase the valuation allowance of deferred tax assets.

When such events occur, that could have a significant effect on business results.

(8) Risks concerning technological innovation and new product development

In TDK, the launch of new products imbuing value on a timely basis helps boost our profitability. We also believe ongoing new product development is key to our survival. We believe that our ability to increase sales by developing appealing, innovative products has an important role to play in our growth. We are therefore engaged in new product development as an important element of our management strategies. However, it is extremely difficult to precisely predict future demand in the rapidly changing electronics industry. TDK may fail to continue to develop and supply, in a timely manner, attractive and new products with innovative technologies for this industry and our markets. Research and development divisions in TDK continuously reshape the framework based on analysis of market trends, along with conducting development management to promote the prioritization of development themes. Nevertheless, there is a risk that a loss of sales opportunities could result in the loss of future markets, as well as existing markets. This may have a significant adverse effect on business results and growth prospects.

(9) Risks concerning price competition

TDK supplies electronic components in a broad range of fields in an electronics industry where competition is intensifying. These fields include ICT represented by smartphones, the automotive field, where use of onboard electronics is increasing, and energy-related fields such as solar and wind power generation. Price is one of the main competitive factors differentiating us from other companies in the industry in which leading Japanese companies and international companies in South Korea, Taiwan and China have fueled intense price competition.

TDK is working to promote ongoing cost-cutting initiatives and increase profitability to counter this market competition. However, such price trends could have a significant effect on business results.

(10) Risks concerning raw material procurement

TDK's manufacturing system is premised on securing raw materials and other supplies in adequate quality and quantity in a timely manner from multiple external suppliers. However, for major raw materials, we may rely on a limited number of difficult-to-replace suppliers. Because of this, there may be cases where supplies of raw materials and other products to us are interrupted by a disaster, an accident or some other event at a supplier, supply is suspended due to quality or other issues, or there is a shortage of supply due to an increase in demand for finished products. Moreover, there may be cases where local procurement necessitated by increased overseas production is negatively affected by overseas circumstances. If any of these situations becomes protracted, it could have a significant, adverse effect on production and prevent us from fulfilling our responsibilities to supply products to our customers. If the supply-demand balance in the market is disrupted, it may considerably increase costs of manufacturing through run-ups in the prices we pay for raw materials and rises in fuel prices, including oil. When such cases occur, there could be a significant effect on business results.

(11) Risks concerning customer performance and management policy changes

TDK is developing business-to-business transactions on a global scale, whereby we supply electronic components to customers in the electronics and automotive markets.

We work to reduce risk by conducting transactions with a variety of customers and take measures such as setting transaction terms and conditions based on our evaluation of a customer's credit risk. However, our business may be significantly affected by various factors that are beyond our control, such as changes in each customer's business results and management strategies. In addition, a decline in purchasing demand due to customers' poor business performance, increased discounting pressure from customers due to changes in their purchasing policies and practices, the unexpected termination of contracts or other occurrences could result in excess inventory or a reduction in profit margins.

In the event that our customers go through reorganizations caused by mergers and acquisitions effected by enterprises of different business types or by competitors domestically or abroad, this situation could have a significant effect on TDK's business results, including a marked decline in orders or the cancellation of all business transactions.

There was one customer group that accounted for more than 10 percent of the consolidated net sales for the year ended March 31, 2020. The sales to the customer group was approximately 160.7 billion yen (11.8% of the consolidated net sales). These sales were mainly booked in the Energy Application Products segment.

(12) Risks concerning Compliance

TDK is subject to and required to comply with various regulations in Japan and other countries where we conduct business. These regulations are related to business and investments, the safety of electric and electronic products, national security between nations, export/import, commercial, antitrust, patents, product liability, the environment and taxation.

TDK has appointed a Global Chief Compliance Officer and Regional Chief Compliance Officers for Japan and four other regions to oversee compliance-related initiatives including risk assessment and mitigation, education, and training in order to minimize the risk of non-compliance throughout the TDK Group including its corporate officers and employees. And, we have established a Corporate Code of Ethics and have been striving to foster a sincere, fair, and transparent corporate culture. However, despite of above measures, conflict with these regulations and wrongdoing by corporate officers or employees may not be avoidable.

In the event of such, the social credibility of the TDK Group may decline, and customers may cease business with TDK. This could have a significant adverse effect on business results.

In the event that laws and regulations become more stringent in the future, a large charge related to such regulations or a partial withdrawal from the particular business when compliance with the regulation is difficult could have a significant adverse effect on business results.

(13) Risks concerning product quality

TDK conducts quality control of various products at domestic and overseas manufacturing bases in accordance with International Quality Management Standards (valid version of ISO 9001, IATF16949, and/or applicable other standards) and the strict standards required by customers in the technologically innovative electronics industry. Furthermore, TDK utilizes proprietary quality technologies and past data concerning quality issues to create a quality assurance system for building in quality from the earliest development stage so as to ensure reliability and safety. This is achieved through design inspections, internal quality audits, supplier surveys and guidance, process management and in other ways at each product stage including planning, design, prototyping and manufacturing.

However, TDK cannot be fully certain that defects in quality (including cases where products contain substances that may be prohibited by applicable regulations) and recalls due to those defects will not occur. Should a recall or a product liability claim against us occur, it could result in recall costs or damage claims and lower sales. Furthermore, it is assumed that a defect in quality in one of TDK's name-bearing products would have a negative impact on our reputation and brand, and endanger the continued existence of the company. In such a way, a major quality problem could have a significant effect on business results.

(14) Risks concerning intellectual property

TDK is working hard to strengthen and utilize its patent portfolio by managing and acquiring the patents, licenses and other intellectual property rights covering TDK's products' functions, designs and so forth (hereinafter "intellectual property rights"), as a strategic intellectual property activity that contributes to business earnings.

However, there are cases where our intellectual property rights cannot be fully protected in a particular region for reasons unique to that region. We may suffer damages resulting from the manufacture by a third party of similar products to our own with the unauthorized use of our intellectual property rights.

There may be cases where it is alleged that our products or processes infringe on the intellectual property rights of third parties that may sue for damages as a result of such alleged infringement. This would require either legal processes or settlement negotiations and expenses as a part of that activity. If our defenses against such claims are not accepted in such disputes, we may have to pay damages and royalties and suffer losses such as the loss of markets.

Such disputes over intellectual property rights could have a significant effect on business development and business results.

(15) Risks concerning information security

As part of its business operations, TDK holds confidential information and personal information relating to customers and trading partners as well as confidential information of the Group and personal information. We have constructed a group-wide control system to prevent this information from being leaked to outside parties, falsified, otherwise manipulated, or destroyed. Moreover, we execute measures to ensure thorough management and IT security, improved facility security and employee training. However, there are still risks that such information could be leaked, destroyed, or falsified or that information systems are shut down through hacking, internal negligence, theft or other causes.

In such an event, TDK could suffer a lowering of credibility, be liable for costs relating to the compensation payments to the parties suffering damage, and suspend its operations. That could also have an effect on business results.

(16) Risks concerning securing personnel and training personnel

TDK pursues business operations in more than 30 countries and regions around the world, and more than 90% of TDK employees are based outside of Japan. In order to continuously develop business in the fast-changing electronics industry, we believe that we must continuously promote efforts to acquire and develop various personnel who possess advanced technical skills and personnel with excellent management capabilities such as those necessary for formulating strategy and managing organizations globally. TDK therefore actively hires university graduates and employs experienced people throughout the year.

Moreover, we are working to retain and develop personnel by putting in place frameworks for increasing their motivation. This includes enhancing fair evaluation and remuneration systems based on a target-based management system. We improve and extend various training programs to develop employees who can act independently and globally, and to pass on the "DNA" of our manufacturing as well as values and knowledge of the TDK Group. These include different management trainings tailored to our hierarchy levels, so we develop our future management talents as well as our existing global key personnel.

However, competition to continuously recruit the necessary employees is intense. Moreover, in Japan, the employment environment is changing rapidly because of the falling birthrate, the aging population, and the declining workforce. A similar change is occurring at our overseas bases in China and other countries. The inability to recruit and train personnel as planned could have a significant effect on business development, business results and growth from a long-term perspective.

(17) Risks concerning M&A

In the increasingly competitive electronics field, for necessary technologies and other elements which increase corporate value, we conduct M&As as necessary if they are effective means to accelerate business growth or major synergies can be expected in terms of establishing a competitive edge in the market.

When conducting M&As, we take sufficiently into account market trends, customer needs, the business results, financial position, technological advantage and market competitiveness of the target company, TDK's business portfolio, risk analysis associated with the M&A, and other factors.

However, even in case there is prior research or prior consideration, tumultuous changes in the market and competitive environment after M&A could occur, the acquired business could fail to develop as planned, or the investment cannot be recovered or additional expenses are incurred. If that were to happen, TDK's business results, growth and business development among others could be significantly affected.

(18) Risks of impairment of fixed asset and goodwill

TDK has continuously invested on capital expenses such as manufacturing facilities to improve production capacity, quality, or productivity. And, if necessary, we have implemented M&A to accelerate the growth of business. As a result of these investments, we own a large amount of assets such as "property, plant and equipment," "intangible fixed asset with certain recognizable amortization period," and "goodwill and other intangible asset." Goodwill of 160.9 billion yen was booked on the consolidated balance sheet as of the end of March 31, 2020, of which 97.0 billion yen related to InvenSense, Inc., acquired in May 2017.

With respect to "property, plant and equipment" and "intangible fixed asset with certain recognizable amortization period," we conduct an impairment test if there is an indication that we are not able to collect the carrying amount of the assets. With respect to "goodwill and other intangible asset," we conduct an impairment test at least once a year, or more often in case there is an indication of impairment. In the event that the impairment test judges that these assets no longer create enough cash flow in the future, there may be a necessity to recognize an impairment.

When we recognize a large amount of impairment, it could have a significant effect on business results.

3. Analysis of financial position, operating results and cash flow position by manager

(1) Overview of operating results, etc.

Overview of financial position, operating results and cash flow position of TDK for the year ended March 31, 2020 is provided below.

① Financial position and operating results

In the year ended March 31, 2020 ("fiscal 2020"), the global economy saw clear signs of deceleration in the Chinese economy due to factors such as the materialization of trade friction between the U.S. and China. The impacts of this economic downturn also rippled out to the European, U.S. and Japanese economies, which had been relatively firm. Moreover, in the fourth quarter, the global spread of COVID-19 caused governments to implement massive policy measures to prevent the spread of outbreaks. Notably, governments imposed lockdowns on cities in a variety of countries, such as China. These policy measures had a substantial impact on the real economy.

Looking at the electronics market, which has a large bearing on the consolidated performance of TDK, trade friction between the U.S. and China and the spread of COVID-19 led to conditions such as a downturn in demand and restrictions on production activities. In the automotive market, global automobile sales volume decreased year on year, including in China, the world's largest market, although the number of components installed per vehicle increased in step with advances in the electrification of automobiles. The Information and Communications Technology (ICT) market saw a rise in demand for products related to the fifth-generation mobile communication system (5G), but smartphone production volume decreased year on year. In addition, production of Hard Disk Drives (HDDs) for data center applications increased, while production of HDDs as a whole decreased year on year. In this business environment, the TDK's consolidated financial position and operating results for fiscal 2020 were as follows.

a. Financial position

Total assets decreased ¥49,101 million from ¥1,992,480 million, as of March 31, 2019, to ¥1,943,379 million, as of March 31, 2020.

Total liabilities decreased ¥13,909 million from ¥1,108,724 million, as of March 31, 2019, to ¥1,094,815 million, as of March 31, 2020.

Total equity decreased ¥35,192 million from ¥883,756 million, as of March 31, 2019, to ¥848,564 million, as of March 31, 2020.

b. Operating results

TDK recorded net sales of ¥1,363,037 million, down 1.4% from ¥1,381,806 million in fiscal 2019. TDK recorded operating income of ¥97,870 million, down 9.2% from ¥107,823 million in fiscal 2019. TDK also recorded income before income taxes of ¥95,876 million, down 17.0% from ¥115,554 million in fiscal 2019. Furthermore, TDK recorded net income attributable to TDK of ¥57,780 million, down 29.7% from ¥82,205 million in fiscal 2019. Basic net income attributable to TDK per common share was ¥457.47, compared with ¥651.02 in fiscal 2019.

Average exchange rates for the U.S. dollar and euro during fiscal 2020, were ¥108.82 and ¥120.92, respectively, as the yen appreciated 1.9% against the U.S. dollar and appreciated 5.9% against the euro. This decreased net sales by approximately ¥40.7 billion and increased operating income by approximately ¥3.1 billion.

TDK's business segments are aggregated into four reportable segments, "Passive Components," "Sensor Application Products," "Magnetic Application Products" and "Energy Application Products," and businesses not belonging to either of these segments are classified under "Other."

The Passive Components segment recorded net sales of ¥395,456 million, down 8.8% from ¥433,406 million in fiscal 2019 and segment income of ¥39,072 million, down 33.1% from ¥58,438 million in fiscal 2019.

The Sensor Application Products segment recorded net sales of ¥77,938 million, up 1.9% from ¥76,467 million in fiscal 2019 and segment loss of ¥25,024 million, from ¥22,125 million in fiscal 2019.

The Magnetic Application Products segment recorded net sales of ¥219,668 million, down 19.5% from ¥272,807 million in fiscal 2019 and segment income of ¥425 million, down 97.5% from ¥17,022 million in fiscal 2019.

The Energy Application Products segment recorded net sales of ¥597,698 million, up 11.2% from ¥537,502 million in fiscal 2019 and segment income of ¥124,149 million, up 36.4% from ¥91,036 million in fiscal 2019.

The Other segment, businesses which do not belong to any of the four reportable segments recorded net sales of ¥72,277 million, up 17.3% from ¥61,624 million in fiscal 2019 and segment loss of ¥8,590 million, from ¥6,727 million in fiscal 2019.

The geographic segment information for sales are the following.

Sales for Japan region was ¥110,403 million, decrease of 2.6% from ¥113,369 million in fiscal 2019. Sales for Energy Application Products segment decreased.

Sales for Americas region was ¥96,135 million, decrease of 12.7% from ¥110,169 million in fiscal 2019. Sales for Passive Components segment and Magnetic Application Products segment decreased.

Sales for Europe region was ¥148,254 million, decrease of 11.4% from ¥167,285 million in fiscal 2019. Sales for Passive Components segment and Sensor Application Products segment decreased.

Sales for China region was ¥714,011 million, decrease of 2.5% from ¥732,455 million in fiscal 2019. Sales for Passive Components segment and Magnetic Application Products segment decreased.

Sales for Asia and others region was ¥294,234 million, increase of 13.8% from ¥258,528 million in fiscal 2019. Sales for Magnetic Application Products segment has decreased, but sales for Energy Application Products segment increased.

As a result, total overseas sales was ¥1,252,634 million, decrease of 1.2% from ¥1,268,437 million in fiscal 2019. However, due to decrease in sales for Japan region and increase in sales for China's Energy Application Products segment, the overseas sales ratio was 91.9%, a 0.1% increase from 91.8% in fiscal 2019.

② Cash flows

Cash flows from operating activities

Operating activities provided net cash of ¥222,390 million, an increase of ¥82,116 million year on year. It mainly came from increase in trade payables and increase in accrued expenses.

Cash flows from investing activities

Investing activities used net cash of ¥41,964 million, a decrease of ¥98,215 million year on year. It mainly came from proceeds from sale of investments in affiliates

Cash flows from financing activities

Financing activities used net cash of ¥121,769 million, a difference of ¥131,204 million from fiscal 2019 year on year in which financial activities provided net cash. It mainly came from repayment of debt.

As a result of adding in the effects of currency fluctuations, cash and cash equivalents as of March 31, 2020 was ¥332,717 million, ¥43,542 million larger than as of March 31, 2019.

③ Results of production, orders received and sales

a. Production results

A breakdown of production results by business segment for fiscal 2020 is given below.

(Millions of yen)

Name of business segment	Production Results	YoY Increase/ Decrease (%)
Passive Components	397,495	(7.7)
Sensor Application Products	76,521	(5.7)
Magnetic Application Products	225,393	(16.0)
Energy Application Products	598,198	7.0
Other	73,258	20.3
Total	1,370,865	(2.1)

Notes: 1. Amounts are calculated by the sales price.

2. Consumption taxes, etc. are not included in the above figures.

b. Results of orders received

A breakdown of orders received by business segment for fiscal 2020 is given below.

(Millions of yen)

Name of business segment	Amount of orders received (Millions of yen)	YoY Increase/ Decrease (%)	Balance of orders received (Millions of yen)	YoY Increase/ Decrease (%)
Passive Components	395,535	(9.9)	115,528	(8.4)
Sensor Application Products	74,711	(5.7)	20,398	(9.4)
Magnetic Application Products	218,099	(18.1)	14,216	(29.1)
Energy Application Products	743,363	16.0	132,055	44.9
Other	65,407	24.3	7,229	(8.8)
Total	1,497,115	1.3	289,426	8.1

Note: Amounts are calculated by the sales price.

c. Sales results

A breakdown of sales results by business segment for fiscal 2020 is given below.

(Millions of yen)

Name of business segment	Sales Results	YoY Increase/ Decrease (%)
Passive Components	395,456	(8.8)
Sensor Application Products	77,938	1.9
Magnetic Application Products	219,668	(19.5)
Energy Application Products	597,698	11.2
Other	72,277	17.3
Total	1,363,037	(1.4)

Note: Consumption taxes, etc. are not included in the above figures.

(2) Analysis and discussion regarding operating results, etc. from a management viewpoint

Analysis and discussion regarding operating results, etc. from a management viewpoint are provided below. The forward looking statements in this report are based on judgment current as of March 31, 2019.

① Significant accounting policies and estimates

Significant accounting policies are those that require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

The following is not intended to be a comprehensive list of all of TDK's accounting policies. TDK's significant accounting policies are more fully described in Note 1 of the Notes to Consolidated Financial Statements. In many cases, the accounting treatment of a particular transaction is specifically dictated by U.S. generally accepted accounting principles, with no need for management's judgment in their application. There are also areas in which management's judgment in selecting an available alternative would not produce a materially different result.

TDK has identified the following as critical accounting policies: impairment of long-lived assets, valuation of inventories, accounting for business combinations, goodwill and other intangible assets, pension benefit costs, and deferred tax assets.

Assumptions for the impact of COVID-19 on estimates is stated in Note 1 (15) Use of Estimates (additional information) of the Notes to Consolidated Financial Statements.

Impairment of long-lived assets

As of March 31, 2019 and 2020, the aggregate of TDK's property, plant and equipment and amortized intangible assets was ¥687,764 million and ¥686,910 million, which accounted for 34.5% and 35.3% of total assets, respectively. TDK believes that impairment of long-lived assets is critical to TDK's financial statements because the recoverability of the amounts or lack thereof, could significantly affect its results of operations.

TDK's long-lived assets and certain identifiable intangibles with certain amortization periods are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. This review is performed using estimates of future cash flows. If the carrying amount of the asset is considered to be impaired, an impairment charge is recorded for the amount by which the carrying value of an asset exceeds its fair value. Management judges that the estimates of future cash flows and fair values are reasonable; however, changes in estimates resulting in lower future cash flows and fair value due to unforeseen changes in business assumptions could negatively affect the valuation of those long-lived assets and significantly affect TDK's financial position and results of operations. TDK makes investments with due prudence, taking sufficiently into consideration the future profitability of products and the recoverability of investments.

Valuation of inventories

Inventories are stated at the lower of cost or market. The carrying value of inventory is reduced for estimated obsolescence by the difference between its cost and the estimated market value based upon assumptions about future demand. TDK evaluates the inventory carrying value for potential excess and obsolete inventory exposures by analyzing historical and anticipated demand. In addition, known and anticipated engineering change orders are evaluated against on-hand quantities for their potential obsolescence affects. As fluctuations in estimates, which become a standard in recognizing adjustments in the carrying values of inventory for expected obsolescence, are influential to business results of TDK, we conclude it as a significant accounting policy. If actual demand were to be substantially lower than estimated, additional inventory adjustments for excess or obsolete inventory may be required, which could have a material adverse effect on TDK's business, financial condition and results of operations.

Regarding the appropriateness of estimates in the past, TDK does not use a method based on various scenarios, but a method to reconsider every quarter by comparing estimate and actual results. For example, in the operational management of product sectors with rapid development in technological innovation such as the recording devices sector, TDK revises the estimates of valuation of obsolete inventories arising from the timely response to customers' demands for high-efficiency products on a quarterly basis.

Business combination

We account for acquired businesses by using the acquisition method of accounting which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. The judgments made in determining the estimated fair value assigned to each class of assets acquired, as well as asset lives, can materially impact net income of the periods subsequent to the acquisition through depreciation and amortization, and in certain instances by impairment charges, if the asset becomes impaired in the future.

In determining the estimated fair value for intangible assets, we typically utilize the income approach, which employs discounting of the projected future net cash flow using an appropriate discount rate that reflects the risk factors associated with the cash flow streams.

Determining the useful life of an intangible asset also requires judgment as different types of intangible assets will have different useful lives and certain assets may even be considered to have indefinite useful lives. Intangible assets determined to have an indefinite useful life have been reassessed periodically based on the factors prescribed in FASB Accounting Standards Codification 350 including, but not limited to, the expected use of the asset by us, legal or contractual provisions that may affect the useful life or renewal or extension of the asset's contractual life without substantial cost, and the effects of demand, competition and other economic factors.

Goodwill and other intangible assets

Goodwill and other intangible assets that are determined to have an indefinite life are not amortized but are tested for impairment on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of these assets below their carrying amount. Fair value for these assets is determined using a discounted cash flow analysis, which is based on an authorized business plan. Management believes that the estimates of future cash flows and fair value are reasonable; however, changes in estimates resulting in lower future cash flows and fair value due to unforeseen changes in business assumptions could negatively affect the valuations.

Pension benefit costs

Employee pension benefit costs and obligations are dependent on assumptions used by actuaries in calculating such amounts. These assumptions include discount rates, retirement rates and mortality rates which are based upon current statistical data, as well as salary growth, long-term return on plan assets and other factors. Actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect TDK's recognized expense and recorded obligation in future periods. While TDK believes that its assumptions used are appropriate, differences in actual experience or changes in assumptions may affect TDK's benefit obligations and future expense.

In preparing its consolidated financial statements for fiscal 2020, TDK established discount rates of 0.7% and 2.1% for domestic and overseas pension plans, respectively, and expected long-term rates of return of 2.3% and 6.1% on domestic and overseas plan assets, respectively. In estimating the discount rate, TDK uses available information about rates of return on long-term corporate bonds currently available and expected to be available during the period to the maturity of the pension benefits. TDK established the expected long-term rate of return on plan assets based on management's expectations in respect of the long-term returns of the various plan asset categories in which it invests. Management developed expectations with respect to each plan asset category based on actual historical returns and its current expectations for future returns.

A decrease in the discount rate leads to an increase in actuarial pension benefit obligations that could lead to an increase in net periodic pension cost through amortization of unrecognized actuarial gain or losses.

An increase in the expected return on plan assets may decrease net periodic pension cost. However, the difference between the expected return and the actual return on those assets could negatively affect net income in future years.

Deferred tax assets

TDK has significant deferred tax assets, which are subject to realizability assessment. In assessing the realizability of deferred tax assets, TDK considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. TDK considers the planned reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, TDK believes that it is more likely than not that all of the deferred tax assets less valuation allowance, will be realized. However, in the event future projections for income are not realized or are realized in lesser amounts, or in cases where TDK revises the assessment of the potential for realization of deferred tax assets based on other factors, deferred tax assets may be determined not to be realizable, which then would require TDK to increase a valuation allowance against the deferred tax assets resulting in additional income tax expenses.

② Recognition, analysis and discussion regarding operating results, etc. in the fiscal year

Operating results and factors significantly impact to operating results

In fiscal 2020, TDK posted consolidated net sales of ¥1,363,037 million, down 1.4% from fiscal 2019. TDK recorded operating income of ¥97,870 million, a decrease of 9.2% year on year. TDK recorded net income attributable to TDK of ¥57,780 million, a decrease of 29.7% compared to fiscal 2019.

Impact from worsening ties between the U.S. and China intensified with each passing day heading into the end of 2019, and economic deceleration in China and the rest of the world became clear. In the Fourth quarter, economic activity stalled in each country due to the spread of COVID-19, and production of electronics and demand for electronic components were affected more than initially anticipated. As a result, net sales declined 1.4% year on year, and operating income decreased 9.2% year on year.

Despite a tough global demand climate throughout the year, sales of Rechargeable Batteries continued to grow by capturing demand in the ICT market from the start of the fiscal year and expanding applications. As a result, Energy Application Products segment sales and profits grew, and both net sales and operating income reached new record highs.

In the automotive and the industrial equipment markets, which were significantly affected by trade tensions between the U.S. and China, demand was weak and sharply trailed expectations from the start of the fiscal year. This had a substantial impact on sales of many products in the Passive Components segment, as well as conventional sensors in the Sensor Application Products segment in particular. On the other hand, demand was strong in the ICT market and sales to the ICT market increased year on year. Amid growth in demand for 5G applications, sales of Rechargeable Batteries and High-Frequency Components for smartphones and base stations increased to secure higher sales and profits and driving companywide earnings.

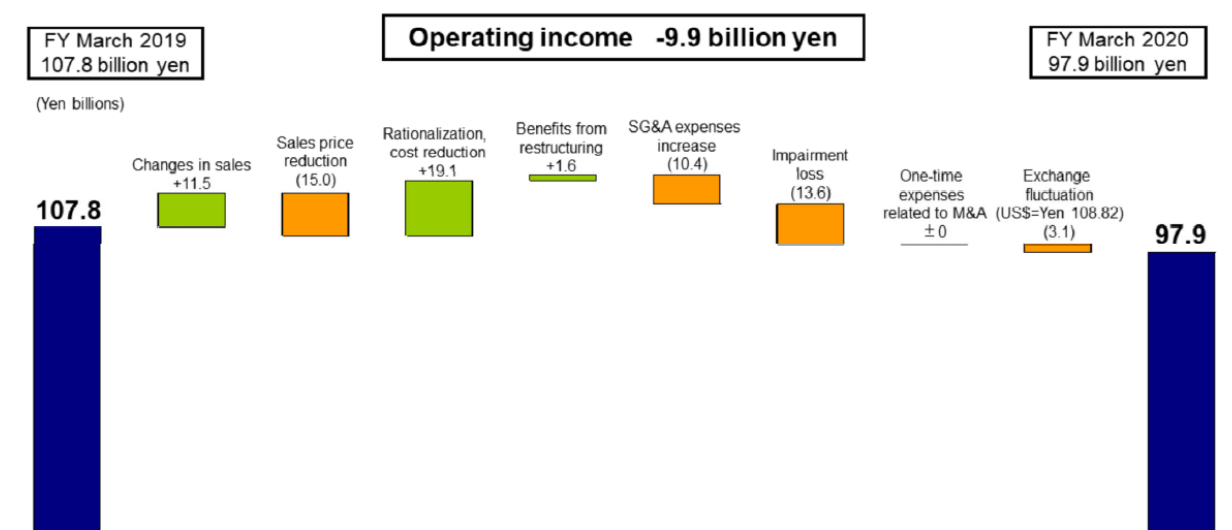
In the fourth quarter, it was determined that significant earnings recovery over a short period of time would be difficult due to prolonged low demand in the automotive and the industrial equipment markets. Accordingly, we recorded an impairment loss of about ¥16.5 billion yen on manufacturing and related facilities for Magnets and Aluminum Electrolytic Capacitors. Additionally, we posted an impairment loss of about ¥1.8 billion yen on surplus facilities, owing to improvement on the development system.

The impact of the yen's appreciation against the U.S. dollar and the euro caused new sales to contract by around ¥40.7 billion yen and operating income by around ¥3.1 billion yen. Net sales were ¥1,363.0 billion yen, a decrease of ¥18.8 billion yen, or 1.4%, year on year. Operating income was ¥97.9 billion yen, down ¥9.9 billion yen, or 9.2%. This includes impairment losses of ¥18.5 billion yen. Income before income taxes was ¥95.9 billion yen, net income was ¥57.8 billion yen, and earnings per share were ¥457.47 yen. We estimate that suspensions of shipments and plant operations in the fourth quarter due to the spread of COVID-19 led to decrease of net sales by about ¥28.0 billion yen and operating income by around ¥12.0 billion yen.

With regard to exchange rate sensitivity, it is estimated that a change of 1 yen against the U.S. dollar affected annual operating income by about 1.2 billion yen while a change against the euro had an impact of about 0.2 billion yen.

The following is the breakdown of change in operating income ¥9.9 billion.

Breakdown of operating income changes



First, there was an increase in profits of about ¥11.5 billion yen due to sales volume growth, despite including negative impact of about ¥12.0 billion yen from the spread of COVID-19. Next, negative impact of around ¥15.0 billion yen from reduction in sales prices was absorbed by positive impact of about 19.1 billion yen from rationalization and cost reductions, which, along with benefits of about 1.6 billion yen from restructuring, contributed to increased earnings by strengthening our constitution. Expenses related to the InvenSense acquisition were about ¥5.4 billion yen for the fiscal year, unchanged from the previous fiscal year. Administration and development expenses in connection with business expansion in Rechargeable Batteries increased by ¥10.4 billion yen, exchange rate fluctuations had a negative impact of around ¥3.1 billion yen, and there was an increase of ¥13.6 billion yen in impairment losses. As a result, the overall decrease in operating income was ¥9.9 billion yen.

Capital resources and liquidity of funds

TDK's fundamental policy is to keep liquidity needed for operating business and funds resources consistently and TDK has been trying to maintain its liquidity level of liquid funds, which includes cash and deposits with banks, short-term investments and marketable securities, etc., at 2.0 months or more of monthly net sales by introducing a cash management system in Japan, U.S., Europe, China and ASEAN to improve group efficiency funds, commitment line contract and so on for liquidity. The balance of liquid funds amounted to ¥365,267 million as of March 31, 2020, which was equal to approximately 3.2 months of average monthly net sales. TDK is taking measures to financially prepare for the impact of COVID-19, including prolonged economic stagnation, on the company's cash flow. Measures include expanding liquidity assets and considering extending terms for loans from banks, issuing corporate bonds, and increasing commitment line agreements' contract amount.

TDK's operating funds demands are primarily manufacturing expenses such as the purchase of raw materials and parts for use in the manufacture of its products, operating expenses such as selling, general and administrative expenses and R&D expenses aimed to develop new product continuously. In addition, long term funds demands are capital investment to correspond precisely to rapid technological innovation in electronics markets and intensifying sells competition, M&A aimed for further strategic growth and so on.

As procurement policy, basic for short term operating funds are own funds and short term loan from financial institution and for capital investment and long term funds are long term loan from financial institution and corporate bonds, etc. The balance of debt with interest, which includes loans from banks, corporate bonds, and lease obligations, amounted to ¥424,690 million as of March 31, 2020.

Management policy, management strategy, indicator to judge achievement status of management goal, etc.

TDK is working to strengthen our performance management framework as a part to put growth strategy conceived by TDK into practice with organically tying not only to our finance and capital strategy, but all the way to policies on the front lines. TDK has introduced TDK Value Added (TVA) as a comparison of return against capital cost (the weighted average cost of capital, or WACC, multiplied by invested capital), which was introduced in 1999. Under the logic tree tied to this TVA, we not only evaluate the profitability of each business, the efficiency of business assets, and the ability to capture cash, but also factorize and monitor KPIs tailored to specific front-line policies and business characteristics. This not only allows as to unite as a single company in promoting our growth strategy, but, we believe, will enable us to build a financial constitution capable of achieving ROE of 14% or more in mid-term by also tying that strategy to selection and consolidation of capital expenditures through stronger management of investment efficiency.

ROE in fiscal 2020 was 6.7%, a 3.0 point decrease from fiscal 2019 9.7%.

In analyzing the decrease of ROE in comparison to fiscal 2019, stockholders' equity, one of the composing elements of ROE, has recorded an increase in retained earnings in reflecting earnings from the past 3 years, which led to a decrease in ROE. Another element composing ROE, net income attributable to TDK, has decreased in fiscal 2020 and this has led to a decrease in ROE. This is the result of the following: sales to automotive markets and industrial equipment markets decreased despite the increase in sales for the ICT market, sales price reduction and impairment loss led to decrease in operating income, and equity in earnings of affiliates decreased.

In the three-year medium-term plan running through fiscal 2021, ROE of over 14% has been raised as a target. Investments on primary business and efficient investments to develop new products and new business has been conducted to improve profitability and asset efficiency. In the fiscal 2021 consolidated projections, TDK foresees that the stagnation in global economic activity caused by the spread of COVID-19 will have a large impact on the electronics market. With production volume of automobiles and smartphones projected to decrease year on year, TDK predicts that a downturn in demand for electronic components cannot be avoided; therefore, with the current projections, it is estimated that ROE 14% is difficult to accomplish

Recognition, analysis and discussion regarding financial position and operation result by segment

(Passive Components Segment)

This segment is made up of (1) Capacitors, (2) Inductive Devices, and (3) Other Passive Components. Sales in the Passive Components segment were ¥395,456 million, down 8.8% year on year from ¥433,406 million. Segment profit was ¥39,072 million, down 33.1% year on year from ¥58,438 million. Segment asset was ¥566,577 million, down 13.0% year on year from ¥651,154 million.

Segment sales results by business for fiscal 2020 were as follows.

Capacitors is made up of Ceramic Capacitors, Aluminum Electrolytic Capacitors, and Energy Capacitors. Sales in the Capacitors were ¥153,882 million, down 11.2% year on year from ¥173,331 million. Sales of Inductive Devices decreased by 8.3% year on year from ¥149,991 million to ¥137,572 million. Other Passive Components include High-Frequency Devices, Piezoelectric Material Products and Circuit Protection Components. Sales of Other Passive Components decreased by 5.5% year on year from ¥110,084 million to ¥104,002 million.

Weak demand in the automotive and the industrial equipment markets due to impact from ongoing trade friction between the U.S. and China since the start of the fiscal year was compounded by impact from inventory adjustments at major distributors in the U.S. and Europe. Subsequently, sales slumped and profit declined for Aluminum Electrolytic Capacitors and Film Capacitors as well as Capacitors, Inductors, and Piezoelectric Material Products and Circuit Protection Components, for which the automotive and the industrial equipment markets account for a large share of sales. For Aluminum Electrolytic Capacitors, excess production capacity due to weaker demand resulted in the recording of an impairment loss of about ¥2.1 billion yen in the fourth quarter.

On the other hand, demand in the ICT market was strong from the beginning of the fiscal year. The startup of 5G came into full swing, mainly in China, and, though there was impact from the spread of COVID-19 in the fourth quarter, High-Frequency Components secured growth in sales and profit.

(Sensor Application Products Segment)

This segment is made up of Temperature and Pressure Sensors, Magnetic Sensors and MEMS Sensors. Segment sales increased by 1.9% year on year from ¥76,467 million to ¥77,938 million. Segment loss was ¥25,024 million, year on year from ¥22,125 million. Segment asset was ¥219,485 million, down 3.1% year on year from ¥226,520 million.

As a growth strategy, this segment aimed to expand sales. However, it resulted in a mere 1.9% increase year on year for sales and expansion of segment deficit.

The segment's products were sharply divided into two groups. Products that were significantly affected by the economy and saw sales decline, and products that got on board with the growth strategy and saw sales rise. Sales of conventional sensors such as Temperature Sensors and Hall Sensors were lacking, owing to impact from weak global demand in the automotive and the industrial equipment markets. Their sales declined markedly from fiscal 2019 and their profits deteriorated, which had a major impact on overall business earnings. In contrast, TMR Sensors, a strategic product expected to see growth, made progress on adoption for automotive applications, volumes grew, and sales rose. For smartphone applications as well, TMR Sensors made headway on adoption for new smartphone models, sales expanded, and profits have taken hold. In MEMS Sensors, sales of Motion Sensors steadily rose to new customers and sales of MEMS Microphones grew for smartphone and IoT applications, but sufficient sales growth and earnings contributions were not attained.

(Magnetic Application Products Segment)

This segment is made up of HDD Heads, HDD Suspension Assemblies, and Magnets. Segment sales decreased by 19.5% year on year, from ¥272,807 million to ¥219,668 million. Segment profit was ¥425 million, down 97.5% year on year from ¥17,022 million. Segment asset was ¥358,422 million, down 3.9% year on year from ¥373,085 million.

For HDD Heads and HDD Suspension Assemblies, overall sales declined about 18% and profit decreased as less total HDD demand led to roughly 4% lower volumes for HDD Heads and some products reached end of life in HDD assemblies, but growth in high-value-added products contributed to a rise in profitability from fiscal 2019.

In Magnets, sales decreased due to our withdrawal from Magnets for HDDs and impact from low demand for the industrial equipment and the automotive markets, such as industrial robots and machine tools, and ongoing harsh business conditions led to the recording of an impairment loss of ¥14.4 billion yen in the fourth quarter.

(Energy Application Products Segment)

This segment is made up of Energy Devices (Rechargeable Batteries). Segment sales increased by 11.2% from ¥537,502 million to ¥597,698 million. Segment profit was ¥124,149 million, up 36.4% year on year from ¥91,036 million. Segment asset was ¥805,366 million, up 21.7% year on year from ¥661,595 million.

In Rechargeable Batteries, sales increased about 15% year on year and profitability rose. This reflects a sharp rise in sales for smartphone applications and strong sales for tablet and laptop applications, along with a steady increase in sales of minicells for wearable products such as wireless earphones.

Power Supplies for industrial equipment saw profit decrease as sales declined to the industrial equipment market, owing to significant impact from less demand for capital expenditures due to economic slowdown.

(Other)

The Other segment, businesses which do not belong to any of the four reportable segments, includes Mechatronics (Production Equipment) and Others. Segment sales increased by 17.3% from ¥61,624 million to ¥72,277 million. Segment loss was ¥8,590 million, year on year from ¥6,727 million. Segment asset was ¥88,342 million, up 23.0% year on year from ¥71,811 million.

4. Important operational contracts, etc.

No items to report

5. Research and development activities

In its R&D activities, TDK is working to continuously strengthen and expand the development of new products that respond to diversification in the electronics field. In particular, TDK is concentrating on the ICT field, the automotive field, and the industrial equipment and energy field. By product development taking full advantage of its strengths in terms of manufacturing capabilities, TDK is contributing to upgrade the functionality, drive the miniaturization, and raise the energy efficiency of electronic devices. Based on the technology strategy capturing the market change in these 3 fields, TDK sets sensors and actuators, energy units and next-generation electric components as strategic growth products, of that future demand increase is promising. TDK puts more effort into capturing business opportunities in the IoT market. For sensors and actuators, TDK is aiming to provide customers with a wide range of sensor solutions by connecting MEMS (Micro Electro Mechanical System) and software. For energy unit, TDK is focusing on the development of energy unit using TDK's batteries, power supplies and wireless power transfer, and also focusing on magnet, of that demand is increasing for motor use. For next-generation electric components, TDK promotes to develop the high-value added products that respond to diversifying market needs by the fusion of SESUB(Semiconductor Embedded SUBstrate) technology, thin-film technology and materials technology. It was one of TDK's achievements in fiscal 2020 that TDK succeeded in establishing technology for mass producing Microwave Assisted Magnetic Recording (MAMR) which would lead to world class HDD heads recording density.

Looking at Head Office research and development functions, TDK flexibly reshapes the research and development framework to ensure that its highly specialized engineers in their respective market sectors are able to conduct research and development based on creative ideas. While honing the fundamental technologies shared by the entire Company, TDK is focused on development activities aimed at commercializing products over the medium and long terms. Guided by the slogan, "Link Technology to customers, Prepare technology for the future." TDK is pushing ahead with development activities that will benefit customers in preparation for tomorrow's society. In doing so, we aim to put our technologies at the service for customers.

In the Passive Components field, TDK is developing next-generation multilayer ceramic chip capacitors, inductors and EMC components with miniaturization and high performance. Moreover, TDK is strengthening its hand in modules, where high-frequency applications are becoming prevalent.

In the Sensor Application Product field, TDK is developing sensor elements that offer higher accuracy and package solutions with high integration and greater reliability.

In the Magnetic Application Products field, TDK is strengthening the development of high performance rare earth magnets, next-generation ferrite magnets and high recording density next-generation heads, and devices for hybrid and electric vehicles. TDK aims to develop highly efficient power supplies appropriate to the societal trend towards low energy consumption and reduce carbon dioxide emission. TDK allocates development resources to the reduction of the amount of rare earth elements and the development of magnets that do not contain rare earth elements. Through these efforts, TDK aims to avoid sales price rises caused by soaring prices of raw materials for rare earth elements.

In the Energy Application Products field, TDK is developing materials for next-generation lithium batteries.

For these R&D activities, based on a technology strategy of grasping market change, TDK is focusing on developing strategic growth products (Sensors and Actuators, Energy Units, and Next-Generation Electronic Components) in the core markets above, where future growth is promising, and also has built a four-base system for global R&D (Japan, America, Europe, Asia), and is developing products in collaboration with R&D organizations and leading companies around the world based on a first-to-market mindset.

Especially with Sensors, which are a vital device for the IoT era, TDK aims to offer innovative next generation products and platforms by sensor fusion, the combination of sensor technologies and software taking into consideration for collaboration with the companies holding technology assets necessary for the realization.

Furthermore, in its R&D activities, TDK is pushing ahead to recruit and train outstanding talent and introduce cutting-edge theoretical research. Under this policy, TDK is proactively forming industry-government-academic alliances with public institutions, universities and research institutions around the world regarding source technologies that TDK does not possess. Notably, TDK concludes an organizational alliance agreement with the Tokyo Institute of Technology, advances joint research, etc. and cooperates with WISE Program (Doctoral Program for World-leading Innovative & Smart Education).

Under this agreement, the joint research is being advanced with the aim of achieving highly original development results. R&D expenses in fiscal 2020 increased 2.0% year on year to ¥117,489 million, 8.6% of net sales.

III. Facilities

1. Outline of capital expenditures

In fiscal 2020, TDK spent ¥173,429 million on capital expenditures to accurately respond to the rapid technological innovation and the intensified sales competition in the electronics market to which TDK belongs.

Capital expenditures in the Passive Components segment totaled ¥33,355 million. These expenditures were mainly for the purpose of increasing the production capacity and rationalization of ceramic capacitors and inductive devices.

Capital expenditures in the Sensor Application Products segment totaled ¥6,787 million. These expenditures were mainly for the purpose of increasing the production capacity of each sensor products.

Capital expenditures in the Magnetic Application Products segment totaled ¥31,408 million, mainly for the production of high-density next-generation heads for HDDs and micro actuator suspensions.

Capital expenditures in the Energy Application Products segment totaled ¥80,078 million, mainly to boost and rationalize production of lithium-ion polymer batteries.

Capital expenditures in the Other totaled ¥14,572 million.

Capital expenditures for the R&D divisions at the headquarters totaled ¥7,229 million mainly for investments in internal IT infrastructure construction and fundamental development research.

2. Main facilities

Main facilities of TDK are as follows.

(1) Passive Components

a. Filing company (the Company)

Name of facility (Location)	Description	Book value (Millions of yen)					Number of employees (Person)
		Buildings and structures	Machinery, equipment and vehicles	Land (thousand m ²)	Construction in progress	Total	
Honjo Plant (Nikaho City, Akita Pref.) 3 other plants in the Pref. 1 other plant in Yamanashi Pref	Manufacturing passive components	34,538	53,101	3,796 (540)	3,922	95,358	1,382

Note: Tools, furniture and fixtures are included in the book value of "Machinery, equipment and vehicles."

b. Domestic subsidiaries

Name of company (Location)	Description	Book value (Millions of yen)					Number of employees (Person)
		Buildings	Machinery and equipment	Land (thousand m ²)	Construction in progress	Total	
TDK Shonai Corporation (Tsuruoka City, Yamagata Pref. and other locations)	Manufacturing passive components	4,631	2,651	1,248 (94)	-	8,530	829
TDK Akita Corporation (Yurihonjo City, Akita Pref. and other locations)	Manufacturing passive components	4,765	303	1,046 (191)	218	6,332	2,580

c. Overseas subsidiaries

Name of company (Location)	Description	Book value (Millions of yen)					Number of employees (Person)
		Buildings	Machinery and equipment	Land (thousand m ²)	Construction in progress	Total	
TDK Xiamen Co., Ltd. (China)	Manufacturing passive components	3,568	12,052	—	848	16,468	4,628
TDK Electronics GmbH & Co OG (Austria)	Manufacturing passive components	4,518	8,710	540 (123)	333	14,101	841
TDK Hungary Components Kft. (Hungary)	Manufacturing passive components	3,103	6,404	324 (32)	2,364	12,195	2,072
TDK Dalian Corporation (China)	Manufacturing passive components	1,876	7,376	—	559	9,811	1,564
TDK (Zhuhai FTZ) Co., Ltd. (China)	Manufacturing passive components	1,423	6,138	—	1,604	9,165	3,151
TDK (Zhuhai) Co., Ltd. (China)	Manufacturing passive components	317	5,347	—	644	6,308	4,683

(2) Sensor Application Products

a. Overseas subsidiaries

Name of facility (Location)	Description	Book value (Millions of yen)					Number of employees (Person)
		Buildings and structures	Machinery, equipment and vehicles	Land (thousand m ²)	Construction in progress	Total	
TDK-Micronas GmbH (Germany)	Manufacturing sensor application products	2,382	7,824	985 (51)	615	11,806	716

(3) Magnetic Application Products

a. Filing company (the Company)

Name of facility (Location)	Description	Book value (Millions of yen)					Number of employees (Person)
		Buildings and structures	Machinery, equipment and vehicles	Land (thousand m ²)	Construction in progress	Total	
Narita Plant (Narita City, Chiba Pref.) 1 other plant in Shizuoka Pref.	Manufacturing magnetic application products	3,688	1	2,068 (169)	32	5,791	540

Note: Tools, furniture and fixtures are included in the book value of "Machinery, equipment and vehicles."

b. Overseas subsidiaries

Name of company (Location)	Description	Book value (Millions of yen)					Number of employees (Person)
		Buildings	Machinery and equipment	Land (thousand m ²)	Construction in progress	Total	
Headway Technologies, Inc (U.S.A)	Manufacturing magnetic application products	2,306	11,087	—	4,133	17,526	697
Magnecomp Precision Technology Public Co., Ltd. (Thailand)	Manufacturing magnetic application products	1,594	12,641	578 (136)	1,829	16,642	5,204
Hutchinson Technology Incorporated (U.S.A)	Manufacturing magnetic application products	3,537	9,500	179 (102)	2,266	15,482	887
SAE Magnetics (H.K.) Ltd. (China (Hong Kong))	Manufacturing magnetic application products	926	12,786	—	490	14,202	456

(4) Energy Application Products

a. Domestic subsidiaries

Name of company (Location)	Description	Book value (Millions of yen)					Number of employees (Person)
		Buildings	Machinery and equipment	Land (thousand m ²)	Construction in progress	Total	
TDK-Lambda Corporation (Chuo-ku, Tokyo and other locations)	Manufacturing energy application products	1,038	763	363 (64)	61	2,225	609

b. Overseas subsidiaries

Name of company (Location)	Description	Book value (Millions of yen)					Number of employees (Person)
		Buildings	Machinery and equipment	Land (thousand m ²)	Construction in progress	Total	
Ningde Amperex Technology Ltd. (China)	Manufacturing energy application products	55,682	79,169	—	25,776	160,627	26,581
Dongguan Amperex Technology Ltd. (China)	Manufacturing energy application products	3,764	10,033	—	1,097	14,894	6,528

(5) Corporate (Common) and Other

a. Filing company (the Company)

Name of facility (Location)	Description	Book value (Millions of yen)					Number of employees (Person)
		Buildings and structures	Machinery, equipment and vehicles	Land (thousand m ²)	Construction in progress	Total	
Technical Center (Ichikawa City, Chiba Pref.)	Corporate (Common) and Other	12,583	1,313	1,205 (36)	1	15,103	408
Narita Plant (Narita City, Chiba Pref.)	Corporate (Common)	1,602	1,090	767 (47)	7,072	10,533	183
Asama Techno Plant (Saku City, Nagano Pref) 1 other plant in Oita Pref.	Other	4,568	4,848	1,805 (270)	1,885	13,108	676

Notes: 1. Tools, furniture and fixtures are included in the book value of "Machinery, equipment and vehicles."
2. Technical Center is mainly a corporate (common) facility, but it also includes business segments which are classified as Other. However, due to difficulties in drawing such distinctions, it is displayed under "Corporate (Common) and Other".

3. Plan for installation and retirement, etc. of facilities

TDK conducts a broad range of operations in Japan and overseas. As of March 31, 2020, plans of new constructions and expansions of facilities for these operations had not been decided for each individual project. For this reason, figures are disclosed by each business segment. Capital expenditure plans (new constructions and expansions) within the one year period following fiscal 2020 are ¥180,000 million and the breakdown by business segment is as follows.

Name of business segment	Projected amount at the end of fiscal 2020 (Millions of yen)	Main contents and objectives of facilities, etc.	Capital resource
Passive Components	32,000	Production capacity increase and rationalization of ceramic capacitors, inductive devices, and high-frequency devices.	—
Sensor Application Products	5,000	Production capacity increase of each sensor products	—
Magnetic Application Products	32,000	Developing and manufacturing facilities of high-density next-generation heads for HDD and micro actuator suspensions	—
Energy Application Products	99,000	Production capacity increase of lithium-ion polymer batteries and rationalization of facilities	—
Other	4,000	—	—
HQ/R&D divisions	8,000	Establishment of internal IT system and basic research and development	—
Total	180,000	—	Own capital and borrowing

Notes: 1. Consumption taxes, etc. are not included.

2. There are no plans for retirement or sale of important facilities except for the regular retirement or sale related to updating facilities.

IV. Filing company

1. Status of the Company's shares

(1) Total number of shares authorized, etc.

a. Total number of shares authorized

Class	Total number of shares authorized by the Company (Shares)
Common stock	480,000,000
Total	480,000,000

b. Number of shares issued

Class	Number of issued shares (As of March 31, 2020)	Number of issued shares (As of the date of filing: June 23, 2020)	Name of financial instruments exchange where the stock of the Company is traded or the name of authorized financial instruments firms association where the Company is registered	Details
Common stock	129,590,659	129,590,659	Tokyo Stock Exchange (First Section)	Share unit number 100 shares
Total	129,590,659	129,590,659	—	—

Note: The number of shares issued by exercise of stock acquisition rights between June 1, 2020 and the date of filing of this Annual Securities Report, is not included in "Number of issued shares".

(2) Status of stock acquisition rights

Stock Acquisition Rights, Etc., Granted to the Company's Directors and Audit & Supervisory Board Members as of the End of the Fiscal Year Under Review in Consideration for the Performance of Their Duties

a. Share-Based Compensation Type Stock Acquisition Rights

Issue	Issue resolution date	Number of stock acquisition rights	Class and number of shares to be issued upon the exercise of stock acquisition rights	Amount to be paid for stock acquisition rights (issue price)	Exercise period of stock acquisition rights (both days inclusive)	Directors' and Audit & Supervisory Board Members' holdings	
						Directors	Audit & Supervisory Board Members
2005	June 29, 2005	26	2,600 shares of common stock	Free of charge	From July 1, 2005 to June 30, 2025	—	—
2008	May 28, 2008	17	1,700 shares of common stock	¥5,967 (fair value)	From July 6, 2008 to July 5, 2028	—	—
2009	May 27, 2009	68	6,800 shares of common stock	¥4,021 (fair value)	From July 5, 2009 to July 4, 2029	—	—
2010	May 26, 2010	137	13,700 shares of common stock	¥4,213 (fair value)	From July 4, 2010 to July 3, 2030	1 person, 7 rights	—
2011	May 25, 2011	196	19,600 shares of common stock	¥3,925 (fair value)	From July 3, 2011 to July 2, 2031	1 person, 18 rights	1 person 3 rights
2012	June 21, 2012	184	18,400 shares of common stock	¥2,770 (fair value)	From July 8, 2012 to July 7, 2032	1 person, 25 rights	1 person 3 rights
2013	June 19, 2013	204	20,400 shares of common stock	¥3,112 (fair value)	From July 7, 2013 to July 6, 2033	1 person, 24 rights	1 person 15 rights
2014	June 18, 2014	297	29,700 shares of common stock	¥4,136 (fair value)	From July 6, 2014 to July 5, 2034	1 person, 24 rights	2 people 28 rights
2015	July 31, 2015	480	48,000 shares of common stock	¥6,806 (fair value)	From August 23, 2015 to August 22, 2035	3 people, 64 rights	2 people 42 rights
2016	June 17, 2016	400	40,000 shares of common stock	¥4,273 (fair value)	From July 10, 2016 to July 9, 2036	3 people, 126 rights	2 people 25 rights
2017	June 16, 2017	244	24,400 shares of common stock	¥6,584 (fair value)	From July 9, 2017 to July 8, 2037	3 people, 58 rights	2 people 17 rights
2018	March 23, 2018	812	81,200 shares of common stock	¥8,373 (fair value)	From April 8, 2018 to April 7, 2038	3 people, 286 rights	2 people 29 rights
2018	June 20, 2018	24	2,400 shares of common stock	¥10,410 (fair value)	From July 8, 2018 to July 7, 2038	1 person, 24 rights	—

Issue	Issue resolution date	Number of stock acquisition rights	Class and number of shares to be issued upon the exercise of stock acquisition rights	Amount to be paid for stock acquisition rights (issue price)	Exercise period of stock acquisition rights (both days inclusive)	Directors' and Audit & Supervisory Board Members' holdings	
						Directors	Audit & Supervisory Board Members
2019	March 26, 2019	187	18,700 shares of common stock	¥8,562 (fair value)	From April 7, 2019 to April 6, 2039	3 people, 39 rights	—
2019	June 19, 2019	32	3,200 shares of common stock	¥7,800 (fair value)	From July 7, 2019 to July 6, 2039	1 person, 32 rights	—
2020	March 25, 2020	10	1,000 shares of common stock	¥7,596 (fair value)	April 12, 2020 to April 11, 2040	2 people, 4 rights	—
2020	May 25, 2020	2	200 shares of common stock	¥7,596 (fair value)	June 14, 2020 to June 13, 2040	1 person, 2 rights	—

Notes: 1. The exercise price is ¥1 per share.

2. Stock acquisition rights have not been granted to Outside Directors and Audit & Supervisory Board Members.

3. Stock acquisition rights held by Directors include stock acquisition rights granted when they were Corporate Officers of the Company.

4. Stock acquisition rights held by Audit & Supervisory Board Members were granted during appointment as Corporate Officers of the Company.

(Reference) Stock acquisition rights, etc., held by Directors, Audit & Supervisory Board Members, Corporate Officers and employees, etc., of the Company and its subsidiaries as of March 31, 2020

Number of Stock-Linked Compensation Stock Acquisition Rights	Class and number of shares to be issued upon the exercise of stock acquisition rights	Percentage of the number of stock acquisition rights in the total number of the issued shares
3,308	330,800 shares of common stock	0.26%

(3) Status of exercise of moving strike convertible bonds (MSCB), etc.

No items to report

(4) Details of rights plan

No items to report

(5) Trends in total number of issued shares, capital stock, etc.

Date	Fluctuation in the total number of issued shares (shares)	Balance of total number of issued shares (shares)	Fluctuation in capital stock (Millions of yen)	Balance of capital stock (Millions of yen)	Fluctuation in additional paid-in capital (Millions of yen)	Balance of additional paid-in capital (Millions of yen)
August 10, 2007 (Note)	(3,599,000)	129,590,659	—	32,641	—	59,256

Note: Decrease due to cancellation of treasury stock.

(6) Shareholder composition

(As of March 31, 2020)

Category	Shareholder composition (Number of shares consisting one unit: 100)								Shares less than one unit (Shares)
	Public sector	Financial institutions	Financial instruments business operators	Other corporations	Foreign investors		Individuals, etc.	Total	
					Companies , etc.	Individuals			
Number of shareholders (Person)	—	109	42	259	788	38	19,213	20,449	—
Number of shares held (Share units)	—	641,581	47,038	10,597	482,043	134	113,990	1,295,383	52,359
Holding rate of shares (%)	—	49.53	3.63	0.82	37.21	0.01	8.80	100.00	—

Notes: 1. In the “Other corporations” column, three share units in the name of Japan Securities Depository Center, Inc. are included.
2. 3,271,526 treasury shares of which 32,715 share units are included in “Individuals, etc.” and 26 shares are included in “Shares less than one unit.”

(7) Status of major shareholders

(As of March 31, 2020)

Name of shareholder	Address	Number of shares held (Thousands of shares)	Percentage of number of shares held in the total number of issued shares (%)
The Master Trust Bank of Japan, Ltd.(Trust account)	2-11-3, Hamamatsucho, Minato-ku, Tokyo, Japan	26,862	21.27
Japan Trustee Services Bank, Ltd.(Trust account)	1-8-11, Harumi, Chuo-ku, Tokyo, Japan	14,670	11.61
Trust & Custody Services Bank, Ltd.(Securities investment trust account)	1-8-12, Harumi, Chuo-ku, Tokyo, Japan	3,334	2.64
Japan Trustee Services Bank, Ltd.(Trust account 9)	1-8-11, Harumi, Chuo-ku, Tokyo, Japan	2,842	2.25
JPMC OPPENHEIMER JASDEC LENDING ACCOUNT	Colorado, USA (2-7-1, Marunouchi, Chiyoda-ku, Tokyo, Japan)	2,337	1.85
JP MORGAN CHASE BANK 385151	London, UK 2-15-1, Harumi, Chuo-ku, Tokyo, Japan	2,090	1.65
STATE STREET BANK WEST CLIENT - TREATY 505234	Massachusetts, USA (2-15-11, Konan, Minato-ku, Tokyo, Japan)	2,040	1.61
Japan Trustee Services Bank, Ltd.(Trust account 5)	1-8-11, Harumi, Chuo-ku, Tokyo, Japan	1,968	1.56
Nippon Life Insurance Company	1-6-6, Marunouchi, Chiyoda-ku, Tokyo, Japan	1,640	1.30
Japan Trustee Services Bank, Ltd.(Trust account 7)	1-8-11, Harumi, Chuo-ku, Tokyo, Japan	1,613	1.28
Total	-	59,395	47.02

- Notes: 1. Other than the above, the Company holds 3,272 thousand shares of treasury stock.
2. In a Change Report that was disclosed to public on April 17, 2017, the share possessions by shareholders as of April 10, 2017, detailed below were described. However, as the Company cannot confirm the numbers of such shares substantially held as of March 31, 2020, the details were not included in the above "Status of major shareholders."

Name of shareholder	Address	Number of share certificates, etc. held (Shares)	Percentage of shares certificates held (%)
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2-7-1, Marunouchi, Chiyoda-ku, Tokyo, Japan	540,372	0.42
Mitsubishi UFJ Trust and Banking Corporation	1-4-5, Marunouchi, Chiyoda-ku, Tokyo, Japan	3,171,900	2.45
Mitsubishi UFJ Kokusai Asset Management Co., Ltd.	1-12-1, Yurakucho, Chiyoda-ku, Tokyo, Japan	3,068,400	2.37
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	2-5-2, Marunouchi, Chiyoda-ku, Tokyo, Japan	1,062,533	0.82
Total	-	7,843,205	6.05

3. In a Change Report that was disclosed to public on June 6, 2017, the share possessions by shareholders as of May 31, 2017, detailed below were described. However, as the Company cannot confirm the numbers of such shares substantially held as of March 31, 2020, the details were not included in the above “Status of major shareholders.”

Name of shareholder	Address	Number of share certificates, etc. held (Shares)	Percentage of shares certificates held (%)
BlackRock Japan Co., Ltd.	1-8-3, Marunouchi, Chiyoda-ku, Tokyo, Japan	2,858,000	2.21
BlackRock Investment Management LLC	New Jersey, USA	172,943	0.13
BlackRock Life Limited	London, UK	259,204	0.20
BlackRock Asset Management Ireland Limited	Dublin, Ireland	601,751	0.46
BlackRock Fund Advisors	San Francisco, USA	1,689,800	1.30
BlackRock Institutional Trust Company, N.A.	San Francisco, USA	2,004,106	1.55
BlackRock Investment Management (UK) Limited	London, UK	308,781	0.24
Total	—	7,894,585	6.09

4. In a Change Report that was disclosed to public on February 21, 2019, the share possessions by shareholders as of February 15, 2019, detailed below were described. However, as the Company cannot confirm the numbers of such shares substantially held as of the end of March 31, 2020, the details were not included in the above “Status of major shareholders.”

Name of shareholder	Address	Number of share certificates, etc. held (Shares)	Percentage of share certificates held (%)
Daiwa Asset Management Co. Ltd.	1-9-1, Marunouchi, Chiyoda-ku, Tokyo, Japan	6,322,200	4.88
Daiwa Securities Co. Ltd.	1-9-1, Marunouchi, Chiyoda-ku, Tokyo, Japan	164,400	0.13
Total	—	6,486,600	5.01

5. In a Change Report that was disclosed to public on July 19, 2019, the share possessions by shareholders as of July 15, 2019, detailed below were described. However, as the Company cannot confirm the numbers of such shares substantially held as of the end of March 31, 2020, the details were not included in the above “Status of major shareholders.”

Name of shareholder	Address	Number of share certificates, etc. held (Shares)	Percentage of shares certificates held (%)
Sumitomo Mitsui Trust Holdings, Inc.	1-4-1, Marunouchi, Chiyoda-ku, Tokyo, Japan	355,000	0.27
Sumitomo Mitsui Trust Asset Management Co., Ltd.	1-1-1, Shibakoen, Minato-ku, Tokyo, Japan	3,325,000	2.57
Nikko Asset Management Co., Ltd.	9-7-1 Akasaka, Minato-ku, Tokyo, Japan	7,706,000	5.95
Total	—	11,386,000	8.79

6. In a Change Report that was disclosed to public on November 22, 2019, the share possessions by shareholders as of November 15, 2019, detailed below were described. However, as the Company cannot confirm the numbers of such shares substantially held as of the end of March 31, 2020, the details were not included in the above “Status of major shareholders.”

Name of shareholder	Address	Number of share certificates, etc. held (Shares)	Percentage of share certificates held (%)
Asset Management One Co., Ltd.	1-8-2, Marunouchi, Chiyoda-ku, Tokyo, Japan	7,654,500	5.91
Mizuho Securities Co., Ltd.	1-5-1, Otemachi, Chiyoda-ku, Tokyo, Japan	321,900	0.25
Asset Management One International Ltd. Ltd.	London, UK	284,700	0.22
Total	—	8,261,100	6.37

7. In a Change Report that was disclosed to public on April 3, 2020, the share possessions by shareholders as of March 27, 2020, detailed below were described. However, as the Company cannot confirm the numbers of such shares substantially held as of the end of March 31, 2020, the details were not included in the above “Status of major shareholders.”

Name of shareholder	Address	Number of share certificates, etc. held (Shares)	Percentage of share certificates held (%)
NOMURA HOLDINGS, INC.	1-9-1, Nihonbashi, Chuo-ku, Tokyo, Japan	388,007	0.30
NOMURA INTERNATIONAL PLC	London, UK	22,623	0.02
Nomura Asset Management Co., Ltd.	1-12-1, Nihonbashi, Chuo-ku, Tokyo, Japan	15,164,500	11.70
Total	—	15,575,130	12.02

(8) Status of voting rights

a. Issued shares

(As of March 31, 2020)

Classification	Number of shares (Shares)	Number of voting rights (Units)	Content
Shares without voting rights	—	—	—
Shares with restricted voting rights (Treasury stock, etc.)	—	—	—
Shares with restricted voting rights (Other)	—	—	—
Shares with full voting rights (Treasury stock, etc.)	(Treasury stock) Common stock 3,271,500 (Cross-Holding stock) Common stock 92,000	—	—
Shares with full voting rights (Other)	Common stock 126,174,800	1,261,748	—
Shares less than one unit	Common stock 52,359	—	—
Total number of issued shares	129,590,659	—	—
Total number of voting rights	—	1,261,748	—

Note: The number of “Shares with full voting rights (Other)” includes 300 shares in the name of Japan Securities Depository Center, Inc. “Number of voting rights” includes three units of voting rights related to shares with full voting rights in its name.

b. Treasury stock, etc.

(As of March 31, 2020)

Name of shareholder	Address	Number of shares held under own name (Shares)	Number of shares held under the name of others (Shares)	Total number of shares held (Shares)	Percentage of total number of shares held in the total number of issued shares (%)
(Treasury stock) TDK Corporation	2-5-1, Nihonbashi, Chuo-ku, Tokyo, Japan	3,271,500	—	3,271,500	2.52
(Cross-Holding stock) TODA KOGYO CORP.	1-23, Kyobashi-cho, Minami-ku, Hiroshima City, Hiroshim Pref. Japan	90,000	—	90,000	0.07
(Cross-Holding stock) YURIKOGYO CO.,LTD.	2-659, Numatashinmichishita , Nishimemachi, Yurijonjo City, Akita Pref. Japan	2,000	—	2,000	0.00
Total	—	3,363,500	—	3,363,500	2.60

2. Status of acquisition, etc. of treasury stock

[Class of shares] Acquisitions of common stock that fall under Article 155, item (VII) of the Companies Act

(1) Acquisition by resolution of the General Meeting of Shareholders

No items to report

(2) Acquisition by resolution of the Board of Directors

No items to report

(3) Items not based on resolution of the General Meeting of Shareholders or Board of Directors

Category	Number of shares (Shares)	Total value (Yen)
Treasury stock acquired during the fiscal year ended March 31, 2020	485	4,799,700
Treasury stock acquired during the period under review	3	26,750

Note: Shares acquired by the purchase of shares less than one unit between June 1, 2020 and the date of filing of this Annual Securities Report are not included in the "Treasury stock acquired during the period under review."

(4) Status of disposal and ownership of acquired treasury stock

Category	Fiscal 2020		Period under review	
	Number of shares (Shares)	Total disposal value (Yen)	Number of shares (Shares)	Total disposal value (Yen)
Treasury stock acquired, for which subscription was offered	—	—	—	—
Treasury stock acquired, which were disposed	—	—	—	—
Treasury stock acquired, which were transferred for merger, share exchange or company split	—	—	—	—
Other (Note 1)	30,800	158,208,632	1,000	5,136,070
Treasury stock held	3,271,526	—	3,270,529	—

Notes: 1. "Fiscal 2020" and "Period under review" consists of disposals due to exercises of stock acquisition rights.
2. Shares disposed of between June 1, 2020 and the date of filing of this Annual Securities Report are not included in treasury stock disposed of during the period under review.
3. Shares acquired or disposed of between June 1, 2020 and the date of filing of this Annual Securities Report are not included in "Treasury stock held" during the period under review.

3. Dividend policy

The Company recognizes that achieving growth in corporate value over the medium-and long term ultimately translates into higher shareholder value. In line with this recognition, the Company's fundamental policy is to work to consistently increase dividends through growth in earnings per share. By actively investing for growth, mainly in the development of new products and technologies in key fields so as to respond precisely to rapid technological innovation in the electronics industry, the Company is aiming to increase medium- and long-term corporate value. Accordingly, the Company actively reinvests its profits in business activities and determines its dividends taking into consideration comprehensive factors such as return on stockholders' equity (ROE) and dividends on stockholders' equity (DOE) on a consolidated basis, as well as changes in the business environment.

The Company's basic policy is to pay dividends from surplus twice a year, at end of year and midterm, with the former determined by the Ordinary General Meeting of Shareholders and the latter by the Board of Directors.

The Articles of Incorporation of the Company prescribe "By resolution of the Board of Directors, the Company may pay interim dividends on September 30 of each year as a record date."

Dividends from surplus for the fiscal year ended March 31, 2020 term are as follows.

Resolution date	Total amount of dividends (Millions of yen)	Dividends per share (Yen)
Resolution of the Board of Directors held on October 31, 2019	11,368	90
The General Meeting of Shareholders held on June 23, 2020	11,369	90

4. Status of corporate governance, etc.

(1) Overview of corporate governance

① Basic views on corporate governance

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:

- a. Based on the founding spirit “Contribute to culture and industry through creativity” as the Corporate Motto of TDK which was established in 1935 as an entrepreneurial venture to industrialize a magnetic material called ferrite invented at Tokyo Institute of Technology, TDK unrelentingly pursues originality and increases corporate value through supplies of products and services which have created new value.
- b. 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.
- c. 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”.
- d. 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.
- e. 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

https://www.jp.tdk.com/ir/tdk_management_policy/governance/

② Overview of current system and reason for adoption

The Company is a company with the Audit & Supervisory Board and has implemented various measures to strengthen its corporate governance. In 2002, efforts to reform governance included the introduction of an executive officer system along with a significant reduction in the number of Directors for the purpose of clearly separating management’s monitoring and execution functions. In addition, to fortify the system for boosting shareholders’ confidence, we shortened the term of office of Directors from 2 years to 1 year and actively invited the participation of Outside Directors.

In addition, the Company has established 4 committees acting as advisory organizations to the Board of Directors (the Nomination Advisory Committee, the Compensation Advisory Committee, the Corporate Governance Committee, the Business Ethics Committee) to exact our business ethics and fulfill our social responsibilities as well as strengthen our management supervision functions and framework for fulfilling our duty of explanation to our shareholders and investors.

Further, TDK established “TDK Basic Policy on Corporate Governance” in 2016 June. The policy request to elect Independent Outside Directors which account for one-third or more of the Directors and to assign an Independent Outside Director as the chair of the Board of Directors in principle. TDK complies them.

In short, the Company has always believed it can realize a system to continuously ensure sound, compliant and transparent management through the introduction of a new framework that strengthens corporate governance based on its Audit & Supervisory Board System.

a. Organization of the Board of Directors

The Company has a small number of Directors to expedite the management decision-making process. At the same time, the Company appoints disinterested, independent Outside Directors in order to enhance the supervision of the Company’s management. In addition, the Company’s basic policy is to elect independent Outside Directors which account for one-third or more of the Directors and from the perspective of ensuring clear separation between management oversight and business execution, an independent Outside Director serves as the Chair of the Board of Directors in principle. Furthermore, the Directors’ terms of office are set at one year to give shareholders an opportunity to cast votes of confidence regarding Directors’ performance every fiscal year.

	Representative Director, President	Shigenao Ishiguro
	Representative Director	Tetsuji Yamanishi
	Director, Chairman	Makoto Sumita
	Director	Seiji Osaka
	Outside Director	Kazuhiko Ishimura
Chair of the board	Outside Director	Kazunori Yagi
	Outside Director	Kozue Nakayama

b. Organization of the Audit & Supervisory Board

The Company has adopted the Audit & Supervisory Board Member System pursuant to the Companies Act of Japan and has appointed independent Outside Audit & Supervisory Board Members who are disinterested in the Company to strengthen the supervision of the Company's management.

Chairperson Full-time Audit & Supervisory Board Member	Satoru Sueki
Full-time Audit & Supervisory Board Member	Takakazu Momozuka
Outside Audit & Supervisory Board Member	Jun Ishii
Outside Audit & Supervisory Board Member	Douglas K. Freeman
Outside Audit & Supervisory Board Member	Michiko Chiba

c. Overview of advisory organizations to the Board of Directors

< The Nomination Advisory Committee >

The Nomination Advisory Committee is chaired by an Outside Director of the Company and a half or more of the members are Outside Directors. The said Committee reviews the conditions expected for the post of Director, Audit & Supervisory Board Member, and Corporate Officer and makes nominations. In this way, the Nomination Advisory Committee ensures the appropriate election of Directors, Audit & Supervisory Board Members and Corporate Officers and provides transparency in the decision-making process.

Chair of the committee Outside Director	Kazunori Yagi
Outside Director	Kazuhiko Ishimura
Outside Director	Kozue Nakayama
Director, Chairman	Makoto Sumita
Representative Director, President	Shigenao Ishiguro

<The Compensation Advisory Committee>

The Compensation Advisory Committee is chaired by an Outside Director of the Company and a half or more of the members are Outside Directors. The said Committee examines the remuneration system and the level of remuneration pertaining to Directors and Corporate Officers, as well as presidents and qualifying officers of the Company's principal subsidiaries. It also reviews the transparency of the remuneration decision-making process and verifies whether such remuneration is reasonable in light of corporate business performance, individual performance and general industry standards.

Chair of the committee Outside Director	Kazuhiko Ishimura
Outside Director	Kazunori Yagi
Outside Director	Kozue Nakayama
Director, Chairman	Makoto Sumita
Director	Seiji Osaka

<The Corporate Governance Committee>

The Corporate Governance Committee conducts deliberations on matters concerning corporate governance, internal control system and its operation, etc. and continuously strives to enhance corporate governance for the Company's sustainable growth and increase of its corporate value over the mid- to long-term.

Chair of the committee Director, Chairman	Makoto Sumita
Committee Members	Some of the General Managers of HQ staff functions

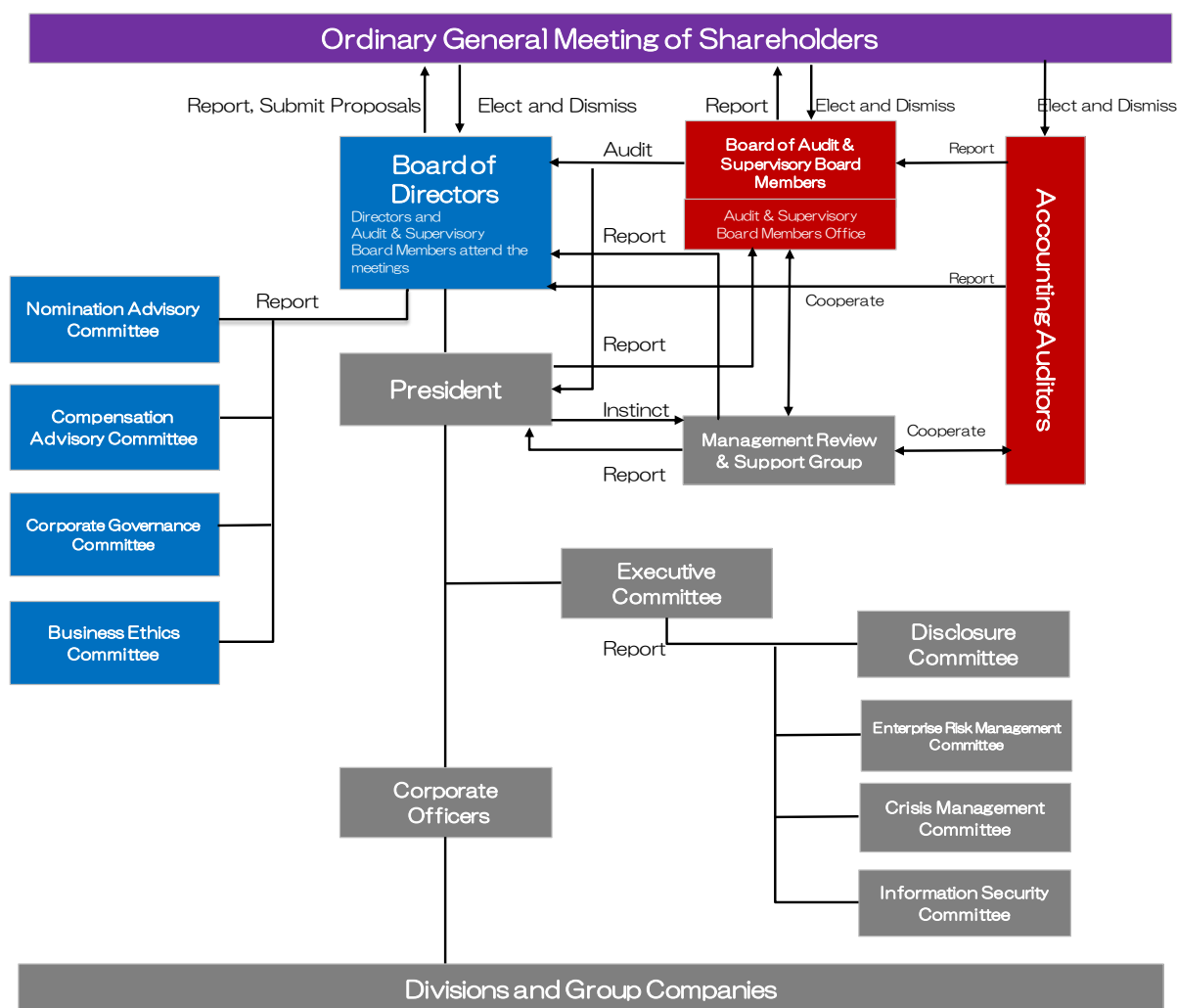
<The Business Ethics Committee>

The aim of the Business Ethics Committee is to ensure compliance with the TDK Corporate Motto, understanding of corporate ethics and improvement of awareness of corporate social responsibility (CSR). To achieve this aim, the Directors, Audit & Supervisory Board Members, Corporate Officers and all other members of TDK are made fully aware of the “TDK Code of Conduct”, which stipulates concrete standards of business conduct in compliance with the TDK’s management philosophy, including the TDK Corporate Motto, Corporate Principle and social norms, including relevant laws, regulations and international rules and the spirit thereof.

Chair of the committee General Manager of Human Resources HQ

Committee Members Some of the General Managers of HQ staff functions

d. Organization Chart



③Other matters relating to corporate governance

Establishment of systems for ensuring the execution of duties by Directors complies with laws and regulations and the Articles of Incorporation, and other systems for ensuring the properness of operations of a stock company and operations of a corporate group consisting of such stock company and its subsidiaries

With respect to the statement above, the Board of Directors of the Company resolved as follows:

=====

[Establishment of systems for ensuring the execution of duties by Directors complies with laws and regulations and the Articles of Incorporation, and other systems for ensuring the properness of operations of a stock company and operations of a corporate group consisting of such stock company and its subsidiaries] (Latest revision date: April 28, 2020)

- (1) Systems for ensuring the execution of duties by Directors of the Company complies with laws and regulations and the Articles of Incorporation:
- The Company was established in 1935 as an entrepreneurial venture to industrialize a magnetic material called ferrite invented at Tokyo Institute of Technology. In the ensuing years, the Company has unrelentingly pursued originality and increased corporate value through provisions of products and services which have created new value, based on the founding spirit “Contribute to culture and industry through creativity” as its Corporate Motto. In addition, TDK will continue to build satisfaction, trust, and support among all stakeholders (shareholders, customers, suppliers, employees and communities, among others), continue to be helpful by resolving social issues and contribute to the development of a more sustainable society. TDK clearly declares as “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 TDK seek to behave in strict compliance with the “Corporate Standards of Business Conduct” prescribed by the “TDK Code of Conduct”.
- In addition, the Company 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, the Company strives to foster a sound corporate culture and sincerely conduct business activities, always aware of its place as a member of society. Moreover, the Company will be accountable to stakeholders through comprehensive, accurate, timely and impartial disclosure of information.
- As mentioned above, the Company sincerely and devotedly seeks to achieve its management philosophy and to establish the following effective and orderly corporate governance systems to continue to ensure soundness, compliance and transparency in its business operations.

① Adoption of the Audit & Supervisory Board Member System and Strengthening of the Supervisory Function:

The Company has adopted the Audit & Supervisory Board Member System pursuant to the Companies Act of Japan and has appointed independent Outside Audit & Supervisory Board Members who are disinterested in the Company to strengthen the supervision of the Company’s management.

② Strengthening the Supervisory Function of the Board of Directors:

The Company has a small number of Directors to expedite the management decision-making process. At the same time, the Company appoints disinterested, independent Outside Directors in order to enhance the supervision of the Company’s management. In addition, the Company’s basic policy is to elect independent Outside Directors which account for one-third or more of the Directors and from the perspective of ensuring clear separation between management oversight and business execution, an independent Outside Director serves as the Chair of the Board of Directors in principle. Furthermore, the Directors’ terms of office are set at one year to give shareholders an opportunity to cast votes of confidence regarding Directors’ performance every fiscal year.

③ Adoption of a Corporate Officer System for Expeditious Business Execution:

The Company has adopted a Corporate Officer system that separates the management decision making and Director supervisory functions of the Board of Directors from the execution of business. This aims to accelerate decision-making by delegation of authority and to clarify the authority and responsibility of business execution. Corporate Officers are in charge of business execution and carrying out decisions made by the Board of Directors and thereby expeditiously execute business operations in accordance with management decisions.

④ Establishment of Advisory Bodies to the Board of Directors (Nomination Advisory Committee, Compensation Advisory Committee, Corporate Governance Committee and Business Ethics Committee):

The Nomination Advisory Committee is chaired by an Outside Director of the Company and a half or more of the members are Outside Directors. The said Committee reviews the conditions expected for the post of Director, Audit & Supervisory Board Member, and Corporate Officer and makes nominations. In this way, the Nomination Advisory Committee ensures the appropriate election of Directors, Audit & Supervisory Board Members and Corporate Officers and provides transparency in the decision-making process.

The Compensation Advisory Committee is chaired by an Outside Director of the Company and a half or more of the members are Outside Directors. The said Committee examines the remuneration system and the level of remuneration pertaining to Directors and Corporate Officers, as well as presidents and qualifying officers of the Company’s principal subsidiaries. It also reviews the transparency of the remuneration decision-making process and verifies whether such remuneration is reasonable in light of corporate business performance, individual performance and general industry standards.

The Corporate Governance Committee conducts deliberations on matters concerning corporate governance, internal control system and its operation, etc. and continuously strives to enhance corporate governance for the Company’s sustainable growth and increase of its corporate value over the mid-to long-term.

The aim of the Business Ethics Committee is to ensure compliance with the TDK Corporate Motto, understanding of corporate ethics and improvement of awareness of corporate social responsibility (CSR). To achieve this aim, the Directors, Audit & Supervisory Board Members, Corporate Officers and all other members of TDK are made fully aware of the “TDK Code of Conduct”, which stipulates concrete standards of business conduct in compliance with the TDK’s management philosophy, including the TDK Corporate Motto, Corporate Principle and social norms, including relevant laws, regulations and international rules and the spirit thereof.

Under the foregoing corporate systems, the Audit & Supervisory Board Members in charge of supervising management, ensure soundness, compliance and transparency in the Company’s business operations by executing their duties pursuant to the Regulations of the Audit & Supervisory Board, the Code of Audit & Supervisory Board Members’ Auditing Standards and Audit Practice Standards for Internal Control Systems and by auditing whether the Directors’ performance is appropriately and reasonably in compliance with relevant laws and regulations and the Articles of Incorporation.

Similarly, Directors in charge of management decision-making and supervision of business execution ensure soundness, compliance and transparency in the Company’s business operations by executing their duties pursuant to the Regulations of the Directors’ Business and the Regulations of the Board of Directors established in accordance with relevant laws and regulations and the Articles of Incorporation. In addition, Corporate Officers in charge of business execution ensure soundness, compliance and transparency in the Company’s business operations by executing their duties pursuant to the Regulations of the Corporate Officers’ Business.

The Company establishes the Disclosure Committee as well as the following procedures and system to ensure compliance with all applicable securities and exchange laws and other similar laws and regulations of all relevant countries, as well as the rules and regulations of the stock exchange on which the Company’s shares are listed (hereinafter collectively referred to as the “Securities Regulations”).

- (i) Internal control and other procedures to collect, record, analyze, process, summarize and report all information required to be disclosed under the Securities Regulations and warrant timely disclosures within the deadlines stipulated by the Securities Regulations.
- (ii) System to ensure that the Company has procedures designed to obtain reasonable assurance that all the transactions that the Company conducts are properly authorized, that the Company’s assets are protected from unauthorized or improper use and that all trading activities are appropriately recorded and reported for the purpose of enabling the Company to prepare financial statements in accordance with the accounting standards applied by the Company.
- (iii) System to ensure that the Company is in compliance with the requirements of the Securities Regulations with respect to corporate governance systems.

(2) System under which information regarding the execution of business by Directors of the Company shall be preserved and controlled:

The President, who is responsible for the business execution of the Company, has established the Document Control Regulations, which are applicable to TDK and provide basic rules for the preservation and control of information regarding the execution of business by Directors.

(3) Regulations and other systems for managing the risk of loss(es) of the Company and its subsidiaries:

To enhance the risk management system of TDK, the Company has established the following four committees (which is chaired by a Corporate Officer appointed by the President) under the direct control of the Executive Committee.

- (i) **Disclosure Committee**
The Disclosure Committee deliberates on and examines important corporate information and disclosure materials of the Company that are required for investment decisions by shareholders and investors, to ensure that the Company discloses appropriate information in a comprehensive, accurate, timely and impartial manner, in accordance with various laws and regulations regarding securities transactions and the rules and regulations of the stock exchange on which the Company's shares are listed.
- (ii) **ERM* Committee**
For the purpose of the company-wide treatment of factors that obstruct the achievement of the business targets and business operations of the Company, the Company has established the ERM Committee and promotes enterprise risk management. Corporate regulations, bylaws, guidelines and departmental guidelines established in each department provide for operating rules for specific risks, including legal, financial and IT-related risks. These risks are managed by managers in charge of the particular areas of operation.
*ERM (Enterprise Risk Management)
- (iii) **Crisis Management Committee**
The Crisis Management Committee has been established and operates with the aim of implementing preventive measures for serious accidents, incidents, disasters, etc. that may impede the survival or development of the Company as well as reducing subsequent damage and preventing the expansion of damage. In the event of an emergency, the Company will quickly set up a Crisis Management Headquarters and, while giving first priority to ensuring the safety of its employees, it will resume business as soon as possible and fulfill its responsibility to supply its customers in accordance with the Business Continuity Plan (BCP).
- (iv) **Information Security Committee**
The Information Security Committee properly manages important information such as information provided by customers and personal information in compliance with laws and regulations and implements measures against cyber-attacks, and in the event of an attack, will promptly assess the situation, recover, and take measures.

The Company has ensured that a structure for receiving advice in relation to enhancing the risk management system and increasing its effectiveness (including, but not limited to, identifying, evaluating and reviewing material management risks at TDK and establishing effective countermeasures) is in place through regular confirmation and audit by the Audit & Supervisory Board Members and the internal audit department of the management operations described above. In addition, the Company will seek advice from specialists, including outside legal counsel and other experts, as needed regarding risks surrounding TDK.

- (4) **System for ensuring Directors of the Company and Directors, etc. of the Company's subsidiaries execute their duties efficiently and system for reporting matters concerning the execution of duties of Directors, etc. of the Company's subsidiaries to the Company:**

The Company has a small number of Directors and has adopted the Corporate Officer system to facilitate the Directors' ability to make quick and efficient management decisions.
At the same time, policies and measures with respect to business execution, such as development, manufacturing, marketing and financing of TDK, are deliberated and decided upon by the Executive Committee, which consists of Corporate Officers and General Managers designated by the President. All Corporate Officers perform their duties expeditiously pursuant to the decisions made by the Executive Committee. As to the status of the execution of their duties, the Company ensures efficient management via regular reports to the Board of Directors and regular reports from Corporate Officers to the Executive Committee.
In addition, the Company establishes midterm management targets shared by all members of TDK and strives to inform them of such targets. The Company also establishes systems that enable it to understand the targets and implementation plans of each department as well as the progress of each department in relation to such targets. With respect to the business management of subsidiaries, the Company establishes systems that enable it to understand their business conditions through quarterly reports submitted by each subsidiary.
The Company establishes a system to ensure that appropriate reports are made by stipulating matters to be reported periodically or as necessary on the management situation of the subsidiaries and the status of the execution of duties by Directors, etc. of the subsidiaries in the "Global Common Regulations" for the entire TDK.
- (5) **System for ensuring performance of duties by employees of the Company and Directors, etc. and employees of the Company's subsidiaries are in compliance with laws and regulations and the Articles of Incorporation:**

The Company strives to ensure that all members of TDK are fully familiar with TDK's management philosophy, "TDK Code of Conduct" and "TDK Charter of Corporate Behavior" in order to ensure improved soundness, compliance and transparency of management, as well as compliance with laws, regulations and the Articles of Incorporation throughout the performance of duties by all members of TDK.
Furthermore, the Company has established a corporate ethics management system under the Business Ethics Committee, to regularly monitor the Company's compliance with corporate ethics, including the Company's subsidiaries worldwide. The Consultations and Help Lines also enable employees to directly report all relevant information and opinions concerning corporate ethics, etc. within TDK.
In addition, the Company appoints a Global Chief Compliance Officer from among Corporate Officers upon resolution of the Board of Directors and establishes a compliance promotion department under the direct control of the President. The Global Chief Compliance Officer and compliance promotion department, together with Regional Chief Compliance Officers appointed in each region of the world as well as in Japan, operate in order to establish and strengthen a compliance system of TDK.
Especially as to compliance with cartel regulations in each country, the Company establishes a system of checks, monitoring, etc., achieves thorough compliance with the applicable code of conduct and ensures a strict performance of duties.
- (6) **System for ensuring proper business execution by the corporate group consisting of the Company and its subsidiaries:**

Each Director, Corporate Officer and manager in charge of operations of TDK strives to achieve proper business operations by making and executing business decisions in compliance with the "TDK Code of Conduct" and the "Global Common Regulations", which summarizes the responsibilities and authorities of each organization.
The Audit & Supervisory Board Members audit, on a regular basis, the condition of the business operations of each department of TDK by researching the departments, examining important documents, and attending important meetings. In addition, the internal audit department audits and supports each department of TDK in order to promote consistency in relation to business operations and management policies, efficiency of management, and compliance with relevant laws and regulations.

- (7) Matters relating to employees who support the duties of Audit & Supervisory Board Members of the Company when Audit & Supervisory Board Members request such employees:
- The Audit & Supervisory Board Members Office, consisting of designated full-time employees who do not perform any business execution duties, assists duties of the Audit & Supervisory Board Members.
- (8) Matters regarding the independence of employees in the preceding item from Directors and the ensuring of the effectiveness of instructions of Audit & Supervisory Board Members of the Company to such employees:
- The authority to instruct or order the employees who serve as members of the Audit & Supervisory Board Members Office belongs exclusively to the Audit & Supervisory Board Members. In addition, the Audit & Supervisory Board Members directly evaluate the performance of such employees and any transfer or discipline of these employees is determined pursuant to the operating rules of the Company subject to the consent of the Audit & Supervisory Board Members.
- (9) System for ensuring Directors or employees of the Company report to Audit & Supervisory Board Members of the Company and system for ensuring Directors, Audit & Supervisory Board Members, employees of the Company's subsidiaries or persons who have received reports from these persons report to Audit & Supervisory Board Members of the Company:
- All members of TDK provide an appropriate report immediately, if an Audit & Supervisory Board Member requests a report regarding the execution of business. Information regarding management policies of TDK and conditions of business execution by Corporate Officers is timely provided to Audit & Supervisory Board Members who attend important meetings such as Executive Committee meetings and business plan review meetings, and minutes of such meetings are also provided to the Audit & Supervisory Board Members immediately. Furthermore, Audit & Supervisory Board Members may receive explanations directly from Corporate Officers and other personnel as necessary. Audit & Supervisory Board Members may review reports prepared by each department of the Company or company of TDK, and Audit & Supervisory Board Members may thereby confirm the conditions of the business operations of TDK.
- In addition, all members of TDK may report any fact which may cause significant damage to TDK, such as violation of law or regulation, to the Business Ethics Committee through the Consultations or Help Lines established by the said Committee and covering the whole of TDK. In cases where the Business Ethics Committee finds any fact which may cause significant damage to TDK, such as violation of law or regulation, it will immediately report such fact to Audit & Supervisory Board Members or the Audit & Supervisory Board.
- Furthermore, information regarding the activities of the ERM Committee and other committees is provided to Audit & Supervisory Board Members from time to time, enabling the Audit & Supervisory Board Members to confirm the overall status of corporate activities.
- (10) System for ensuring persons who have reported as provided in the preceding item will not be treated unfavorably on grounds of such reporting
- The Company prohibits any member of TDK who has reported to the Consultation or Help Line from being treated unfavorably on the grounds of such reporting, and stipulates to that effect in the "TDK Code of Conduct" and clearly informs all members of TDK of that fact.
- (11) Matters concerning policies for disposal of expenses and obligations associated with the execution of duties by Audit & Supervisory Board Members
- When Audit & Supervisory Board Members demand payment of expenses or obligations associated with execution of their duties from the Company pursuant to Article 388 of the Companies Act of Japan, the Company shall pay such expenses or obligations immediately after deliberation at the department in charge unless the expenses or obligations concerning such demand are proven to be unnecessary for the execution of such duties of the Audit & Supervisory Board Members.
- (12) System for ensuring Audit & Supervisory Board Members of the Company conduct audits effectively:
- The Audit & Supervisory Board Members and the Audit & Supervisory Board meet with the President on a regular basis to confirm management policies and exchange opinions on pressing issues and risks affecting TDK and other important matters from the perspective of the Audit & Supervisory Board Members' audits. These meetings also strengthen the mutual understanding between the Audit & Supervisory Board Members and the President.
- The Audit & Supervisory Board Members and the internal audit department meet regularly and receive regular audit reports from the Accounting Auditor. Audit & Supervisory Board Members conduct efficient audits by sharing information regarding initial audit plans and results. Furthermore, the Audit & Supervisory Board has entered into an advisory contract with an attorney who is independent from the business execution department and has established a system to ensure that it receives advice with respect to matters which need to be reviewed or confirmed from the perspective of the Audit & Supervisory Board Members or the Audit & Supervisory Board.

④ Limited liability agreements with Outside Directors and Audit & Supervisory Board Members

The Company entered into contracts with each Outside Directors and Audit & Supervisory Board Members pursuant to Article 427 paragraph 1 of the Companies Act to limit the liabilities of each such Outside Director/Audit & Supervisory Board Member to the Company under Article 423 paragraph 1 of the same Act to the amount set forth in each such contract, which amount shall be equal to or greater than the amount provided for in Article 425 paragraph 1 of the same Act.

⑤ Number of Directors

The Company's Articles of Incorporation stipulate that the number of Directors of the Company shall be ten or less.

⑥ Resolution requirements for election and dismissal of Directors

The Company's Articles of Incorporation stipulate that resolutions of the General Meeting of Shareholders concerning the election or dismissal of Directors shall be adopted by an affirmative vote of a majority of the voting rights of shareholders present at the General Meeting of Shareholders, a quorum for which shall be the presence of shareholders with one-third (1/3) or more of the voting rights exercisable for such meeting.

⑦ Items for resolution by the General Meeting of Shareholders that can be approved by resolution by the Board of Directors

a. Acquisition of treasury stock

Pursuant to Article 165, paragraph 2 of the Companies Act, for the purpose of enabling the execution of flexible capital policy, the Company's Articles of Incorporation provide for the acquisition of treasury stock to be possible by resolution of the Board of Directors.

b. Interim dividend

The Company's Articles of Incorporation provide that the Company may distribute an interim dividend with the record date of September 30 each year by resolution of the Board of Directors, pursuant to the provisions of Article 454, paragraph 5 of the Companies Act, to the effect that the Company may flexibly distribute profits to shareholders.

⑧ Requirements of special resolution of the General Meeting of Shareholders

The Company's Articles of Incorporation stipulate that special resolutions of the General Meeting of Shareholders as provided for in Article 309, paragraph 2 of the Companies Act shall be adopted by an affirmative vote of two-thirds (2/3) or more of the voting rights of shareholders present at the General Meeting of Shareholders, a quorum for which shall be the presence of shareholders with one-third (1/3) or more of the voting rights exercisable for such meeting. This constitutes an easier quorum for special resolutions, which has been provided to facilitate the smooth conduct of General Meeting of Shareholders.

(2) Status of Directors and Audit & Supervisory Board Members

①List of Directors and Audit & Supervisory Board Members

Men: 10 Women: 2 (Percentage of women among directors and audit & supervisory board members: 16.7%)

Title & Post	Name	Date of birth	Summary of career	Term of office	Number of shares held (Hundreds of shares)
Representative Director President and CEO, and General Manager of Humidifier Countermeasures HQ	Shigenao Ishiguro	Oct. 30, 1957	<p>Jan. 1982: Entered the Company</p> <p>Apr. 2002: Senior Manager of Planning Group of Europe Sales Group of Recording Media & Solutions Business Group of the Company</p> <p>Jul. 2004: Leader of Planning Group of Japan Operation of HDD Head Business Division of Data Storage & Thin Film Technology Components Business Group of the Company</p> <p>Apr. 2007: Leader of Japan Operation of HDD Head Business Division of Data Storage & Thin Film Technology Components Business Group of the Company</p> <p>Apr. 2011: Deputy General Manager of Data Storage & Thin Film Technology Components Business Group of the Company</p> <p>Jun. 2012: General Manager of Data Storage & Thin Film Technology Components Business Group of the Company</p> <p>Jun. 2014: Corporate Officer of the Company</p> <p>Apr. 2015: CEO of Magnetic Heads and Sensors Business Company of the Company</p> <p>Jun. 2015: Senior Vice President of the Company</p> <p>Jun. 2016: President & Representative Director of the Company (present post)</p> <p>General Manager of Humidifier Countermeasures HQ of the Company (present post)</p> <p>General Manager of Manufacturing HQ of the Company</p>	Note: 3	55
Representative Director Global Chief Compliance Officer General Manager of Finance & Accounting HQ	Tetsuji Yamanishi	May. 29, 1960	<p>Apr. 1983: Entered the Company</p> <p>Jan. 2005: Senior Manager of Managerial Accounting Department of Finance & Accounting Department of Administration Group of the Company</p> <p>Jul. 2008: Head of Managerial Accounting Department of Finance & Accounting Department of Administration Group of the Company</p> <p>Jun. 2013: General Manager of Finance & Accounting Department of the Company</p> <p>Apr. 2015: General Manager of Finance & Accounting Group of the Company</p> <p>Jun. 2015: Corporate Officer of the Company</p> <p>Jun. 2016: Director of the Company</p> <p>Apr. 2017: General Manager of Finance & Accounting HQ of the Company (present post)</p> <p>Jun. 2017: Senior Vice President of the Company</p> <p>Jun. 2018: Representative Director of the Company(present post)</p> <p>Apr. 2019: Global Chief Compliance Officer of the Company (present post)</p> <p>Apr. 2020: Executive Vice President of the Company (present post)</p>	Note: 3	30

Title & Post	Name	Date of birth	Summary of career	Term of office	Number of shares held (Hundreds of shares)
Director Chairman	Makoto Sumita	Jan. 6, 1954	<p>Apr. 1980: Entered Nomura Research Institute, Ltd. Jun. 1996: Director of INNOTECH CORPORATION</p> <p>Apr. 2005: Executive Vice President & Representative Director of the said company</p> <p>Jun. 2005: Director of IT Access Co., Ltd. Apr. 2007: President & CEO of INNOTECH CORPORATION</p> <p>Jun. 2011: Outside Audit & Supervisory Board Member of the Company Apr. 2013: Chairman & CEO of INNOTECH CORPORATION</p> <p>Jun. 2013: Resigned Outside Audit & Supervisory Board Member of the Company Outside Director of the Company</p> <p>Feb. 2015: Chairman & CEO of INNOTECH FRONTIER, Inc.</p> <p>Jun. 2018: Chairman & Director of INNOTECH CORPORATION (present post) Chairman & Director of the Company (present post)</p>	Note: 3	—
Director General Manager of Corporate Strategy HQ	Seiji Osaka	Oct.28 1958	<p>Apr. 1982: Entered the Company Apr. 2003: Senior Manager if Corporate Planning Dept. of the Company</p> <p>Jun. 2009: Corporate Officer of the Company General Manager of Corporate Planning Dept. of Corporate Strategy Group of the Company</p> <p>May. 2011: General Manager of Corporate Planning Group of the Company General Manager of Corporate Planning Dept. of Corporate Planning Group of the Company</p> <p>Jun. 2012: Senior Vice President of the Company Senior Executive Vice President & COO of TDK-EPC Corporation</p> <p>Apr. 2015: General Manager of Electronic Components Sales & Marketing Group of the Company General Manager of ICT Group of Electronic Components Sales & Marketing Group of the Company</p> <p>Apr. 2017: General Manager of Corporate Strategy HQ of the Company (present post) In charge of Human Resources</p> <p>Jun. 2017: Director & Executive Vice President of the Company (present post) Outside Director of TABUCHI ELECTRIC CO.,LTD.</p>	Note: 3	30

Title & Post	Name	Date of birth	Summary of career	Term of office	Number of shares held (Hundreds of shares)
Director	Kazuhiko Ishimura	Sep.18, 1954	<p>Apr. 1979: Entered Asahi Glass Co., Ltd. (currently AGC Inc.)</p> <p>Jan. 2006: Executive Officer of the said company</p> <p>Jan. 2007: Senior Executive Officer and GM of Electronics & Energy General Division of the said company</p> <p>Mar. 2008: President & COO & Representative Director of the said company</p> <p>Jan. 2010: President & CEO & Representative Director of the said company</p> <p>Jan. 2015: Chairman & Representative Director of the said company</p> <p>Jun. 2015: Outside Director of the Company (present post)</p> <p>Jun. 2017: Outside Director of IHI Corporation (present post)</p> <p>Jan. 2018: Chairman & Director of ASAHI GLASS CO.,LTD. (currently AGC Inc.)</p> <p>Jun. 2018: Outside Director of Nomura Holdings, Inc. (present post)</p> <p>Mar. 2020: Director of AGC Inc. (present post)</p> <p>Apr. 2020: President of the National Institute of Advanced Industrial Science and Technology (present post)</p>	Note: 3	—
Director	Kazunori Yagi	Apr 1, 1949	<p>Apr. 1972: Entered Yokogawa Electric Works Ltd. (currently Yokogawa Electric Corporation)</p> <p>Oct. 1999: Vice President (Officer) and General Manager of Finance & Business Planning, in charge of Corporate Marketing of the said company</p> <p>Apr. 2001: Senior Vice President and General Manager of Finance & Business Planning of the said company</p> <p>Jun. 2001: Director, Senior Vice President and General Manager of Finance & Business Planning of the said company</p> <p>Jul. 2002: Director, Executive Vice President and General Manager of Finance & Business Planning of the said company</p> <p>Jul. 2005: Director, Executive Vice President and General Manager of Management Administration Headquarters of the said company</p> <p>Jun. 2011: Advisor to the said company Outside Company Auditor of Yokogawa Bridge Holdings Corporation (present post)</p> <p>Jun. 2012: Outside Director of JSR Corporation</p> <p>Jun. 2013: Outside Audit & Supervisory Board Member of the Company</p> <p>Mar. 2014: Outside Director of OYO Corporation</p> <p>Jun. 2017: Outside Audit & Supervisory Board Member of Sojitz Corporation (present post)</p> <p>Jun. 2018: Resigned as Outside Audit & Supervisory Board Member of the Company Outside Director of the Company (present post)</p>	Note: 3	—

Title & Post	Name	Date of birth	Summary of career		Term of office	Number of shares held (Hundreds of shares)
Director	Kozue Nakayama	Feb. 25, 1958	Apr. 1982: Sep. 2010:	Entered Nissan Motor Co., Ltd. Deputy General Manager of Global Branding Division of the said company	Note: 3	—
			Mar. 2011:	Retired from the said company		
			Apr. 2011:	Entered Yokohama City		
			Apr. 2012:	Director General of Culture and Tourism Bureau of the said city		
			Jun. 2018:	President and Representative Director of Pacific Convention Plaza Yokohama (present post)		
			Jun. 2019:	Outside Audit & Supervisory Board Member of Imperial Hotel, Ltd. (present post)		
			Jun. 2020:	Outside Director of the Company (present post)		
Full-time Audit & Supervisory Board Member	Satoru Sueki	Jul. 1, 1958	Mar. 1984: Apr. 2005:	Entered the Company Leader, Thin Film Device Product Group, Thin Film Device Division, Data Storage & Thin Film Technology Components Business Group of the Company	Note: 4	29
			Apr. 2006:	Project Leader, Thin Film Product Project, Technology Group of the Company		
			Apr. 2009:	Deputy General Manager, Device Development Center, Technology Group of the Company		
			Jun. 2010:	General Manager, Quality Assurance Department of the Company		
			Apr. 2013:	General Manager, Quality Assurance Group, Manufacturing HQ of the Company		
				General Manager, Humidifier Recall Office, Humidifier Countermeasures HQ of the Company		
			Jun. 2014:	Corporate Officer of the Company		
			Apr. 2017:	General Manager, Quality Assurance Group of the Company		
			Mar. 2019:	Retirement of Corporate Officer of the Company		
			Jun. 2019:	Full-time Audit & Supervisory Board Member of the Company (present post)		
Full-time Audit & Supervisory Board Member	Takakazu Momozuka	Nov. 3, 1958	Apr. 1982: Apr. 2005:	Entered the Company Senior Manager, Finance & Accounting Department, Administration Group of the Company	Note: 4	30
			Jun. 2008:	General Manager, Finance & Accounting Department, Administration Group of the Company		
			Jun. 2011:	Corporate Officer of the Company		
			Jun. 2013:	In charge of Finance & Accounting and BPR Project of the Company		
			Apr. 2015:	General Manager, Corporate Administration HQ of the Company		
				In charge of Management System and BPR Project of the Company		
			Jun. 2016:	Deputy General Manager, Corporate Administration HQ of the Company		
				General Manager, General Affairs Group, Corporate Administration HQ of the Company		
			Oct. 2016:	Chief Compliance Officer of the Company		
				General Manager, Compliance HQ of the Company		
			Apr. 2017:	General Manager, Legal & Compliance HQ of the Company		
			Mar. 2019:	Retirement of Corporate Officer of the Company		
			Jun. 2019:	Full-time Audit & Supervisory Board Member of the Company (present post)		

Title & Post	Name	Date of birth	Summary of career		Term of office	Number of shares held (Hundreds of shares)
Audit & Supervisory Board Member	Jun Ishii	Mar.24, 1956	Apr. 1979: Apr. 2007: Apr. 2012: Jun. 2014: Apr. 2015: Jun. 2017: Apr. 2018: Jun. 2019:	Entered Matsushita Electric Industrial Co., Ltd. (currently Panasonic Corporation) Executive Officer of the said company Managing Executive Officer of the said company Managing Director of the said company In charge of Human Resources, General Affairs, Social Relations, Legal Affairs, Fair Business, Corporate Governance, Risk Management, Facility Management, Corporate Sport Promotion and Executive Support Office; and Director, Risk & Governance Management Division, Of the said company Director, Managing Executive Officer, Chief Risk Management Officer (CRO), and Chief Compliance Officer (CCO); In charge of Corporate Governance; Director, Risk & Governance Management Division; and In charge of General Affairs, Social Relations, Facility Management and Executive Support Office, Of the said company Director of the said company (Retired in Jun. 2018) Outside Audit & Supervisory Board Member of the Company (present post)	Note: 4	—
Audit & Supervisory Board Member	Douglas K. Freeman	May. 23, 1966	Apr. 1990: Apr. 1996: Jun. 1997: Sep. 2002: Sep. 2007: Feb. 2016: Apr. 2019: Jun. 2019:	Entered Goldman Sachs Japan Co., Ltd. Registered as lawyer in Japan Joined Mitsui, Yasuda, Wani & Maeda Joined Hamada Law Offices Registered as lawyer in New York, the United States of America Joined Sullivan & Cromwell LLP Principal of Law Offices of Douglas K. Freeman (present post) Outside Director of U-Shin Ltd. Professor of Keio University Law School (present post) Outside Audit & Supervisory Board Member of the Company (present post)	Note: 4	—
Audit & Supervisory Board Member	Michiko Chiba	Jun.27, 1961	Apr. 1984 Oct. 1989 Mar. 1993 Jul. 2010 Sep. 2016 Jun. 2018 Mar. 2019 Jun. 2019	Entered Tokyo Metropolitan Government Joined Showa Ota & Co. (currently Ernst & Young ShinNihon LLC) Registered as certified public accountant in Japan Senior Partner, Ernst & Young ShinNihon LLC Principal of Chiba Certified Public Accountant Office (present post) Outside Audit & Supervisory Board Member of CASIO COMPUTER CO., LTD. Outside Audit & Supervisory Board Member of DIC Corporation (present post) Outside Director, Audit & Supervisory Committee Member of CASIO COMPUTER CO., LTD. (present post) Outside Audit & Supervisory Board Member of the Company (present post)	Note: 4	—
Total						174

- Notes:
1. Mr. Kazuhiko Ishimura, Mr. Kazunori Yagi, and Ms. Kozue Nakayama are Outside Directors.
 2. Mr. Jun Ishii, Mr. Douglas K. Freeman and Ms. Michiko Chiba are Outside Audit & Supervisory Board Member.
 3. One year from the Ordinary General Meeting of Shareholders held on June 23, 2020.
 4. Four years from the Ordinary General Meeting of Shareholders held on June 27, 2019.
 5. The Company, aiming to boost execution of duties and improve management efficiency, has introduced a Corporate Officer System. The Company has 19 Corporate Officers.

②Status of Outside Directors and Outside Audit & Supervisory Board Members

a. Special interests between TDK and its Outside Directors and Outside Audit & Supervisory Board Members

There are no special interests between TDK and any of its current Outside Directors and Outside Audit & Supervisory Board Members (three Outside Directors and three Outside Audit & Supervisory Board Members).

b. Business relationships between TDK and companies where Outside Directors and Outside Audit & Supervisory Board Members serve as officers

Business relationships between TDK and companies where Outside Directors serve as officers are as follows.

- Although the Company has a business relationship with AGC Inc., where Outside Director Mr. Kazuhiko Ishimura serves as Director, the transacted amount is so small for both entities that such business relationship is not a significant relationship; in the fiscal year ended March 31, 2020, the ratio of sales of TDK Group ("TDK") to the AGC Group represented less than 1% of the consolidated net sales of TDK.
- Although the Company has a business relationship with IHI Corporation, where Outside Director Mr. Kazuhiko Ishimura serves as Outside Director, the transacted amount is so small for both entities that such business relationship is not a significant relationship; in the fiscal year ended March 31, 2020, the ratio of sales of TDK to the IHI Group represented less than 1% of the consolidated net sales of TDK.
- Although the Company has research consignment and other relationships with the National Institute of Advanced Industrial Science and Technology ("AIST"), where Mr. Kazuhiko Ishimura is President, the transacted amount is so small for both entities that such business relationship is not a significant relationship; in the fiscal year ended March 31, 2020, the ratio of the amount of payment of research consignment fees, etc. by TDK to AIST represented less than 1% of the annual income amount of AIST.
- Although the Company has a business relationship with Imperial Hotel, Ltd., where Ms. Kozue Nakayama is an Outside Audit & Supervisory Board Member, the transacted amount is so small for both entities that such business relationship is not a significant relationship; in the fiscal year ended March 31, 2020, the ratio of sales of the Imperial Hotel Group to TDK represented less than 1% of the consolidated net sales of the Imperial Hotel Group.
- Although the Company has a business relationship with Sojitz Corporation, where Outside Director Mr. Kazunori Yagi serves as Outside Audit & Supervisory Board Member, the transacted amount is so small for both entities that this business relationship is not a significant relationship; in the fiscal year ended March 31, 2020 the ratio of sales of the Sojitz Group to TDK represented less than 1% of the consolidated net sales of the Sojitz Group.
- Although the Company has a business relationship with CASIO COMPUTER CO., LTD., where Outside Audit & Supervisory Board Member Ms. Michiko Chiba serves as Outside Director and Audit & Supervisory Committee Member, the transacted amount is so small for both entities that such business relationship is not a significant relationship; in the fiscal year ended March 31, 2020, the ratio of sales of TDK to the CASIO COMPUTER Group represented less than 1% of the consolidated net sales of TDK.

c. Function and roll of Outside Directors and Outside Audit & Supervisory Board Members

The Company is actively inviting Outside Directors to participate in our organization for the purpose of strengthening management supervision functions, and building a management conscious of our various stakeholders including shareholders and an effective and disciplined corporate governance framework. As a result, the date of filing of this Annual Securities Report, three of the seven Directors are Outside Directors and three of the five Audit & Supervisory Board Members are Outside Audit & Supervisory Board Members.

The Outside Directors confirm significant issues through reports from Corporate Officers and others in the Board of Directors and express their opinions as necessary to fulfill their supervisory function. Furthermore, the Outside Audit & Supervisory Board Members confirm the effectiveness of such as the internal control system through reports from the full-time Audit & Supervisory Board Members and reports from the Accounting Auditors and discuss the details of such reports to fulfill their supervisory function.

d. Criteria for independence of Outside Directors and Outside Audit & Supervisory Board Members

In order to secure the independence of the Outside Directors and Outside Audit & Supervisory Board Members it invites, the Company has established "items to be verified regarding independence" with reference to such criteria as Rule 436-2 of the Securities Listing Regulation regarding securing independent directors/auditors and Rule III. 5. (3)-2 of Guidelines Concerning Listed Company Compliance, etc., 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 three years, a party with a business relationship with TDK as described in (i) below, or a person who executes business for such 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 TDK 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 sales, and where the other party to the relationship receives money or other assets from TDK other than remuneration for officers)
- (ii) Where it is recognized within TDK that the relevant Outside Director/ Audit & Supervisory Board Member is involved in the business relationship with the other party to such 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 Officer 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 three 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 Outside Director/ Audit & Supervisory Board Member because they receive money or other assets from TDK other than remuneration for officers (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 Outside Director/ Audit & Supervisory Board Member because the organization to which such person belongs (hereinafter the "Relevant Organization") receives money or other assets from the TDK other than remuneration for officers (where this income is equivalent to 2% or more of total annual remuneration)
 - (iii) Where TDK has a high degree of dependence on a professional or a Relevant Organization, such as a case where services, etc. rendered by such party are essential to the corporate management of TDK or it would be difficult to find an alternative provider of the same services, etc.
 - (iv) Where it is recognized within TDK that the relevant Outside Director/ Audit & Supervisory Board Member is involved with 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 (family member within the second degree (as defined under Japanese law)) at present or have applied to them during the past three years.
- (i) A person to whom (1) or (2) above applies (except persons without material significance)
 - (ii) A person who executes business for the Company or a subsidiary of the Company (except persons without material significance)

The Company has in place a Nomination Advisory Committee as an advisory body to the Board of Directors which is chaired by an Outside Director and of which more than half of the members are composed of Outside Directors. In accordance with the "items to be verified regarding independence" shown above, the committee investigates and deliberates over the independence of the candidates for Outside Directors and Outside Audit & Supervisory Board Members (including cases where there is a change in an Outside Director/ Audit & Supervisory Board Member's status of independence during their current term of office). After making a comprehensive judgment on the independence of candidates, the committee reports the results of its deliberations to the Board of Directors.

Taking into account the above, the Company has notified the Tokyo Stock Exchange of its Outside Directors, namely Mr. Kazuhiko Ishimura, Mr. Kazunori Yagi, and Ms. Kozue Nakayama and its Outside Audit & Supervisory Board Members, namely Mr. Jun Ishii, Mr. Douglas K. Freeman and Ms. Michiko Chiba, who serve as independent directors/auditors pursuant to Rule 436-2 of the Securities Listing Regulations of Tokyo Stock Exchange, Inc.

e. Activities during the fiscal year under review

Attendance at meetings of the Board of Directors, etc. during the fiscal year under review is as follows.

(Members who were Outside Directors and Outside Audit & Supervisory Board Members in the end of the fiscal business year)

Kazumasa Yoshida (Outside Director):	Meetings of the Board of Directors: 13 of the 13 meetings Nomination Advisory Committee: 10 out of the 10 meetings Compensation Advisory Committee: 8 out of the 8 meetings
Kazuhiko Ishimura (Outside Director):	Meetings of the Board of Directors: 13 of the 13 meetings Nomination Advisory Committee: 10 out of the 10 meetings Compensation Advisory Committee: 8 out of the 8 meetings
Kazunori Yagi (Outside Director):	Meetings of the Board of Directors: 13 of the 13 meetings Nomination Advisory Committee: 10 out of the 10 meetings Compensation Advisory Committee: 8 out of the 8 meetings
Jun Ishii (Outside Audit & Supervisory Board Member)	Meetings of the Audit & Supervisory Board: 10 of the 10 meetings Meetings of the Board of Directors: 10 of the 10 meetings
(following appointment in June 2019)	
Douglas K. Freeman (Outside Audit & Supervisory Board Member)	Meetings of the Audit & Supervisory Board: 10 of the 10 meetings Meetings of the Board of Directors: 10 of the 10 meetings
(following appointment in June 2019)	
Michiko Chiba (Outside Audit & Supervisory Board Member)	Meetings of the Audit & Supervisory Board: 9 of the 10 meetings Meetings of the Board of Directors: 9 of the 10 meetings
(following appointment in June 2019)	

Outside Directors participate as chair of the committee and members of the Nomination Advisory Committee and Compensation Advisory Committee, which are advisory bodies to the Board of Directors, and in doing so, contribute to the transparency of the personnel and remuneration determination process and the adequacy of appointments and remunerations.

③Cooperation among supervision by Outside Directors, audit by Outside Audit & Supervisory Board Members, internal audit, audit by Audit & Supervisory Board Members and accounting audit and relations with internal control departments

The Audit & Supervisory Board Members and the Audit & Supervisory Board meet with the President on a regular basis to confirm management policies and exchange opinions on pressing issues and risks affecting TDK and other important matters from the perspective of the Audit & Supervisory Board Members' audits. These meetings also strengthen the mutual understanding between the Audit & Supervisory Board Members and the President.

The Audit & Supervisory Board Members and the internal audit department meet regularly and receive regular audit reports from the Accounting Auditor. Audit & Supervisory Board Members conduct efficient audits by sharing information regarding initial audit plans and results. Furthermore, the Audit & Supervisory Board has entered into an advisory contract with an attorney who is independent from the business execution department and has established a system to ensure that it receives advice with respect to matters which need to be reviewed or confirmed from the perspective of the Audit & Supervisory Board Members or the Audit & Supervisory Board.

(3) Status of audit

① Status of audit by Audit & Supervisory Board Members

The Audit & Supervisory Board is comprised of 2 full-time Audit & Supervisory Board Member and 3 Outside Audit & Supervisory Board Member, and audits business execution by Corporate Officers and operations and financial status of both domestic and overseas subsidiaries. Out of these members, full-time Audit & Supervisory Board Member Mr. Takakazu Momozuka has the experience of serving for many years in the field of financing and accounting of the Company, and Outside Audit & Supervisory Board Member Ms. Michiko Chiba is a certified public accountant; thus she has considerable knowledge in the field of financing and accounting.

During the fiscal year under review, the company has held Board of Directors meetings once a month (total of 14 times). From April to June (before Ordinary General Meeting of Shareholders), there have been 4 Board of Directors meetings in which the 4 Audit & Supervisory Board members at the time, has attended. For June 27, 2019 (Ordinary General Meeting of Shareholders) onwards, the details of attendance for each Audit & Supervisory Board members is as follows.

Position	Name	Attendance (Attendance ratio)
Full-Time Audit & Supervisory Board Member	Takakazu Momozuka	10 of the 10 meetings (Attendance ratio: 100%)
Full-Time Audit & Supervisory Board Member	Satoru Sueki	9 of the 10 meetings (Attendance ratio: 90%)
Outside Audit & Supervisory Board Member	Jun Ishii	10 of the 10 meetings (Attendance ratio: 100%)
Outside Audit & Supervisory Board Member	Douglas K. Freeman	10 of the 10 meetings (Attendance ratio: 100%)
Outside Audit & Supervisory Board Member	Michiko Chiba	9 of the 10 meetings (Attendance ratio: 90%)

The Audit & Supervisory Board Members attends Board of Directors meetings, Executive Committee meetings, business plan review meetings, and other important meetings and collects management reports and applications for internal decision making to collect information on TDK's management policies and conditions of business execution by Corporate Officers. The information is shared and discussed among the Audit & Supervisory Board Members. Also, in accordance to the important auditing matters under audit policy, full-time Audit & Supervisory Board Members interviewed operating department managers and headquarter managers regarding conditions of business execution and the subsidiaries selected according to importance were subject to audit. The Audit & Supervisory Board Members shared information regarding the identified issues and confirmed the countermeasures with operating department managers and headquarters. The Audit & Supervisory Board Members receive the internal audit report from the internal audit department and promote information sharing and collaboration with them through establishing regular meetings. The information collected, including result of internal audit, identified issues, and confirmed countermeasures and its' status are shared and discussed among all Audit & Supervisory Board Members and Directors. In addition, the Audit & Supervisory Board Members have meetings with an attorney with whom the Audit & Supervisory Board has entered into an advisory contract regularly and from time to time and receive legal advice regarding Audit & Supervisory Board Members' operations timely, and thereby improve the effectiveness of Audit & Supervisory Board Members' operations.

The Audit & Supervisory Board confirms management conditions through Board of Directors meetings and periodic meetings with Representative Director and expresses opinions and provides recommendations from time to time regarding tasks to be addressed by TDK (including matters concerning corporate governance and compliance), risks surrounding TDK, important issues in connection with the Audit & Supervisory Board Members' audit and other issues. Also, the Audit & Supervisory Board discuss audit plan and holds multiple meetings to receive audit results from Accounting Auditor to collaborate. To support the Audit & Supervisory Board, TDK has set an Audit & Supervisory Board Members Office, separate from the operational function to support administration of Audit & Supervisory Board and to support each member's operation.

② Status of internal audit

The Management Review & Support Group, an internal audit department of the Company, is organized by 13 members.

In this fiscal year, The Management Review & Support Group conducted hearings from the four committees under the direct control of the Executive Committee regarding their activities and verified compliance with relevant laws and regulations, internal regulations, etc. and the efficiency and effectiveness of the operation at operating departments and principal subsidiaries. Also, the Management Review & Support Group conducted the evaluation of the “effectiveness of internal controls over financial reporting” in accordance with the Financial Instruments and Exchange Act of Japan at important bases and important subsidiaries in Japan and overseas. The Management Review & Support Group regularly reports about the results thereof to the President, the Board of Directors and the Audit & Supervisory Board Members.

The Management Review & Support Group and full-time Audit & Supervisory Board Members share information. The Management Review & Support Group submits internal audit reports to full-time Audit & Supervisory Board Members, receives results of Audit & Supervisory Board Members’ audit from full-time Audit & Supervisory Board Members and seeks to conduct effective internal audits.

The Management Review & Support Group regularly confirms the Accounting Auditor’s audit activities through quarterly financial statements, etc. and regularly exchanges opinions with the Accounting Auditor regarding status of evaluation of the “effectiveness of internal controls over financial reporting” in accordance with the Financial Instruments and Exchange Act of Japan.

③ Status of accounting audit

a. Name of auditor

KPMG AZSA LLC

b. Continuing Auditing Period

17 years

c. Certified public accountants who conducted the accounting audit

Mr. Yutaka Terasawa

Mr. Hiroto Yamane

Mr. Kohei Shingaki

d. Constitution of assistant in conducting the accounting audit

Working to assist the above accountants in conducting the accounting audit of the Company were 7 certified public accountants, 7 assistant certified public accountants, and 10 other people.

e. Select standard and reason of auditor

The Audit & Supervisory Board prescribes procedures and standards for Appointment, Dismissal, and Reappointment of Accounting Auditors in the Regulations of the Audit & Supervisory Board and Standards for Appointment, Dismissal, and Reappointment of Accounting Auditors and selects the Company’s Accounting Auditor based on these procedures and standards. When judging selection, the Audit & Supervisory Board evaluates appropriateness of quality control organization of audit firm to be accounting auditor, rationality and validity of conducting audit by audit team and judges comprehensively considering validity of audit fee as well. In addition, accounting auditor could be non-reappointed in case there is any item that doesn’t meet the standard of Reappointment.

If all of the Audit & Supervisory Board Members acknowledge that the Company’s Accounting Auditor falls under any of the conditions set forth in Article 340 paragraph 1 of the Companies Act of Japan and it is difficult for the Accounting Auditor to properly execute auditing, the Company shall dismiss the Accounting Auditor by a unanimous resolution of the Audit & Supervisory Board. In addition to cases falling under any of the statutory reasons for dismissal of accounting auditors, if any fact occurs that is recognized as casting doubt upon important factors relating to the Accounting Auditor’s execution of duties, such as the Accounting Auditor’s qualifications, independency and ethics, the Audit & Supervisory Board will, in accordance with the Regulations of the Audit & Supervisory Board and Standards for Appointment, Dismissal, and Reappointment of Accounting Auditors, decide as to whether the Accounting Auditor shall be dismissed or shall not be re-appointed, comprehensively taking the facts into account.

f. Evaluation of auditor by the Audit & Supervisory Board Members and the Audit & Supervisory Board

The Audit & Supervisory Board evaluated the status of audit activity of accounting auditor for the previous fiscal year. The objects of evaluation are appropriateness of quality control organization of accounting auditor and rationality and validity of conducting audit by audit team, mentioned above. The Audit & Supervisory Board has decided to reappoint KPMG AZSA LLC as accounting auditor for FY2021 based on these results of evaluation for the fiscal year under review.

④ Audit fees, etc.

a. Details of fees to auditors

Category	Fiscal 2019		Fiscal 2020	
	Audit fees	Fees for non-attest service	Audit fees	Fees for non-attest service
Filing company	353	4	348	47
Consolidated subsidiaries	39	—	36	—
Total	392	4	384	47

In fiscal 2019 and fiscal 2020, the content of non-attest service that TDK Corporation will pay to KPMG AZSA LLC, TDK Corporation's auditors, is guidance and advice for accounting standards.

b. Details of fees to member firms to which auditors belong (member firms of KPMG) (excluding a.)

Category	Fiscal 2019		Fiscal 2020	
	Audit fees	Fees for non-attest service	Audit fees	Fees for non-attest service
Filing company	—	145	—	81
Consolidated subsidiaries	578	130	554	83
Total	578	275	554	164

In fiscal 2019 and fiscal 2020, the content of non-attest service that TDK Corporation and consolidated subsidiaries will pay to member firms of KPMG is mainly tax related.

c. Details of other material audit fees

(Fiscal 2019)

TDK Electronics AG, consolidated subsidiary of TDK Corporation, has paid ¥203 million to Ernst & Young as audit fees.

(Fiscal 2020)

TDK Electronics AG, consolidated subsidiary of TDK Corporation, has paid ¥161 million to Ernst & Young as audit fees.

d. Policy of deciding audit fees

TDK Corporation carefully considers the independence of auditors and decides the audit fees by resolution of the Board of Directors.

e. Reason of agreeing audit fees by the Audit & Supervisory Board

Audit & Supervisory Board consented to audit fees for fiscal 2020, after examining the Accounting Auditor's audit plan, the status of duties conducted in previous fiscal years, and the basis for calculation of the remuneration estimate by receiving the necessary materials and hearing reports from Directors, relevant in-house departments, and the Accounting Auditor.

(4) Remuneration and other payments for Directors and Audit & Supervisory Board Members

① Policy and determination method regarding the amounts of remuneration and other payments for Directors and Audit & Supervisory Board Members of the Company and its method of calculation

a. Policy on remuneration

1) Purpose of remuneration system

The Company's remuneration system is designed for the following purpose based on the consultation and deliberation of the Compensation Advisory Committee (see "b") Remuneration determination process below for the detail), an advisory body to the Board of Directors.

By constantly pursuing the competitive remuneration system that focuses on linkage with short-term as well as mid- to long-term results and hiring various and excellent human resources, the Company promotes as much as possible behavior on the part of Directors and Audit & Supervisory Board Members geared towards enhancing corporate results and stock value to constantly increase the corporate value of the overall TDK.

2) Remuneration level

The Company aims to set remuneration at levels enabling the maintenance of competitiveness compared with other companies in the same business category or of similar scale in different business categories. The adequacy of its level is examined by the Compensation Advisory Committee based on studies, etc., on corporate management remuneration performed periodically by third parties.

3) Composition of remuneration

<Remuneration for Directors who concurrently serve as Corporate Officer>

Composed of basic remuneration, results-linked bonuses and share-based compensation type stock options

Ratio of results-linked remuneration to basic remuneration is as follows

Basic remuneration: Results-linked bonuses: Share-based compensation type stock options

1 : 0.6 : 0.7

(President and CEO/Senior Executive Vice President/Executive Vice President/Senior Vice President)

1 : 0.5 : 0.55

(Corporate Officer)

<Remuneration for Directors who do not concurrently serve as Corporate Officer>

Composed of basic remuneration and share-based compensation type stock options without performance condition

<Remuneration for Outside Directors>

Basic remuneration only

<Remuneration for Audit & Supervisory Board Members>

Basic remuneration only

Item		Basic remuneration	Results-linked bonus	Stock-linked compensation stock options
Eligible for payment				
	Directors concurrently serving as Corporate Officers	●	●	●
	Directors not concurrently serving as Corporate Officers	●		●
	Outside Directors	●		
	Audit & Supervisory Board Members	●		
Fixed/fluctuating		Fixed	Fluctuating (single fiscal year)	Fluctuating (medium- to long-term)
Ceiling amount of remuneration		Directors: Less than ¥25 million per month (Resolved at the 106th Ordinary General Meeting of Shareholders held on June 27, 2002) Audit & Supervisory Board Members: Less than ¥120 million per year (Resolved at the 124th Ordinary General Meeting of Shareholders held on June 23, 2020)	Less than ¥350 million per year (Resolved at the 119th Ordinary General Meeting of Shareholders held on June 26, 2015)	Less than ¥457 million per year (Resolved at the 119th Ordinary General Meeting of Shareholders held on June 26, 2015)
Results linkage system		—	Remuneration fluctuates within a range of 0% to 200% of the standard payment amount depending on the consolidated results for the year (operating income, ROE) and the degree of attainment of targets set for each division in charge.	Some stock-linked compensation stock options have a results achievement condition attached. The results achievement condition takes consolidated results under the medium-term management plan (operating income, ROE) as an index, and varies the number of exercisable options within a range of 0% to 100% of the number of options granted, depending on the degree of attainment of targets.

*Share-based compensation type stock options is planned to change to Post-delivery type stock remuneration from term 125, period ending in March 31, 2021.

4) Results linkage system

<Short-term results linkage system (results-lined bonus)>

A system whereby remuneration fluctuates within a range of 0% to 200% of the standard payment amount depending on the consolidated results for the year (operating income, ROE) and the degree of achievement of targets set for each division in charge.

The index is as same as the management target. Targets and results in the fiscal year under review are as follows.

The consolidated operating income for the year 1,230 billion yen (target), 979 billion yen (result)

The consolidated ROE for the year 8.9% (target), 6.7% (result)

<Mid- to long-term results linkage system (share-based compensation type stock options) >

Under this system, recipients share the same advantage of a rising stock value of the Company and the same risk of it falling as shareholders. The introduction of such a system is intended to increase the ambition and morale of eligible Directors and Corporate Officers with respect to the enhancement of results of operations and stock value. To further strengthen the link between executive remuneration and mid- to long-term results and corporate value, a performance condition is attached to some share-based compensation type stock options. The performance condition takes the consolidated medium-term management plan (operating income, ROE) as an index, and the number of exercisable options varies between 0% and 100% of the number of options granted, depending on the degree of achievement of targets.

The Company has established Corporate Stock Ownership Guidelines. The Company makes an effort to ensure that eligible Directors and Corporate Officers hold at least a certain number of shares in the Company pursuant to their rank, including share-based compensation type stock options.

b. Remuneration determination process (establishment and operation of the Compensation Advisory Committee)

In order to achieve the purpose of the aforementioned remuneration system, the Company has in place a "Compensation Advisory Committee" acting as an advisory body to the Board of Directors which is chaired by an Outside Director and of which more than half of the members are Outside Directors.

The Committee examines the remuneration system and the level of remuneration pertaining to Directors and Corporate Officers and reports the result to the Board of Directors in order to preserve the transparency of the remuneration decision-making process and help to ensure that the individual remuneration is reasonable in light of corporate business performance, individual performance and general industry standards, among other factors

The Board of Directors is reported by the Committee and resolves and decides items pertaining to remuneration of Directors and Corporate Officers. Furthermore, the Audit & Supervisory Board receives market standards data by the Committee and resolves and decides items pertaining to remuneration of The Audit & Supervisory Board Members.

② Total amount of remuneration and other payments, total amount of remuneration and other payments by type and Number of eligible officers by officer category

Officer category	Total amount of remuneration and other payments (Millions of yen)	Total amount of remuneration and other payments by type (Millions of yen)			Number of eligible officers
		Basic remuneration (Fixed remuneration)	Results-linked bonus (Results-linked remuneration)	Share-based compensation type stock options	
Directors (Excluding Outside Directors)	268	208	48	12	4
Outside Directors	55	55			3
Audit & Supervisory Board Members (Excluding Outside Audit & Supervisory Board Members)	58	58			4
Outside Audit & Supervisory Board Members	30	30			5

1. Although there were four Directors (Excluding Outside Directors), three Outside Directors, two Audit & Supervisory Board Members and three Outside Audit & Supervisory Board Member as of March 31, 2020 in the table above, the number of eligible officers, the total amount of remuneration and other payments and the basic remuneration in the breakdown thereof include two Audit & Supervisory Board Members and two Outside Audit & Supervisory Board Member who retired at the closing of the 123rd Ordinary General Meeting of Shareholders held on June 27, 2019.

2. Resolution of the General Meeting of Shareholders regarding the amounts of remuneration and other payments for Directors and Audit & Supervisory Board Members

< Directors (Numbers as of the date of filing of this Annual Securities Report:7, numbers prescribed in the Articles of Incorporation of the Company: within 10)>

Basic remuneration: The ceiling amount of remuneration for Directors as a group was resolved as less than ¥25 million per month at the 106th Ordinary General Meeting of Shareholders held on June 27, 2002.

Results-linked bonus: The ceiling amount of results-linked bonuses was resolved as less than ¥350 million per year at the 119th Ordinary General Meeting of Shareholders held on June 26, 2015.

Share-based compensation type stock options: The ceiling amount of remuneration related to stock acquisition rights allocated as stock options was resolved as less than ¥457 million per year at the 119th Ordinary General Meeting of Shareholders held on June 26, 2015.

Post-delivery type stock remuneration: The ceiling amount of remuneration for Directors as a group was resolved as less than ¥457 million per year at the 124th Ordinary General Meeting of Shareholders held on June 23, 2020.

*Share-based compensation type stock options is planned to change to Post-delivery type stock remuneration from term 125, period ending in March 31, 2021.

< Audit & Supervisory Board Members (Numbers as of the date of filing of this Annual Securities Report:5, numbers prescribed in the Articles of Incorporation of the Company: within 5) >

Basic remuneration: The ceiling amount of remuneration for Audit & Supervisory Board Members as a group was resolved as less than ¥120 million per year at the 124th Ordinary General Meeting of Shareholders held on June 23, 2020.

3. As for the amount of results-linked bonuses and share-based compensation type stock options for Directors for the fiscal year under review, it has been recorded as an expense.

③ Total amount of remuneration and other payments for individuals receiving a total of ¥100 million or more, etc.

Name	Total amount of remuneration and other payments (Millions of yen)	Officer category	Company category	Total amount of remuneration and other payments by type (Millions of yen)		
				Basic remuneration (Fixed remuneration)	Results-linked bonus (Results-linked remuneration)	Share-based compensation type stock options
Shigeno Ishiguro	104	Representative Director, President and CEO	Filing company	72	11	21

(5) Share ownership

① Standard and policy of classification of investment stocks

TDK holds investment stock whose holding purpose is for net investment to gain profit by changes in the value of stock or dividends pertaining to stock

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.

② Investment stock whose holding purpose is other than for net investment

- a. Holding policy, how to verify the rationality of holding and the details of verification of propriety of holding individual stocks at Meetings of the Board of Directors

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.

- b. Number of issues and balance sheet amounts

	Number of issues (Issues)	Balance sheet amounts (Millions of yen)
Unlisted stocks	13	288
Stocks other than unlisted stocks	3	3,402

(Issues which increased in number of shares in the fiscal year under review)

	Number of issues (Issues)	Total amounts of acquisition costs pertaining to increases in number of shares (Millions of yen)	Reason of increases in number of shares
Unlisted stocks	1	54	Investment for the purpose of strategic alliance for sensor application products
Stocks other than unlisted stocks	-	-	-

Note: "-" shows that TDK does not hold the issue.

(Issues which decreased in number of shares in the fiscal year under review)

	Number of issues (Issues)	Total amounts of sales value pertaining to decreases in number of shares (Millions of yen)
Unlisted stocks	1	0
Stocks other than unlisted stocks	1	513

- c. Information regarding number of shares, balance sheet amounts and etc. by issues of specified investment stocks and regarded as holding shares

As to specified investment stocks and regarded as holding shares shown below, it is difficult to mention quantitative holding effect. TDK verified the rationality of continuous holding of such shares and the number of such shares, etc. stock by stock at Meetings of the Board of Directors on June, 2020, etc. based on the purpose of such shareholding, situation of transactions, profitability relative to the cost of capital, financial condition, etc.,

Specified investment stocks

Issue	The fiscal year under review,	The previous fiscal year	Holding purpose, quantitative holding effect and reason of increases in shares	Whether to hold share of the company
	Number of shares (Shares)	Number of shares (Shares)		
	Balance sheet amounts (Millions of yen)	Balance sheet amounts (Millions of yen)		
ALPS LOGISTICS CO., LTD.	2,804,400	2,804,400	The company does business in logistic and continuously holds the share for maintaining and strengthening good business to business transactions.	No
	1,794	2,271		
Mabuchi Motor Co., Ltd.	480,000	600,000	The company does business in Magnets business, etc. and continuously holds the share for maintaining and strengthening good business to business transactions.	No
	1,545	2,310		
SHIX Corporation	72,000	72,000	The company does business in Passive Components business, etc. and continuously holds the share for maintaining and strengthening good business to business transactions.	No
	62	120		

Note: “-” shows that TDK does not hold the issue.

Regarded as holding shares

Issue	The fiscal year under review,	The previous fiscal year	Holding purpose, quantitative holding effect and reason of increases in shares	Whether to hold share of the company
	Number of shares (Shares)	Number of shares (Shares)		
	Balance sheet amounts (Millions of yen)	Balance sheet amounts (Millions of yen)		
Fukuda Denshi Co., Ltd.	269,100	269,100	The company does business in Passive Components business, etc. and contributes on retirement benefit trust currently. As to exercising voting rights, the company holds the authority to give instructions.	Yes
	2,260	2,023		
KYOCERA Corporation	210,000	210,000	The company does business in Passive Components business, etc. and contributes on retirement benefit trust currently. As to exercising voting rights, the company holds the authority to give instructions.	Yes
	1,345	1,365		
Shinko Shoji Co., Ltd.	698,000	349,000	The company does business in Passive Components business, etc. and contributes on retirement benefit trust currently. As to exercising voting rights, the company holds the authority to give instructions. As of September 30, 2019, Shinko Shoji Co., Ltd. conducted stock divide. The ratio is one to two.	Yes
	621	655		
NIKKO COMPANY	2,495,000	2,500,000	The company contributes on retirement benefit trust currently. As to exercising voting rights, the company holds the authority to give instructions.	No
	391	337		
TODA KOGYO CORP.	199,400	199,400	It is an affiliate of the company and the company contributes on retirement benefit trust currently. As to exercising voting rights, the company holds the authority to give instructions.	Yes
	242	443		
Ricoh Company, Ltd.	108,000	108,000	The company does business in Passive Components business, etc. and contributes on retirement benefit trust currently. As to exercising voting rights, the company holds the authority to give instructions.	Yes
	85	124		
DENKYOSHA CO., LTD.	55,500	55,500	The company contributes on retirement benefit trust currently. As to exercising voting rights, the company holds the authority to give instructions.	Yes
	48	68		
Mitsubishi UFJ Financial Group, Inc.	-	260,000	The company does financial business such as borrowing, etc. and contributes on retirement benefit trust currently. As to exercising voting rights, the company holds the authority to give instructions.	Yes
	-	143		
Sumitomo Mitsui Trust Holdings, Inc.	-	10,300	The company does financial business such as borrowing, etc. and contributes on retirement benefit trust currently. As to exercising voting rights, the company holds the authority to give instructions.	Yes
	-	40		
Resona Holdings, Inc.	-	61,300	The company does financial business such as borrowing, etc. and contributes on retirement benefit trust currently. As to exercising voting rights, the company holds the authority to give instructions.	Yes
	-	29		

Note: “-” shows that TDK does not hold the issue.

③Investment stock whose holding purpose is for net investment
Not available

V. Consolidated Financial Statements and Notes to Consolidated Financial Statements

Consolidated statements of income

For the years ended March 31, 2019 and 2020

	Yen (Millions)	U.S. Dollars (Thousands) (Note 2)
	2019	2020
Net sales	¥ 1,381,806	¥ 1,363,037
Cost of sales	985,321	959,714
Gross profit	396,485	403,323
Selling, general and administrative expenses	287,561	289,771
Other operating expense (income) (Note 24)	1,101	15,682
Operating income	107,823	97,870
Other income (deductions):		
Interest and dividend income	7,746	10,166
Interest expense	(4,155)	(3,671)
Gain (loss) on securities, net (Note 3)	463	1,879
Equity in earnings of affiliates (Note 4)	1,795	(2,329)
Gain (loss) on sale of investments in affiliates	9,379	(183)
Foreign exchange gain (loss)	(4,412)	(4,020)
Other - net	(3,085)	(3,836)
Income before income taxes	115,554	95,876
Income taxes (Note 7)		
Current	27,546	43,156
Deferred	5,458	(4,437)
Net income	82,550	57,157
Less: Net income (loss) attributable to noncontrolling interests	345	(623)
Net income attributable to TDK	¥ 82,205	¥ 57,780

Amounts per share:

	Yen	U.S. Dollars (Note 2)
Net income attributable to TDK (Note 20):		
Basic	¥ 651.02	¥ 457.47
Diluted	649.45	456.44
Cash dividends paid during the year (Note 9)	¥ 150.00	¥ 170.00

Consolidated statements of comprehensive income (loss)

For the years ended March 31, 2019 and 2020

	Yen (Millions)	U.S. Dollars (Thousands) (Note 2)
	2019	2020
Net income	¥ 82,550	¥ 57,157
Other comprehensive income (loss), net of taxes:		
Foreign currencies translation adjustments	4,457	(45,684)
Pension liability adjustments	(6,357)	(20,065)
Net unrealized gains (losses) on securities	(55)	(87)
Total other comprehensive income (loss) (Note 12)	(1,955)	(65,836)
Comprehensive income (loss)	80,595	(8,679)
Comprehensive income (loss) attributable to noncontrolling interests	260	(858)
Comprehensive income (loss) attributable to TDK	¥ 80,335	¥ (7,821)

See accompanying notes to consolidated financial statements.

Consolidated balance sheets

As of March 31, 2019 and 2020

U.S. Dollars

(Thousands)

Yen
(Millions)

(Note 2)

ASSETS	2019	2020	2020
Current assets:			
Cash and cash equivalents	¥ 289,175	¥ 332,717	\$ 3,052,450
Short-term investments	40,505	32,494	298,110
Marketable securities (Note 3)	57	56	514
Trade receivables:			
Notes	56,690	58,079	532,835
Accounts	252,654	253,783	2,328,284
Allowance for doubtful receivables	(1,190)	(1,720)	(15,780)
Net trade receivables	308,154	310,142	2,845,339
Inventories (Note 5)	226,892	236,453	2,169,293
Income taxes receivables	6,775	9,201	84,413
Prepaid expenses			
and other current assets	50,927	45,419	416,688
Total current assets	922,485	966,482	8,866,807
Investments in affiliates (Notes 3 and 4)	139,522	14,888	136,587
Other investments in securities (Note 3)	15,784	18,341	168,266
Property, plant and equipment, at cost (Note 18):			
Land	23,146	22,057	202,358
Buildings	344,888	347,655	3,189,495
Machinery and equipment	921,639	972,492	8,921,945
Construction in progress	71,592	81,923	751,587
	1,361,265	1,424,127	13,065,385
Less accumulated depreciation	(758,155)	(812,977)	(7,458,504)
Net property, plant and equipment	603,110	611,150	5,606,881
Right-of-use assets of operating lease (Note 13)	—	39,215	359,771
Goodwill (Note 19)	164,794	160,945	1,476,559
Intangible assets (Note 19)	88,693	79,748	731,633
Deferred income taxes (Note 7)	35,238	34,862	319,835
Other assets (Note 21)	22,854	17,748	162,826
Total assets	¥ 1,992,480	¥ 1,943,379	\$ 17,829,165

See accompanying notes to consolidated financial statements.

	Yen (Millions)	U.S. Dollars (Thousands) (Note 2)	
LIABILITIES AND EQUITY	2019	2020	2020
Current liabilities:			
Short-term debt (Note 6)	¥ 221,310	¥ 216,601	\$ 1,987,165
Current installments of long-term debt (Note 6)	91,276	68,028	624,110
Current portion of operating lease obligations (Note 13)	—	7,252	66,532
Trade payables:			
Notes	92,583	102,200	937,615
Accounts	97,309	99,625	913,991
Accrued salaries and wages	75,956	87,772	805,248
Accrued expenses (Note 8)	116,844	113,819	1,044,211
Income taxes payables (Note 7)	3,781	7,341	67,349
Other current liabilities	15,261	16,267	149,238
Total current liabilities	714,320	718,905	6,595,459
Long-term debt, excluding current installments (Note 6)	207,682	140,061	1,284,963
Long-term operating lease obligations (Note 13)	—	28,824	264,440
Retirement and severance benefits (Note 8)	129,050	142,958	1,311,541
Deferred income taxes (Note 7)	38,588	38,329	351,642
Other noncurrent liabilities (Note 7)	19,084	25,738	236,129
Total noncurrent liabilities	394,404	375,910	3,448,715
Total liabilities	1,108,724	1,094,815	10,044,174
TDK stockholders' equity:			
Common stock			
Authorized 480,000,000 shares;			
issued 129,590,659 shares in 2019 and 2020;			
outstanding 126,288,818 shares in 2019	32,641	32,641	299,459
and 126,319,133 shares in 2020			
Additional paid-in capital (Note 11)	5,958	1,783	16,358
Legal reserve (Note 9)	44,436	45,254	415,174
Retained earnings (Note 9)	935,649	971,140	8,909,541
Accumulated other comprehensive income (loss) (Note 12)	(124,435)	(190,055)	(1,743,624)
Treasury stock at cost; 3,301,841 shares in 2019			
and 3,271,526 shares in 2020	(16,959)	(16,806)	(154,183)
Total TDK stockholders' equity	877,290	843,957	7,742,725
Noncontrolling interests	6,466	4,607	42,266
Total equity	883,756	848,564	7,784,991
Total liabilities and equity	¥ 1,992,480	¥ 1,943,379	\$ 17,829,165

Consolidated statements of equity

For the years ended March 31, 2019 and 2020

Yen (Millions)

	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total TDK stockholders' equity	Noncontrolling interests	Total equity
Notes		Note 11	Note 9	Note 9	Note 12			Note 11	
Balance at March 31, 2018	¥ 32,641	¥ 8,738	¥ 45,366	¥ 874,563	¥ (119,492)	¥ (17,182)	¥ 824,634	¥ 6,598	¥ 831,232
Cumulative effect of adoption of ASU2014-09				181			181		181
Cumulative effect of adoption of ASU2016-01				3,083	(3,083)		-		-
Cumulative effect of adoption of ASU2016-16				(6,374)			(6,374)		(6,374)
Equity transaction of consolidated subsidiaries and other		(2,811)			10		(2,801)	(371)	(3,172)
Cash dividends				(18,939)			(18,939)	(21)	(18,960)
Transferred to legal reserve			1,367	(1,367)			-		-
Transferred to retained earnings			(2,297)	2,297			-		-
Comprehensive income									
Net income				82,205			82,205	345	82,550
Other comprehensive income (loss)					(1,870)		(1,870)	(85)	(1,955)
Total comprehensive income (loss)							80,335	260	80,595
Acquisition of treasury stock						(2)	(2)		(2)
Sale of treasury stock						0	0		0
Compensation expenses related to stock options		172					172		172
Exercise of stock options		(141)				225	84		84
Balance at March 31, 2019	¥ 32,641	¥ 5,958	¥ 44,436	¥ 935,649	¥ (124,435)	¥ (16,959)	¥ 877,290	¥ 6,466	¥ 883,756
Equity transaction of consolidated subsidiaries and other		(4,079)			(19)		(4,098)	(896)	(4,994)
Cash dividends				(21,471)			(21,471)	(105)	(21,576)
Transferred to legal reserve			818	(818)			-		-
Comprehensive income									
Net income				57,780			57,780	(623)	57,157
Other comprehensive income (loss)					(65,601)		(65,601)	(235)	(65,836)
Total comprehensive income (loss)							(7,821)	(858)	(8,679)
Acquisition of treasury stock						(5)	(5)		(5)
Compensation expenses related to stock options		33					33		33
Exercise of stock options		(129)				158	29		29
Balance at March 31, 2020	¥ 32,641	¥ 1,783	¥ 45,254	¥ 971,140	¥ (190,055)	¥ (16,806)	¥ 843,957	¥ 4,607	¥ 848,564

See accompanying notes to consolidated financial statements.

U.S.Dollars (Thousands)

(Note 2)

	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total TDK stockholders' equity	Noncontrolling interests	Total equity
Notes		Note 11	Note 9	Note 9	Note 12			Note 11	
Balance at March 31, 2019	\$ 299,459	\$ 54,661	\$ 407,670	\$ 8,583,935	\$ (1,141,606)	\$ (155,587)	\$ 8,048,532	\$ 59,321	\$ 8,107,853
Equity transaction of consolidated subsidiaries and other		(37,423)			(174)		(37,597)	(8,220)	(45,817)
Cash dividends				(196,982)			(196,982)	(963)	(197,945)
Transferred to legal reserve			7,504	(7,504)			-		-
Comprehensive income									
Net income				530,092			530,092	(5,716)	524,376
Other comprehensive income (loss)					(601,844)		(601,844)	(2,156)	(604,000)
Total comprehensive income (loss)							(71,752)	(7,872)	(79,624)
Acquisition of treasury stock						(46)	(46)		(46)
Compensation expenses related to stock options		303					303		303
Exercise of stock options		(1,183)				1,450	267		267
Balance at March 31, 2020	\$ 299,459	\$ 16,358	\$ 415,174	\$ 8,909,541	\$ (1,743,624)	\$ (154,183)	\$ 7,742,725	\$ 42,266	\$ 7,784,991

See accompanying notes to consolidated financial statements.

Consolidated statements of cash flows

For the years ended March 31, 2019 and 2020

	Yen (Millions)	U.S. Dollars (Thousands) (Note 2)	
	2019	2020	2020
Cash flows from operating activities:			
Net income	¥ 82,550	¥ 57,157	\$ 524,376
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	106,631	124,984	1,146,642
Deferred income taxes	5,458	(4,437)	(40,706)
Loss (gain) on sale or disposal of property, plant and equipment	2,249	2,183	20,028
Impairment loss on long-lived assets	5,112	18,592	170,569
Gain on sale of business	(4,011)	(2,910)	(26,697)
Loss (gain) on securities, net	(463)	(1,879)	(17,239)
Equity in earnings of affiliates, net of dividends received	(1,768)	2,370	21,743
Loss (gain) on sale of investments in affiliates	(9,379)	183	1,679
Changes in assets and liabilities:			
Decrease (increase) in trade receivables	(3,388)	(13,198)	(121,083)
Decrease (increase) in inventories	(22,952)	(20,357)	(186,761)
Decrease (increase) in other current assets	506	9,118	83,651
Increase (decrease) in trade payables	(12,241)	23,090	211,835
Increase (decrease) in accrued expenses	8,541	16,563	151,954
Increase (decrease) in income taxes payables, net	(7,153)	1,423	13,055
Increase (decrease) in other current liabilities	(5,987)	(80)	(734)
Increase (decrease) in retirement and severance benefits, net	(2,770)	(3,794)	(34,807)
Other - net	(661)	13,382	122,771
Net cash provided by operating activities	140,274	222,390	2,040,276
Cash flows from investing activities:			
Capital expenditures	(173,592)	(173,429)	(1,591,092)
Proceeds from sales of tangible and intangible assets	3,921	2,945	27,019
Proceeds from sale and maturity of short-term investments	92,197	80,328	736,954
Payment for purchase of short-term investments	(87,581)	(74,665)	(685,000)
Proceeds from sale and maturity of securities	435	1,608	14,752
Payment for purchase of securities	(803)	(2,380)	(21,835)
Proceeds from sale of business, net of cash transferred	11,462	—	—
Acquisition of subsidiaries, net of cash acquired	(2,548)	(234)	(2,147)
Proceeds from sale of investments in affiliates	22,064	124,484	1,142,055
Acquisition of investments in affiliates	(4,890)	—	—
Other - net	(844)	(621)	(5,697)
Net cash used in investing activities	(140,179)	(41,964)	(384,991)
Cash flows from financing activities:			
Proceeds from debt with maturities longer than three months	5,166	21,407	196,394
Repayment of debt with maturities longer than three months	(68,930)	(95,087)	(872,358)
Net increase (decrease) in debt with maturities of three months	95,824	(21,613)	(198,284)
Dividends paid	(18,948)	(21,469)	(196,963)
Acquisition of noncontrolling interests	(3,590)	(4,991)	(45,789)
Other - net	(87)	(16)	(147)
Net cash provided by (used in) financing activities	9,435	(121,769)	(1,117,147)
Effect of exchange rate changes on cash and cash equivalents	21	(15,115)	(138,670)
Net increase in cash and cash equivalents	9,551	43,542	399,468
Cash and cash equivalents, beginning of year	279,624	289,175	2,652,982
Cash and cash equivalents, end of year	¥ 289,175	¥ 332,717	\$ 3,052,450

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Nature of Operations and Summary of Significant Accounting Policies

(1) Nature of Operations

TDK Corporation, a Tokyo-based company founded in 1935 to accomplish the world's first industrialization of a magnetic material called ferrite, and its subsidiaries (collectively "TDK") have always been a multinational developer, manufacturer and distributor of unique and diverse products, including ferrite cores, inductive devices, ceramic capacitors, magnetic heads, magnets and other items created by pursuing core technologies.

TDK's four basic reportable segments, Passive Components, Sensor Application Products, Magnetic Application Products and Energy Application Products, and the "Other", which is unrelated to the aforementioned four segments, accounted for 29.0 percent, 5.7 percent, 16.1 percent, 43.9 percent, and 5.3 percent of net sales, respectively, for the year ended March 31, 2020.

These four segments and the Other consist of the following businesses:

(i) Passive Components:

Ceramic Capacitors, Aluminum Electrolytic Capacitors, Film Capacitors, Inductive Devices (Coils / Ferrite Cores / Transformers), High-Frequency Devices, Piezoelectric Material Products, Circuit Protection Components

(ii) Sensor Application Products:

Temperature and Pressure Sensors, Magnetic Sensors, MEMS Sensors

(iii) Magnetic Application Products:

HDD Heads, HDD Suspension Assemblies, Magnets

(iv) Energy Application Products:

Energy Devices (Rechargeable Batteries), Power Supplies

(v) Other:

Mechatronics (Production Equipment), Others

(2) Basis of Presentation

TDK Corporation and its domestic subsidiaries maintain their books of account in conformity with the generally accepted accounting principles in Japan, and its foreign subsidiaries mainly maintain their books of account in conformity with those of the countries of their domicile.

The consolidated financial statements presented herein reflect certain adjustments, not recorded in the primary books of TDK Corporation and its subsidiaries, to present the financial position, results of operations and cash flows in conformity with U.S. generally accepted accounting principles ("U.S. GAAP").

(3) Consolidation Policy

The consolidated financial statements include the accounts of TDK Corporation, its subsidiaries and those variable interest entities where TDK is the primary beneficiary as defined under U.S. GAAP. All significant intercompany balances and transactions have been eliminated in consolidation.

The investments in affiliates where TDK exercises significant influence over their operating and financial policies are accounted for by the equity method of accounting. All significant intercompany profits from these affiliates have been eliminated.

(4) Cash Equivalents and Short-term Investments

Cash equivalents include all highly liquid investments with an original maturity of three months or less. All other highly liquid investments not considered to be cash equivalents are classified as short-term investments. TDK determines the appropriate classification of its investments at the time of purchase.

(5) Allowance for Doubtful Receivables

The allowance for doubtful receivables is TDK's best estimate of the amount of probable credit losses in TDK's existing trade receivables. An additional reserve for individual receivables is recorded when TDK becomes aware of a customer's inability to meet its financial obligations, such as in the case of bankruptcy filings or deterioration in a customer's operating results or financial position. If customer circumstances change, estimates of the recoverability of receivables would be further adjusted.

(6) Marketable Securities and Other Investments in Securities

TDK classifies marketable securities and other investments in securities into debt and equity securities, and further classifies debt securities into one of the three categories: trading, available-for-sale, or held-to-maturity. Trading securities are acquired and held principally for the purpose of selling them in the near future. Held-to-maturity securities are those securities in which TDK has the ability and intent to hold the security until maturity. All securities not included in trading or held-to-maturity are classified as available-for-sale.

Trading and available-for-sale securities are recorded at fair value. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts. Unrealized holding gains and losses on equity securities (excluding investments in subsidiaries and affiliates) are included in earnings. Unrealized holding gains and losses, net of the related tax effect, on debt securities are excluded from earnings and are reported as a separate component of accumulated other comprehensive income (loss) until realized. As of March 31, 2019 and 2020, TDK did not hold any trading or held-to-maturity securities. Available-for-sale securities, which mature or are expected to be sold in less than one year, are classified as marketable securities.

If a decline in the fair value below amortized cost basis of a debt security not expected to be sold is deemed to be other-than-temporary and represents a credit loss, and if a decline in the fair value of an available-for-sale security expected to be sold before recovery of its amortized cost basis exists, an impairment loss is recognized in earnings and the fair value becomes the new cost basis of the security. To determine whether an impairment is other-than-temporary, TDK periodically reviews the fair value of available-for-sale securities for possible impairment by taking into consideration the financial and operating conditions of the issuer, general market conditions in the issuer's industry, degree and period of the decline in fair value and other relevant factors.

TDK measures certain nonmarketable equity securities without a readily determinable fair value by estimating the fair value at its cost minus impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. TDK periodically evaluates whether an event or change in circumstances may have a significant adverse effect on the fair value of the investment. Factors considered in assessing whether an indication of impairment exists include the financial and operating conditions of the issuer, general market conditions in the issuer's industry and other relevant factors. If an indication of impairment is present, TDK estimates the fair value of those nonmarketable equity securities. If the fair value is less than cost, the nonmarketable equity security is written down to its impaired value through a charge to earnings.

The gross realized gains and losses on the sale of debt securities classified as available-for-sale securities are determined on an average cost basis and are reflected in earnings.

(7) Inventories

Inventories are stated at the lower of cost or market. Cost is determined principally by the average cost method.

The cost elements for finished goods and work in process include direct costs for materials such as primary materials and purchased semi-finished products, direct labor costs such as basic salaries, bonuses, and legal welfare expenses, direct costs such as expenses paid to subcontractors, and indirect manufacturing costs comprising material costs, labor costs and other overhead costs.

(8) Property, Plant and Equipment

Depreciation of property, plant and equipment is principally calculated using the straight-line method over the following estimated useful lives:

Buildings	2 to 60 years
Machinery and equipment	2 to 25 years

(9) Income Taxes

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. TDK uses a specific identification method to release the residual tax effects associated with components of other comprehensive income (loss) resulting from a change in tax law or rate.

The financial statement impact of tax positions are recognized when it is more likely than not that the tax positions will be sustained upon examination by the tax authorities. Benefits from tax positions are measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement with the tax authorities.

(10) Stock Option Plan

TDK measures the expenses of employee services received in exchange for equity awards based on the grant date fair value of the awards and use the straight-line attribution method to recognize compensation expenses related to stock options over the requisite service period. TDK will continue to use the simplified method to estimate expected remaining term until TDK has the historical data necessary to provide reasonable estimates of the expected term.

(11) Research and Development Expenses

Research and development expenses are expensed as incurred.

(12) Advertising Costs

Advertising costs are expensed as incurred.

(13) Shipping and Handling Fees and Costs

Shipping and handling fees and costs amounted to ¥16,585 million and ¥14,997 million (\$137,587 thousand) for the years ended March 31, 2019 and 2020, respectively, and are included in selling, general and administrative expenses in the consolidated statements of income..

(14) Foreign Currency Translation

Foreign currency financial statements have been translated in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 830, “Foreign Currency Matters”. Under FASB ASC 830, the assets and liabilities of TDK’s subsidiaries located outside Japan are translated into Japanese yen at the rates of exchange in effect at the balance sheet date. Revenue and expense items are translated at the average exchange rates prevailing during the year. Gains and losses resulting from foreign currency transactions are included in other income (deductions), and those resulting from translation of financial statements of foreign subsidiaries are excluded from the statements of income and are accumulated in TDK stockholders’ equity as a component of accumulated other comprehensive income (loss).

(15) Use of Estimates

Management of TDK has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenue and expenses and the disclosure of contingencies to prepare these consolidated financial statements in conformity with U.S. GAAP. Significant items subject to such estimates and assumptions include the valuation of goodwill and other intangible assets, long-lived assets, trade receivables, inventories, investments in securities, deferred tax assets, and assumptions related to the estimation of actuarial determined employee benefit obligations. Actual results could differ from those estimates.

(additional information)

Accounting assumptions in making estimates relating to the impacts of COVID-19

Based on the external information that TDK has the ability to access, for the year ending March 31, 2021, TDK expects that due to the stagnation in global economic activity caused by the spread of COVID-19, production volume of automobiles and smartphones will decrease year on year and a downturn in demand for electronic components cannot be avoided. However, from the second half of the year ending March 31, 2021, TDK expects that the demand will recover to a certain extent. In addition, TDK expects that there will be no further significant disruptions to its future production activities and supply chains, including the procurement of raw materials, due to factors such as the second wave of COVID-19.

Based on these assumptions, TDK has made accounting estimates relating to the valuation of goodwill and other intangible assets, long-lived assets and so on.

However, the impacts from the spread of COVID-19 has many uncertain elements. When there are changes in the assumptions above, it could have a significant impact on the consolidated financial position or result of operations of TDK from the year ending March 31, 2021 onward.

(16) Accounting for the Impairment of Long-Lived Assets

Property, plant and equipment and certain identifiable intangible assets with finite useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows (undiscounted and without interest charges) expected to be generated by the asset. If such assets are considered to be impaired, an impairment loss to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of by sale are reported at the lower of the carrying amount or fair value less costs to sell.

(17) Goodwill and Other Intangible Assets

Goodwill is not amortized, but instead is tested for impairment at least annually, except for a case in which it is not more likely than not that the fair value of a reporting unit is less than its carrying amount. The test is conducted more frequently if certain indicators arise.

Intangible assets with finite useful lives are amortized over their respective estimated useful lives. Intangible assets determined to have indefinite useful lives are not amortized, but instead are tested for impairment annually or more frequently if certain indicators arise until the useful life is determined to no longer be indefinite except TDK determines that it is not more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount.

(18) Derivative Financial Instruments

TDK applies ASC 815 (“Derivatives and Hedging”), and all derivatives held by TDK are recognized on the consolidated balance sheets at fair value. The accounting treatment of subsequent changes in the fair value depends on their use, and whether they qualify as effective “hedges” for accounting purposes. Derivatives that are not hedges must be adjusted to fair value through the consolidated statement of income. If a derivative is a hedge, then depending on its nature, changes in its fair value will be either offset against changes in the fair value of hedged assets or liabilities through the consolidated statement of income, or recorded in other comprehensive income (loss).

If a derivative is used as a hedge of a net investment in a foreign operation, the entire change in its fair value is recognized in the foreign currency translation adjustments section of other comprehensive income (loss).

The required disclosures in accordance with FASB ASC 815 “Derivatives and Hedging” are presented in Note 15 of the Notes to Consolidated Financial Statements.

(19) Net Income attributable to TDK per Share

Basic net income attributable to TDK per share has been computed by dividing net income attributable to TDK available to common stockholders by the weighted average number of common shares outstanding for each year. Diluted net income attributable to TDK per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock of TDK.

(20) Revenue Recognition

TDK applies ASC606 “Revenue from Contracts with Customers”, and recognizes revenue based on the following 5 steps.

Step 1 : Identify the contracts with a customer

Step 2 : Identify the performance obligations in the contract

Step 3 : Determine the transaction price

Step 4 : Allocate the transaction price to the performance obligations in the contract

Step 5 : Recognize revenue when (or as) the entity satisfies a performance obligation

Further detail is presented in Note 24 of Notes to Consolidated Financial Statements.

(21) Receipt of Contingent Consideration

Contingent consideration is recognized when the amount of the contingent consideration becomes realized or realizable.

(22) Adoption of New Accounting Standards

Leases

In February 2016, FASB issued Accounting Standards Update (“ASU”) 2016-02 “Leases (Topic 842)”.

This ASU requires lessees to recognize most leases on their consolidated balance sheets but recognize expenses on their consolidated statements of income in a manner similar to the previous standard. Additionally, this ASU expands qualitative and quantitative disclosures related to leases. TDK adopted this ASU from April 1, 2019. TDK applied the package of practical expedients that allows us not to reassess whether any existing contracts at or expired contracts prior to the adoption date are or contain leases, lease classification and whether any initial direct costs qualify for capitalization, to use hindsight in determining the lease term and in assessing impairment of the right-of-use assets, in addition to applying the short term lease exception. TDK also adopted the transition method which no restatement of comparative periods and no reassessment of land easements not previously accounted for as a lease that exist at or expired prior to the adoption date are required. The right-of-use assets of operating leases and operating lease obligations recognized at April 1, 2019 was ¥38,016 million (\$348,771 thousand) and ¥35,690 million (\$327,431 thousand), respectively and are included in assets and liabilities in the accompanying consolidated balance sheets.

The adoption of this ASU did not have a material impact on TDK’s results of operations.

Targeted Improvements to Accounting for Hedging Activities

In August 2017, FASB issued ASU 2017-12 “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities”. This ASU amends existing standard to simplify the application of hedge accounting in certain situations and enables an entity to better portray the economic results of an entity’s risk management activities in its financial statements. This ASU eliminates the requirement to separately measure and report hedge ineffectiveness, and requires an entity to present the earnings effect of the hedging instrument in the same line item of the consolidated statements of income in which the earnings effect of the hedged item is reported. TDK adopted this ASU from April 1, 2019.

The adoption of this ASU did not have a material impact on TDK’s results of operations and financial position.

(23) Subsequent Events

TDK has evaluated the subsequent events through July 15, 2020, the date on which the consolidated financial statements are available to be issued.

(24) Reclassifications

Certain reclassifications have been made to the prior years’ consolidated financial statements to conform to the presentation used for the year ended March 31, 2020.

2. Financial Statement Translation

The consolidated financial statements are expressed in Japanese yen, the functional currency of TDK Corporation. As a supplement, the Japanese yen amounts as of and for the year ended March 31, 2020, have also been translated into U.S. dollar amounts, solely for the convenience of the reader, at the rate of ¥109=U.S.\$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 31, 2020. This translation should not be construed as a representation that the amounts shown could be converted into U.S. dollars at such rate.

3. Marketable Securities and Other Investments in Securities

Marketable securities and other investments in securities as of March 31, 2019 and 2020 are as follows:

	Yen (Millions)		U.S. Dollars (Thousands)
	2019	2020	2020
Marketable securities			
Debt securities	¥ 57	¥ 56	\$ 514
Total Marketable securities	57	56	514
Investments in affiliates (Note 4)	¥ 139,522	¥ 14,888	\$ 136,587
Other investments in securities:			
Debt securities	103	42	385
Equity securities with readily determinable fair values	6,409	4,745	43,532
Equity securities without readily determinable fair values	9,272	13,554	124,349
Total other investments in securities	15,784	18,341	168,266
Total	¥ 155,363	¥ 33,285	\$ 305,367

TDK sold 49% of the common shares of RF360 Holdings Singapore PTE.Ltd. for the year ended March 31, 2020, which was recognized as Investments in the affiliates in the consolidated financial statements as of March 31, 2019. Please refer to Note 22 Sale of Business for more details.

Debt securities include available-for-sale securities. Information with respect to such securities as of March 31, 2019 and 2020 is as follows:

2019

	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Yen (Millions):				
Marketable securities (Debt securities):				
Government bonds	¥ 57	¥-	¥ 0	¥ 57
Investments (Debt securities):				
Commercial papers	2	101	-	103
Public utility bonds	0	-	-	0
Total	¥ 59	¥ 101	¥ 0	¥ 160

2020

	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Yen (Millions):				
Marketable securities (Debt securities):				
Government bonds	¥ 56	¥ 0	¥ -	¥ 56
Investments (Debt securities):				
Commercial papers	0	42	-	42
Public utility bonds	0	-	-	0
Total	¥ 56	¥ 42	¥ -	¥ 98

2020

	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
U.S. Dollars (Thousands):				
Marketable securities (Debt securities):				
Government bonds	\$ 514	\$ 0	\$ -	\$ 514
Investments (Debt securities):				
Commercial papers	0	385	-	385
Public utility bonds	0	-	-	0
Total	\$ 514	\$ 385	\$ -	\$ 899

The proceeds from sale and maturity of debt securities classified as available-for-sale securities were ¥7 million and ¥10 million (\$92 thousand) for the year ended March 31, 2019 and 2020, respectively. The gross realized gains and losses on the sale of debt securities classified as available-for-sale securities are determined on an average cost basis and are reflected in earnings.

As of March 31, 2020, all of the debt securities classified as available-for-sale securities with unrealized losses were in a continuous unrealized loss position for less than 12 months.

TDK measures certain nonmarketable equity securities without a readily determinable fair value by estimating the fair value at its cost minus impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investments of the same issuer. The book value of such investments amounted to ¥1,272 million (\$11,670 thousand) as of March 31, 2020. TDK did not record an impairment loss for the year ended March 31, 2020.

Net gains and losses and unrealized gains and losses recognized during the period on equity securities for the year ended March 31, 2019 and 2020 are as follows:

	Yen (Millions)	U.S. Dollars (Thousands)
	2019	2020
Unrealized gains and losses recognized during the period on equity securities held as of March 31	¥ 2,559	¥ 1,692
Net gains and losses recognized on equity securities sold during the period	(2,096)	174
Net gains and losses recognized during the period on equity securities	¥ 463	¥ 1,866

4. Investments in Affiliates

As of March 31, 2020, investments in affiliates accounted for under the equity method consist of holdings of 31.7 percent of the common stock of Semiconductor Energy Laboratory Co., Ltd., a research and development company, 25.5 percent of the common stock of TODA KOGYO CORP., a magnetic material manufacturing company, and three other affiliated companies. The effect of investments in affiliates accounted for under the equity method to our financial statements, collectively, is not material as of March 31, 2019 and 2020. As of March 31, 2019 and 2020, the difference between TDK's carrying value of investments in affiliates and its share of the underlying net equity in such affiliates substantially consists of unamortized amounts of equity method goodwill of ¥45,585 million and ¥980 million (\$8,991 thousand), respectively.

TODA KOGYO CORP. is listed on the Tokyo Stock Exchange. TDK's investment in this company have a carrying value and fair value of ¥4,062 million and ¥2,802 million, respectively, as of March 31, 2019. TDK's investment in this company have a carrying value and fair value of ¥1,531 million (\$14,046 thousand) as of March 31, 2020. TDK recognized impairment loss of ¥1,305 million (\$11,972 thousand) for the year ended March 31, 2020. The impairment loss is included in Equity in earnings of affiliates of the consolidated statements of income. Please refer to Note 17 Fair Value Measurements for further detail.

5. Inventories

Inventories as of March 31, 2019 and 2020 are summarized as follows:

	Yen (Millions)	U.S. Dollars (Thousands)
	2019	2020
Finished goods	¥ 86,507	¥ 87,721
Work in process	52,688	56,697
Raw materials	87,697	92,035
Total	¥ 226,892	¥ 236,453

6. Short-Term and Long-Term Debt

Short-term debt and weighted average interest rates as of March 31, 2019 and 2020 are as follows:

	2019		2020		2020
	Yen (Millions)	Weighted average interest rate	Yen (Millions)	Weighted average interest rate	U.S. Dollars (Thousands)
Short-term bank loans - unsecured	¥ 221,310	0.32%	¥ 216,601	0.43%	\$ 1,987,165

Long-term debt as of March 31, 2019 and 2020 are as follows:

	Yen (Millions)		U.S. Dollars (Thousands)
	2019	2020	2020
Loans from banks, unsecured (weighted average: 2019-0.80%, 2020-0.16%)	¥ 293,274	¥ 202,207	\$ 1,855,111
Finance lease obligation (weighted average: 2019 - 11.66%, 2020 - 13.18 %)	5,684	5,882	53,962
	298,958	208,089	1,909,073
Less current portion	91,276	68,028	624,110
Total	¥ 207,682	¥ 140,061	\$ 1,284, 963

The aggregate annual maturities of long-term debt outstanding as of March 31, 2020 are as follows:

	Yen (Millions)	U.S. Dollars (Thousands)
Year ending March 31,		
2021	¥ 67,470	\$ 618,992
2022	134,204	1,231,229
2023	146	1,339
2024	236	2,165
2025	31	284
2026 and thereafter	120	1,102
Total	¥ 202,207	\$ 1,855,111

The aggregate annual maturities of long-term debt outstanding as of March 31, 2020 do not include lease obligation. A schedule by years of future minimum lease payments is presented in Note 13 of the Notes to Consolidated Financial Statements.

Short-term and long-term debt from banks were made under general agreements in which security and guarantees for present and future indebtedness will be given upon request of the banks, and that the banks shall have the rights, as the obligations become due, or in the event of default, to offset cash deposits against such obligations due to the banks.

As of March 31, 2019 and 2020, property, plant and equipment having a net book value of ¥145 million and ¥81 million (\$743 thousand), respectively, were pledged as collateral for lease obligation.

There were no debt covenants or cross-default provisions which cause significant disadvantage under TDK's financing arrangements. Furthermore, there were no subsidiary level dividend restrictions under the financing arrangements.

7. Income Taxes

TDK Corporation and its domestic subsidiaries are subject to a statutory rate of approximately 31.1 percent both for the year ended March 31, 2019 and for the year ended March 31, 2020.

The effective tax rates of TDK for the years ended March 31, 2019 and 2020 are reconciled with the Japanese statutory tax rate in the following table:

	2019	2020
Japanese statutory tax rate for income from continuing operations, before income taxes	31.1%	31.1%
Difference in statutory tax rates of foreign subsidiaries	(20.9)	(21.9)
Expenses not deductible for tax purposes	9.5	4.3
Nontaxable income	(2.1)	(0.9)
Foreign withholding tax	3.0	9.6
Change in valuation allowance	(6.0)	21.8
Investment tax credit	(5.1)	(5.3)
Research and development tax credit	(0.7)	(1.3)
Prior-year tax adjustments	1.2	6.0
Undistributed earnings of subsidiaries and affiliates	5.0	(2.6)
Effect of enacted changes in U.S. tax laws	0.4	-
Tax effect of investments in subsidiaries' and affiliates' securities	12.5	(0.9)
Other	0.7	0.5
Effective tax rate of continuing operations	28.6%	40.4%

Total income taxes for the years ended March 31, 2019 and 2020 are allocated as follows:

	Yen (Millions)		U.S. Dollars (Thousands)
	2019	2020	2020
Net income attributable to TDK	¥ 33,004	¥ 38,719	\$ 355,220
Other comprehensive income (loss):			
Foreign currency translation adjustments	(2,877)	(348)	(3,193)
Pension liability adjustments	(1,582)	705	6,468
Total income taxes	¥ 28,545	¥ 39,076	\$ 358,495

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of March 31, 2019 and 2020 are as follows:

	Yen (Millions)		U.S. Dollars (Thousands)
	2019	2020	2020
Deferred tax assets:			
Inventories	¥ 2,537	¥ 3,801	\$ 34,871
Accrued expenses	13,150	16,383	150,301
Retirement and severance benefits	35,386	38,858	356,493
Net operating loss carryforwards	85,798	95,189	873,291
Tax credit carryforwards	10,783	10,982	100,755
Property, plant and equipment, and Intangible assets	11,272	14,772	135,524
Operating lease liabilities	-	8,935	81,972
Other	1,445	1,275	11,701
Total gross deferred tax assets	160,371	190,195	1,744,908
Less valuation allowance	(118,036)	(142,125)	(1,303,902)
Net deferred tax assets	¥42,335	¥48,070	\$ 441,006
Deferred tax liabilities:			
Marketable securities and investments adjustments	¥ (2,020)	¥ (2,117)	\$ (19,421)
Undistributed earnings of foreign subsidiaries and affiliated companies	(36,819)	(33,276)	(305,285)
Fixed assets acquired through business combination	(6,061)	(4,493)	(41,224)
Right-of-use assets of operating leases	-	(8,673)	(79,569)
Other	(785)	(2,978)	(27,314)
Total gross deferred tax liabilities	(45,685)	(51,537)	(472,813)
Net deferred tax assets	¥ (3,350)	¥ (3,467)	\$ (31,807)

The net changes in total valuation allowance were a decrease of ¥11,883 million for the year ended March 31, 2019 and an increase of ¥ 24,089 million (\$220,998 thousand) for the year ended March 31, 2020. The valuation allowance primarily relates to deferred tax assets associated with net operating loss carryforwards.

In assessing the realizability of deferred tax assets, TDK considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and tax loss carryforwards are utilized. TDK considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the these deductible differences and tax loss carryforwards are deductible or usable, TDK believes it is more likely than not that TDK will realize the benefits of these deferred tax assets, net of the existing valuation allowance as of March 31, 2020.

As of March 31, 2020, TDK Corporation and its subsidiaries have net operating loss carryforwards for income tax purposes of ¥332,434million (\$3,049,853 thousand) which are available to offset future taxable income, if any.

Periods available to offset future taxable income vary in each tax jurisdiction and range from one year to an indefinite period as follows:

	Yen (Millions)	U.S. Dollars (Thousands)
Within 1 year	¥ 2,836	\$ 26,018
1 to 5 years	46,263	424,431
5 to 20 years	145,663	1,336,358
Indefinite periods	137,672	1,263,046
	<u>¥ 332,434</u>	<u>\$ 3,049,853</u>

As of March 31, 2020, TDK Corporation and its subsidiaries have tax credit carryforwards for income tax purposes of ¥10,982 million (\$100,752 thousand) which are available to reduce future income taxes, if any. ¥3,693 million (\$33,881 thousand) of the tax credit carryforwards will expire through 2040, while the remainder has an indefinite carryforward period.

As of March 31, 2019 and 2020, TDK did not recognize deferred tax liabilities of approximately ¥5,524 million and ¥24,917 million (\$228,596 thousand), respectively, for certain portions of undistributed earnings of foreign subsidiaries because TDK currently does not expect those unremitted earnings to reverse and become taxable to TDK in the foreseeable future.

A deferred tax liability will be recognized when TDK expects that it will recover those undistributed earnings in a taxable manner, such as through receipt of dividends or sale of the investments. As of March 31, 2019 and 2020, the undistributed earnings of these subsidiaries are approximately ¥74,593 million and ¥270,263 million (\$2,479,477 thousand), respectively.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits for the years ended March 31, 2019 and 2020 are as follows:

	Yen (Millions)		U.S. Dollars (Thousands)
	2019	2020	2020
Balance at beginning of year	¥ 9,142	¥ 11,089	\$ 101,734
Additions for tax positions of the current year	1,532	7,492	68,734
Additions for tax positions of prior years	3,536	4,206	38,587
Reductions for tax positions of prior years	(315)	(4,646)	(42,624)
Settlements with tax authorities during the period	(2,442)	(23)	(211)
Other	(364)	(662)	(6,073)
Balance at end of year	¥ 11,089	¥ 17,456	\$ 160,147

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate as of March 31, 2019 and 2020 are ¥5,313 million and ¥9,368 million (\$85,495 thousand), respectively.

Although TDK believes its estimates and assumptions used to identify unrecognized tax benefits are reasonable, there is an uncertainty about the final determination of tax audit settlements and any related litigation which could affect the effective tax rate in the future periods. As of March 31, 2020, TDK is not aware of any significant changes in its unrecognized tax benefits over the next 12 months.

TDK classifies interest and penalties related to unrecognized tax benefits as interest expense and other-net in other income (deductions), respectively, in the consolidated statements of income. Interest and penalties accrued which are recorded in other current liabilities as of March 31, 2020 as well as interest and penalties recorded in interest expense and other-net in other income (deductions) for the year then ended are not material.

TDK files income tax returns in Japan and various foreign tax jurisdictions. In Japan, TDK is no longer subject to regular income tax examinations by the tax authority for years ended on or before March 31, 2018. While there has been no specific indication by the tax authority that TDK will be subject to a transfer pricing examination in the near future, the tax authority could conduct a transfer pricing examination for years ended on or after March 31, 2010. In other major foreign tax jurisdictions, including the U.S. and Hong Kong, TDK is no longer subject to income tax examinations by tax authorities for years ended on or before March 31, 2014 with few exceptions. The tax authorities are currently conducting income tax examinations of TDK's income tax returns for certain years ended on or after March 31, 2015 in some foreign tax jurisdictions.

8. Retirement and Severance Benefits

1. Defined Benefit Pension Plans

TDK sponsors contributory and noncontributory retirement and severance plans that provide for pension or lump-sum benefit payments, based on length of service, employee salary and certain other factors, to substantially all employees who retire or terminate their employment for reasons other than dismissal for cause. These pension plans are recognized in accordance with FASB ASC 715 “Compensation — Retirement Benefits”.

Reconciliations of beginning and ending balances of the benefit obligations and the fair value of the plan assets are as follows:

	Yen (Millions)			
	2019		2020	
	Japanese plans	Foreign plans	Japanese plans	Foreign plans
Change in benefit obligations:				
Benefit obligations at beginning of period	¥ 225,072	¥ 89,486	¥ 226,022	¥ 95,291
Service cost	6,000	2,186	6,033	2,574
Interest cost	1,286	2,161	1,075	1,944
Actuarial loss	2,645	6,943	13,396	2,042
Benefits paid	(8,981)	(3,491)	(8,772)	(3,114)
Plan amendments	-	222	-	393
Curtailment/settlement	-	(178)	-	-
Translation adjustment	-	(2,038)	-	(3,421)
Benefit obligations at end of period	226,022	95,291	237,754	95,709
Change in plan assets:				
Fair value of plan assets at beginning of period	163,448	22,186	164,797	24,206
Actual return on plan assets	666	895	(2,956)	(815)
Employer contributions	8,834	2,842	8,471	4,424
Benefits paid	(8,151)	(2,250)	(7,801)	(2,148)
Curtailment/settlement	-	(80)	-	-
Translation adjustment	-	613	-	(740)
Fair value of plan assets at end of period	164,797	24,206	162,511	24,927
Funded status	¥ (61,225)	¥ (71,085)	¥ (75,243)	¥ (70,782)

U.S. Dollars (Thousands)		
2020		
	Japanese plans	Foreign plans
Change in benefit obligations:		
Benefit obligations at beginning of period	\$ 2,073,596	\$ 874,229
Service cost	55,349	23,615
Interest cost	9,862	17,835
Actuarial loss	122,899	18,734
Benefits paid	(80,477)	(28,569)
Plan amendments	-	3,606
Curtailment/settlement	-	-
Translation adjustment	-	(31,385)
Benefit obligations at end of period	2,181,229	878,065
Change in plan assets:		
Fair value of plan assets at beginning of period	1,511,899	222,073
Actual return on plan assets	(27,119)	(7,477)
Employer contributions	77,716	40,587
Benefits paid	(71,569)	(19,706)
Curtailment/settlement	-	-
Translation adjustment	-	(6,788)
Fair value of plan assets at end of period	1,490,927	228,689
Funded status	\$ (690,302)	\$ (649,376)

Amounts recognized in the consolidated balance sheets as of March 31, 2019 and 2020 consist of:

Yen (Millions)				
2019		2020		
	Japanese plans	Foreign plans	Japanese plans	Foreign plans
Other assets	¥ 78	¥ 319	¥ 34	¥ 248
Accrued expenses	(1,925)	(2,800)	(2,119)	(2,306)
Retirement and severance benefits	(59,378)	(68,604)	(73,158)	(68,724)
Total	¥ (61,225)	¥ (71,085)	¥ (75,243)	¥ (70,782)

U.S. Dollars (Thousands)		
2020		
	Japanese plans	Foreign plans
Other assets	\$ 312	\$ 2,275
Accrued expenses	(19,440)	(21,156)
Retirement and severance benefits	(671,174)	(630,495)
Total	\$ (690,302)	\$ (649,376)

Amounts recognized in accumulated other comprehensive income as of March 31, 2019 and 2020 consist of:

	Yen (Millions)			
	2019		2020	
	Japanese plans	Foreign plans	Japanese plans	Foreign plans
Net actuarial loss	¥ 69,861	¥ 24,790	¥ 86,262	¥ 27,198
Prior service cost (benefit)	2,665	(1,074)	2,955	(722)
Total	¥ 72,526	¥ 23,716	¥ 89,217	¥ 26,476

	U.S. Dollars (Thousands)	
	2020	
	Japanese plans	Foreign plans
Net actuarial loss	\$ 791,395	249,523
Prior service cost (benefit)	27,110	(6,624)
Total	\$ 818,505	\$ 242,899

Accumulated benefit obligations for all defined benefit plans are as follows:

	Yen (Millions)			
	2019		2020	
	Japanese plans	Foreign plans	Japanese plans	Foreign plans
Accumulated benefit obligations	¥ 218,153	¥ 89,785	¥ 229,458	¥ 89,558

	U.S. Dollars (Thousands)	
	2020	
	Japanese plans	Foreign plans
Accumulated benefit obligations	\$ 2,105,119	\$ 821,633

The projected benefit obligations and the fair value of plan assets for the pension plans with projected benefit obligations in excess of plan assets, and the accumulated benefit obligations and the fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets are as follows:

	Yen (Millions)			
	2019		2020	
	Japanese plans	Foreign plans	Japanese plans	Foreign plans
Plans with projected benefit obligations in excess of plan assets:				
Projected benefit obligations	¥ 222,844	¥ 95,291	¥ 234,536	¥ 95,709
Fair value of plan assets	161,542	24,206	159,259	24,927
Plans with accumulated benefit obligations in excess of plan assets:				
Accumulated benefit obligations	¥ 215,020	¥ 89,785	¥ 226,296	¥ 87,472
Fair value of plan assets	161,542	24,206	159,259	22,764

	U.S. Dollars (Thousands)	
	2020	
	Japanese plans	Foreign plans
Plans with projected benefit obligations in excess of plan assets:		
Projected benefit obligations	\$ 2,151,706	\$ 878,064
Fair value of plan assets	1,461,092	228,688
Plans with accumulated benefit obligations in excess of plan assets:		
Accumulated benefit obligations	\$ 2,076,110	\$ 802,495
Fair value of plan assets	1,461,092	208,844

Net periodic benefit cost (including discontinued operations) for TDK's employee retirement and severance defined benefit plans for the years ended March 31, 2019 and 2020 consist of the following components. Prior service cost (benefit) is amortized by a straight-line method over the average remaining service period of current employees.

	Yen (Millions)			
	2019		2020	
	Japanese plans	Foreign plans	Japanese plans	Foreign plans
Service cost-benefits earned during the year	¥ 6,000	¥ 2,186	¥ 6,033	¥ 2,574
Interest cost on projected benefit obligation	1,286	2,161	1,075	1,944
Expected return on plan assets	(3,267)	(1,409)	(3,449)	(1,472)
Amortization of actuarial loss	3,777	1,429	3,400	1,921
Amortization of prior service cost (benefit)	(290)	(25)	(290)	41
Curtailment/settlement gain	-	(33)	-	-
Net periodic benefit cost	¥ 7,506	¥ 4,309	¥ 6,769	¥ 5,008

	U.S. Dollars (Thousands)	
	2020	
	Japanese plans	Foreign plans
Service cost-benefits earned during the year	\$ 55,349	\$ 23,615
Interest cost on projected benefit obligation	9,862	17,835
Expected return on plan assets	(31,642)	(13,505)
Amortization of actuarial loss	31,192	17,624
Amortization of prior service cost (benefit)	(2,661)	376
Curtailment/settlement gain	-	-
Net periodic benefit cost	\$ 62,100	\$ 45,945

In net periodic benefit cost for TDK's employee retirement and severance defined benefit plans, service cost is included in cost of sales and sales and general administrative expense of the consolidated statements of income. Other elements except service cost are included in other - net of other income (deductions).

Amounts recognized in pension liability adjustment that is a part of other comprehensive income mainly as changes in plan assets and benefit obligations for the years ended March 31, 2019 and 2020 are summarized as follows:

	Yen (Millions)			
	2019		2020	
	Japanese plans	Foreign plans	Japanese plans	Foreign plans
Net actuarial loss (gain)	¥5,246	¥ 7,457	¥19,801	¥ 4,329
Plan amendments	-	222	-	393
Amortization of actuarial loss	(3,777)	(1,429)	(3,400)	(1,921)
Amortization of prior service (cost) benefit	290	25	290	(41)
Curtailment/settlement loss (gain)	-	(65)	-	-
Amount recognized in other comprehensive income	1,759	6,210	16,691	2,760
Total of net periodic benefit cost and amount recognized in other comprehensive income	¥ 9,265	¥ 10,519	¥ 23,460	¥ 7,768

	U.S. Dollars (Thousands)	
	2020	
	Japanese plans	Foreign plans
Net actuarial loss	\$ 181,660	\$ 39,716
Plan amendments	-	3,606
Amortization of actuarial loss	(31,192)	(17,624)
Amortization of prior service (cost) benefit	2,661	(376)
Curtailment/settlement gain	-	-
Amount recognized in other comprehensive income	153,129	25,322
Total of net periodic benefit cost and amount recognized in other comprehensive income	\$ 215,229	\$ 71,267

The estimated net actuarial loss and prior service cost (benefit) for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next year are summarized as follows:

	Yen (Millions)		U.S. Dollars (Thousands)	
	Japanese plans	Foreign plans	Japanese plans	Foreign plans
Amortization of actuarial loss	¥ 4,735	¥ 1,898	\$ 43,440	\$ 17,413
Amortization of prior service cost (benefit)	136	(4)	1,248	(37)

Assumptions

Weighted average assumptions used to determine benefit obligations as of March 31:

	2019		2020	
	Japanese plans	Foreign plans	Japanese plans	Foreign plans
Discount rate	0.5%	2.2%	0.7%	2.1%
Assumed rate of increase in future compensation levels	2.8%	2.8%	2.8%	2.9%

Weighted average assumptions used to determine net periodic benefit cost for the years ended March 31:

	2019		2020	
	Japanese plans	Foreign plans	Japanese plans	Foreign plans
Discount rate	0.6%	2.5%	0.5%	2.2%
Assumed rate of increase in future compensation levels	2.9%	2.7%	2.8%	2.8%
Expected long-term rate of return on plan assets	2.2%	6.5%	2.3%	6.1%

TDK determines the expected long-term rate of return based on the expected long-term return of the various asset categories in which it invests. TDK considers the current expectations for future returns and the actual historical returns of each plan asset category.

Plan assets

TDK's investment policies are designed to ensure adequate plan assets are available to provide future payments of pension benefits to eligible participants. Taking into account the expected long-term rate of return on plan assets, TDK formulates a "model" portfolio comprised of the optimal combination of equity securities and debt securities. Plan assets are invested in individual equity and debt securities using the guidelines of the "model" portfolio in order to produce a total return that will match the expected return on a mid-term to long-term basis. TDK evaluates the gap between expected return and actual return of invested plan assets on an annual basis to determine if such differences necessitate a revision in the formulation of the "model" portfolio. TDK revises the "model" portfolio when and to the extent considered necessary to achieve the expected long-term rate of return on plan assets.

As of March 31, 2020, the asset portfolio of TDK's Japanese plans is divided into three main asset categories with approximately 22 percent consisting of equity securities, approximately 38 percent of debt securities and approximately 40 percent of other assets such as cash and cash equivalents. The asset portfolio of TDK's foreign plans is also divided into three main asset categories with approximately 44 percent consisting of equity securities, approximately 38 percent of debt securities and approximately 18 percent of other assets such as cash and cash equivalents. As of March 31, 2020, there is no significant deviation between the target allocations and actual results.

Shares in Japanese companies included in equity securities mainly consist of shares listed on stock exchanges and over-the-counter markets. They are selected after a thorough examination and analysis of the operations of investment target companies and are appropriately diversified with respect to business categories and issues. Bonds of Japanese companies among debt securities mainly consist of corporate bonds, government bonds and public bonds. They are selected after a thorough examination and analysis of issuance conditions such as bond ratings, coupons, maturity dates and are appropriately diversified with respect to issuers and remaining periods. Regarding investments in foreign issues, target countries and currencies are selected after a thorough examination of political and economic stability, market characteristics such as clearing systems and taxation systems. For other assets, which include a life insurance company general account, pooled funds and real estate investment trusts, among others, diversified investment is carried out after a thorough examination and analysis of general economic conditions and investment target assets. A life insurance company general account is a product of life insurance companies in which individual insurance funds, corporate plan assets and other funds are jointly managed.

The fair value of TDK's plan assets as of March 31, 2019 and 2020 by asset type are as follows:

Yen (Millions)								
2019								
Japanese plans				Foreign plans				
<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	
Plan assets:								
Assets measured at other than net asset value per share								
Cash and cash equivalents:								
Cash and cash equivalents	¥ 13,008	¥ -	¥ -	¥ 13,008	¥ 1,893	¥ -	¥ -	¥ 1,893
Equity securities:								
Listed shares	5,291	-	-	5,291	751	-	-	751
Mutual funds	-	29,764	-	29,764	9,053	1,511	-	10,564
Debt securities:								
Government bonds, public bonds, corporate bonds	7,574	-	-	7,574	3,978	3,170	-	7,148
Mutual funds	-	19,832	-	19,832	1,317	646	-	1,963
Other assets:								
Life insurance company general account	-	16,056	-	16,056	-	178	-	178
Mutual funds	-	14,481	-	14,481	-	-	-	-
Others	-	221	8,805	9,026	-	1,290	-	1,290
Assets measured at net asset value per share								
Equity securities:								
Pooled funds	-	-	-	5,406	-	-	-	202
Debt securities:								
Pooled funds	-	-	-	27,255	-	-	-	217
Other assets:								
Pooled funds	-	-	-	17,104	-	-	-	-
Total plan assets	¥ 25,873	¥ 80,354	¥ 8,805	¥ 164,797	¥ 16,992	¥ 6,795	¥ -	¥ 24,206

Plan assets that are measured at fair value using the net asset value are not classified in the fair value hierarchy.

Yen (Millions)								
2020								
	Japanese plans				Foreign plans			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Plan assets:								
Assets measured at other than net asset value per share								
Cash and cash equivalents:								
Cash and cash equivalents	¥ 4,460	¥ -	¥ -	¥ 4,460	¥ 2,992	¥ -	¥ -	¥ 2,992
Equity securities:								
Listed shares	5,052	-	-	5,052	2,172	-	-	2,172
Mutual funds	-	22,304	-	22,304	7,449	1,234	-	8,683
Debt securities:								
Government bonds, public bonds, corporate bonds	6,913	-	-	6,913	1,975	5,360	-	7,335
Mutual funds	-	19,776	-	19,776	1,124	647	-	1,771
Other assets:								
Life insurance company general account	-	16,166	-	16,166	-	172	-	172
Mutual funds	-	18,766	-	18,766	-	-	-	-
Others	-	220	6,479	6,699	-	1,377	-	1,377
Assets measured at net asset value per share								
Equity securities:								
Pooled funds	-	-	-	8,012	-	-	-	204
Debt securities:								
Pooled funds	-	-	-	34,944	-	-	-	221
Other assets:								
Pooled funds	-	-	-	19,419	-	-	-	-
Total plan assets	¥ 16,425	¥ 77,232	¥ 6,479	¥ 162,511	¥ 15,712	¥ 8,790	¥ -	¥ 24,927

Plan assets that are measured at fair value using the net asset value are not classified in the fair value hierarchy.

U.S. Dollars (Thousands)								
2020								
Japanese plans				Foreign plans				
<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	
Plan assets:								
Assets measured at other than net asset value per share								
Cash and cash equivalents:								
Cash and cash equivalents	\$ 40,917	\$ -	\$ -	\$ 40,917	\$ 27,450	\$ -	\$ -	\$ 27,450
Equity securities:								
Listed shares	46,349	-	-	46,349	19,927	-	-	19,927
Mutual funds	-	204,624	-	204,624	68,339	11,321	-	79,660
Debt securities:								
Government bonds, public bonds, corporate bonds								
	63,422	-	-	63,422	18,119	49,173	-	67,292
Mutual funds	-	181,431	-	181,431	10,312	5,936	-	16,248
Other assets:								
Life insurance company general account								
	-	148,312	-	148,312	-	1,578	-	1,578
Mutual funds	-	172,165	-	172,165	-	-	-	-
Others	-	2,019	59,440	61,459	-	12,633	-	12,633
Assets measured at net asset value per share								
Equity securities:								
Pooled funds	-	-	-	73,505	-	-	-	1,872
Debt securities:								
Pooled funds	-	-	-	320,587	-	-	-	2,028
Other assets:								
Pooled funds	-	-	-	178,156	-	-	-	-
Total plan assets	\$ 150,688	\$ 708,551	\$ 59,440	\$ 1,490,927	\$ 144,147	\$ 80,641	\$ -	\$ 228,688

Plan assets that are measured at fair value using the net asset value are not classified in the fair value hierarchy.

Level 1 assets are mainly equity securities and debt securities that are valued using unadjusted quoted prices in active markets in which transactions occur with sufficient frequency and volume. Level 2 assets include mainly mutual funds that invest in equity securities and debt securities. They are valued based on quoted prices obtained from asset management agencies and are verified using observable market inputs. Level 3 assets are insurance products that are valued based on unobservable inputs regarding the assets and the relevant liabilities. Plan assets that are measured at fair value using the net asset value are pooled funds, which are measured at net asset value calculated by the trust operator.

Change in TDK's plan assets that are classified as Level 3 assets for the years ended March 31, 2019 and 2020 are as follows:

	Yen (Millions)	
	2019	2020
	Insurance products	
Balance at beginning of year	¥ 7,497	¥ 8,805
Net change due to purchase, sale, etc.	2,000	(2,424)
Gain (loss) on assets held at end of year	(692)	98
Balance at end of year	¥ 8,805	¥ 6,479

	U.S. Dollars (Thousands)	
	2020	
	Insurance products	
Balance at beginning of year	\$ 80,780	
Net change due to purchase, sale, etc.	(22,239)	
Gain (loss) on assets held at end of year	899	
Balance at end of year	\$ 59,440	

Contributions

TDK expects to contribute ¥6,662 million (\$61,119 thousand) to its Japanese defined benefit plans and ¥1,887 million (\$17,312 thousand) to its foreign defined benefit plans for the year ending March 31, 2021.

Estimated future benefit payments

The benefits are expected to be paid from the pension plans in each year 2021 through 2030 are as follows:

	Yen (Millions)		U.S. Dollars (Thousands)	
	Japanese plans	Foreign plans	Japanese plans	Foreign plans
Year ending March 31,				
2021	¥ 8,832	¥ 3,618	\$ 81,028	\$ 33,193
2022	8,962	3,745	82,220	34,358
2023	9,859	3,906	90,450	35,835
2024	10,349	4,114	94,945	37,743
2025	9,686	4,596	88,862	42,165
2026 - 2030 total	49,068	25,639	450,165	235,220

2. Deferred Compensation Plans

Certain subsidiaries of TDK Corporation have deferred compensation plans under which employees place a portion of their compensation in a pension fund and contributions can be received with interest at the time of retirement. Estimated future benefit payments to retirees are determined by actuarial calculation. Liabilities relating to these plans are recorded as either the market value of plan assets or the present value of estimated future benefit payments, whichever is greater. As of March 31, 2019 and 2020, the amount of ¥1,068 million and ¥1,076 million (\$9,872 thousand) are recorded as retirement and severance benefits, respectively.

Amount recognized in pension liability adjustment that is a part of other comprehensive income (loss) mainly as changes in plan assets and benefit obligations for the years ended March 31, 2019 and 2020 are summarized as follows:

	Yen (Millions)			
	2019		2020	
	Japanese plans	Foreign plans	Japanese plans	Foreign plans
Net actuarial loss (gain)	¥ -	¥ (27)	¥ -	¥ (90)
Amortization of actuarial loss	-	(18)	-	(14)
Amortization of prior service (cost) benefit	-	6	-	6
Amount recognized in other comprehensive income (loss)	¥ -	¥ (39)	¥ -	¥ (98)

	U.S. Dollars (Thousands)	
	2020	
	Japanese plans	Foreign plans
Net actuarial loss (gain)	\$ -	\$ (826)
Amortization of actuarial loss	-	(128)
Amortization of prior service (cost) benefit	-	55
Amount recognized in other comprehensive income (loss)	\$ -	\$ (899)

3. Defined Contribution Pension Plans

Expenses for defined contribution pension plan recognized by TDK Corporation and certain subsidiaries for the years ended March 31, 2019 and 2020 were ¥2,223 million and ¥2,152 million (\$19,743 thousand), respectively.

9. Legal Reserve and Dividends

The Japanese Companies Act provides that an amount equal to 10 percent of cash dividends and other distributions from retained earnings paid by TDK Corporation and its domestic subsidiaries be appropriated as a legal reserve. No further appropriations are required when the total amount of the additional paid-in capital and the legal reserve equals 25 percent of their respective stated capital. The Japanese Companies Act also provides that additional paid-in capital and the legal reserve are available for appropriations by the resolution of the shareholders. Certain foreign subsidiaries are also required to appropriate their earnings to legal reserves under the laws of the respective countries. Cash dividends and appropriations to the legal reserve charged to retained earnings in accordance with Japanese Companies Act for the years ended March 31, 2019 and 2020 represent dividends paid out during those years and the related appropriations to the legal reserve. The accompanying consolidated financial statements do not include any provision for the dividend taken up at the Ordinary General Meeting of Shareholders of ¥90 (\$0.83) per share aggregating ¥11,369 million (\$104,303 thousand) in respect of the year ended March 31, 2020.

Cash dividends per common share are computed based on dividends paid for the year.

10. Stock Option Plan

Compensation expenses related to stock options that TDK Corporation and one of its subsidiaries recognized for the years ended March 31, 2019 and 2020 were ¥172 million and ¥33 million (\$303 thousand), respectively.

The tax benefits related to these compensation expenses for the years ended March 31, 2019 and 2020 were ¥53 million and ¥10 million (\$92 thousand), respectively. The tax benefits realized from stock options exercised for the years ended March 31, 2019 and 2020 were ¥25 million and ¥33 million (\$303 thousand), respectively.

1. TDK Corporation Stock Option Plans

TDK Corporation has two types of stock option plans, the Ordinary-Type Stock Options and the Share-based Compensation Type Stock Options. Under the Ordinary-Type Stock Options, stock options, each representing a right to purchase 100 shares of common stock of TDK Corporation, are granted to the senior executives of TDK Corporation and to the directors and senior executives of its subsidiaries. The stock options are vested based on 2 years of continuous service after the grant date and have the exercise period of 4 years. The exercise price of the stock options is equal to or greater than the fair market value of TDK Corporation's common stock on the grant date.

There are two types of the Share-based Compensation Type Stock Options as described below and the second type contains a certain performance condition.

- 1) Stock options, each representing a right to purchase 100 shares of common stock of TDK Corporation, are granted to the directors and corporate officers of TDK Corporation. The stock options are fully vested on the grant date and have the exercise period of 20 years. The amount to be paid by qualified persons upon the exercise of the stock options is set at ¥1 (\$0.01) per share of common stock.
- 2) Stock options, each representing a right to purchase 100 shares of common stock of TDK Corporation, are granted to the directors and corporate officers of TDK Corporation. The stock options are vested depending on the degree of achievement of the medium-term management plan and have the exercise period of 20 years. The amount to be paid by qualified persons upon the exercise of the stock options is set at ¥1 (\$0.01) per share of common stock.

A summary of the status of TDK Corporation's stock options as of March 31, 2019 and 2020, and of the activity for the years ended on those dates, is as follows:

	Number of shares	Weighted average exercise price	Weighted average remaining contractual term	Aggregate intrinsic value (1)
		Yen	Years	Yen (Millions)
2019				
Outstanding at beginning of year	379,400	¥ 638		
Granted	92,200	1		
Exercised	44,000	1,916		
Forfeited or Expired	62,700	1,065		
Outstanding at end of year	364,900	249	15.0	3,073
Exercisable at end of year	289,900	313	14.0	2,423
Expected to vest after end of year	75,000	1	19.0	650
2020				
Outstanding at beginning of year	364,900	¥ 249		
Granted	21,900	1		
Exercised	30,800	947		
Forfeited or Expired	25,200	2,436		
Outstanding at end of year	330,800	1	15.4	2,772
Exercisable at end of year	264,200	1	14.8	2,214
Expected to vest after end of year	66,600	1	18.1	558

⁽¹⁾ The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the closing stock price of ¥8,670 on March 31, 2019 and ¥8,380 (\$76.88) on March 31, 2020.

	Number of shares	Weighted average exercise price	Weighted average remaining contractual term	Aggregate intrinsic value
		U.S. Dollars	Years	U.S. Dollars (Thousands)
2020				
Outstanding at beginning of year	364,900	\$ 2.28		
Granted	21,900	0.01		
Exercised	30,800	8.69		
Forfeited or Expired	25,200	22.35		
Outstanding at end of year	330,800	0.01	15.4	25,431
Exercisable at end of year	264,200	0.01	14.8	20,312
Expected to vest after end of year	66,600	0.01	18.1	5,119

As of March 31, 2020, all outstanding stock options were vested or expected to be vested. The total intrinsic value of stock options exercised for the years ended March 31, 2019 and 2020 was ¥354 million and ¥275 million (\$2,523 thousand), respectively. Cash received from stock options exercised for the years ended March 31, 2019 and 2020 was ¥84 million and ¥29 million (\$266 thousand).

Information about stock options outstanding as of March 31, 2020 is as follows:

Options Outstanding				
Range of exercise prices	Number outstanding at March 31, 2020	Weighted average remaining contractual term	Weighted average exercise price	
Yen		(years)	Yen	U.S. Dollars
1	330,800	15.4	¥ 1	\$ 0.01

A summary of the status of TDK Corporation's nonvested stock options as of March 31, 2019 and 2020, and of the activity for the years ended on those dates, is as follows:

	2019		2020		
	Number of shares	Weighted average grant-date fair value	Number of shares	Weighted average grant-date fair value	U.S. Dollars
		Yen		Yen	
Nonvested at beginning of year	91,000	¥ 6,401	75,000	¥ 8,373	\$ 76.82
Granted	92,200	8,426	21,900	8,451	77.53
Vested	64,200	6,964	21,700	8,410	77.16
Forfeited	44,000	6,463	8,600	8,373	76.82
Nonvested at end of year	75,000	8,373	66,600	8,387	76.94

As of March 31, 2020, TDK Corporation had ¥501 million (\$4,596 thousand) of total unrecognized compensation expenses related to stock options that will be recognized over the weighted average period of 1.0 years. The total fair value of stock options vested for the years ended March 31, 2019 and 2020 was ¥447 million and ¥182 million (\$1,670 thousand), respectively.

The fair value of these stock options was estimated on the grant date using the Black-Scholes option pricing model with the following assumptions:

Share-based Compensation-Type Stock Options – the exercise price is less than the market price of the stock on the grant date

	2019		2020	
	April	July	April	July
Grant-date fair value	¥ 8,373	¥ 10,410	¥ 8,562 (\$ 78.55)	¥ 7,800 (\$ 71.56)
Expected term	8.0 years	6.5 years	8.5 years	5.5 years
Risk-free interest rate	(0.032)%	(0.08175)%	(0.119)%	(0.262)%
Expected volatility	32.96%	32.38%	33.35%	32.56%
Expected dividend yield	1.29%	1.16%	1.35%	1.85%

11. Equity

Net income attributable to TDK and transfers (to) from noncontrolling interest for the years ended March 31, 2019 and 2020 are as follows:

	Yen (Millions)		U.S. Dollars (Thousands)
	2019	2020	2020
Net income attributable to TDK	¥ 82,205	¥ 57,780	\$ 530,092
Decrease in TDK's additional paid-in capital for purchase of Amperex Technology Ltd.'s common shares from third parties	(2,787)	(4,075)	(37,386)
Decrease in TDK's additional paid-in capital for purchase of Guangdong TDK Rising Rare Earth High Technology Material Co., Ltd.'s common shares from third parties	(27)	-	-
Increase (decrease) in TDK's additional paid-in capital for purchase of SolidGear Corporation's common shares from third parties	3	(4)	(37)
Net transfers (to) from noncontrolling interest	(2,811)	(4,079)	(37,423)
Change from net income attributable to TDK and transfers (to) from noncontrolling interest	¥ 79,394	¥ 53,701	\$ 492,669

12. Other Comprehensive Income (Loss)

Change in accumulated other comprehensive income (loss) for the years ended March 31, 2019 and 2020 are as follows:

2019	Yen (Millions)			
	Foreign currency translation adjustments	Pension liability adjustments	Net unrealized gains (losses) on securities	Total
March 31, 2018	¥ (53,448)	¥ (69,292)	¥ 3,248	¥ (119,492)
Cumulative-effect from adoption of ASU 2016-01	-	-	(3,083)	(3,083)
Equity transaction of consolidated subsidiaries and other	10	-	-	10
Other comprehensive income (loss) before reclassifications	5,210	(10,901)	(55)	(5,746)
Amounts reclassified from accumulated other comprehensive income (loss)	(753)	4,544	-	3,791
Other comprehensive income (loss)	4,457	(6,357)	(55)	(1,955)
Other comprehensive income (loss) attributable to noncontrolling interests	(76)	(9)	-	(85)
March 31, 2019	¥ (48,905)	¥ (75,640)	¥ 110	¥ (124,435)
2020	Yen (Millions)			
	Foreign currency translation adjustments	Pension liability adjustments	Net unrealized gains (losses) on securities	Total
March 31, 2019	¥ (48,905)	¥ (75,640)	¥ 110	¥ (124,435)
Equity transaction of consolidated subsidiaries and other	(19)	-	-	(19)
Other comprehensive income (loss) before reclassifications	(50,656)	(24,668)	(77)	(75,401)
Amounts reclassified from accumulated other comprehensive income (loss)	4,972	4,603	(10)	9,565
Other comprehensive income (loss)	(45,684)	(20,065)	(87)	(65,836)
Other comprehensive income (loss) attributable to noncontrolling interests	(239)	4	-	(235)
March 31, 2020	¥ (94,369)	¥ (95,709)	¥ 23	¥ (190,055)

2020

	U.S. Dollars (Thousands)			
	Foreign currency translation adjustments	Pension liability adjustments	Net unrealized gains (losses) on securities	Total
March 31, 2019	\$ (448,670)	\$ (693,945)	\$ 1,009	\$ (1,141,606)
Equity transaction of consolidated subsidiaries and other	(174)	-	-	(174)
Other comprehensive income (loss) before reclassifications	(464,734)	(226,312)	(706)	(691,752)
Amounts reclassified from accumulated other comprehensive income (loss)	45,615	42,229	(92)	87,752
Other comprehensive income (loss)	(419,119)	(184,083)	(798)	(604,000)
Other comprehensive income (loss) attributable to noncontrolling interests	(2,193)	37	-	(2,156)
March 31, 2020	\$ (865,770)	\$ (878,065)	\$ 211	\$ (1,743,624)

The reclassifications out of accumulated other comprehensive income (loss) for the year ended March 31, 2019 and 2020 are as follows:

	Amount reclassified from accumulated other comprehensive income (loss) *1			Affected line items in consolidated statements of income
	2019	2020	2020	
	Yen	(Millions)	U.S. Dollars (Thousands)	
Foreign currency translation adjustments:				
	¥ 27	¥ -	\$ -	Selling, general and administrative expenses
	717	(5,745)	(52,707)	Other - net of other income (deductions)
	9	773	7,092	Tax (expense) or benefit
	753	(4,972)	(45,615)	Net of tax
Pension liability adjustments:				
	(4,968)	(5,080)	(46,605)	Other - net of other income (deductions)*2
	424	477	4,376	Tax (expense) or benefit
	(4,544)	(4,603)	(42,229)	Net of tax
Net unrealized gains (losses) on securities:				
	-	10	92	Other - net of other income (deductions)
	-	-	-	Tax (expense) or benefit
	-	10	92	Net of tax
Total amount reclassified, net of tax	¥ (3,791)	¥ (9,565)	\$ (87,752)	

*1 Amounts in parentheses indicate losses in consolidated statements of income.

*2 This accumulated other comprehensive income (loss) component is included in the computation of net periodic benefit cost that is presented in Note 8 of the Notes to Consolidated Financial Statements.

Tax effects allocated to each component of other comprehensive income (loss) and reclassification adjustments for the years ended March 31, 2019 and 2020, are as follows:

	Yen (Millions)		
	Before tax Amount	Tax (expense) or benefit	Net-of-tax amount
2019			
Foreign currency translation adjustments:			
Amount arising during the year from investments in foreign entities	¥ 2,324	¥ 2,886	¥ 5,210
Reclassification adjustments for the portion of gains and losses realized upon sale or liquidation of investments in foreign entities	(744)	(9)	(753)
Net foreign currency translation adjustments	1,580	2,877	4,457
Pension liability adjustments:			
Amount arising during the year	(12,907)	2,006	(10,901)
Reclassification adjustments for amortization and curtailment/settlement	4,968	(424)	4,544
Net pension liability adjustments	(7,939)	1,582	(6,357)
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the year	(55)	-	(55)
Reclassification adjustments for (gains) losses realized in net income	-	-	-
Net unrealized gains (losses)	(55)	-	(55)
Other comprehensive income (loss)	¥ (6,414)	¥ 4,459	¥ (1,955)

	Yen (Millions)		
	Before tax Amount	Tax (expense) or benefit	Net-of-tax amount
2020			
Foreign currency translation adjustments:			
Amount arising during the year from investments in foreign entities	¥ (51,777)	¥ 1,121	¥ (50,656)
Reclassification adjustments for the portion of gains and losses realized upon sale or liquidation of investments in foreign entities	5,745	(773)	4,972
Net foreign currency translation adjustments	(46,032)	348	(45,684)
Pension liability adjustments:			
Amount arising during the year	(24,440)	(228)	(24,668)
Reclassification adjustments for amortization and curtailment/settlement	5,080	(477)	4,603
Net pension liability adjustments	(19,360)	(705)	(20,065)
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the year	(77)	-	(77)
Reclassification adjustments for (gains) losses realized in net income	(10)	-	(10)
Net unrealized gains (losses)	(87)	-	(87)
Other comprehensive income (loss)	¥ (65,479)	¥ (357)	¥ (65,836)

	U.S. Dollars (Thousands)		
	Before tax amount	Tax (expense) or benefit	Net-of-tax Amount
2020			
Foreign currency translation adjustments:			
Amount arising during the year from investments in foreign entities	\$ (475,018)	\$ 10,284	\$ (464,734)
Reclassification adjustments for the portion of gains and losses realized upon sale or liquidation of investments in foreign entities	52,707	(7,092)	45,615
Net foreign currency translation adjustments	(422,311)	3,192	(419,119)
Pension liability adjustments:			
Amount arising during the year	(224,220)	(2,092)	(226,312)
Reclassification adjustments for amortization and curtailment/settlement	46,605	(4,376)	42,229
Net pension liability adjustments	(177,615)	(6,468)	(184,083)
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the year	(706)	-	(706)
Reclassification adjustments for (gains) losses realized in net income	(92)	-	(92)
Net unrealized gains (losses)	(798)	-	(798)
Other comprehensive income (loss)	\$ (600,724)	\$ (3,276)	\$ (604,000)

13. Leases

TDK occupies buildings and leases machineries under various lease agreements expiring after 2020.

The amount of assets under capital leases and the related accumulated depreciation included in property, plant and equipment on the consolidated balance sheets as of March 31, 2019 are as follows:

	Yen (Millions)
	2019
Buildings	¥ 4,147
Machinery and equipment	3,308
Accumulated depreciation	(3,664)
Net leased assets	¥ 3,791

The depreciation expense for assets under capital leases is included in cost of sales and selling, general and administrative expenses of the consolidated statements of income.

Operating lease expenses are ¥9,699 million for the year ended March 31, 2019.

The following is a schedule by year of future minimum lease payments required under capital leases and operating leases that have initial or remaining noncancellable lease terms in excess of one year as of March 31, 2019:

	Yen (Millions)	
	Capital leases	Operating leases
Year ending March 31,		
2020	¥ 1,064	¥ 8,221
2021	965	6,484
2022	912	5,446
2023	791	4,644
2024	694	4,454
Later years	9,247	15,186
Total minimum lease payments	¥ 13,673	¥ 44,435
Amounts representing interest	(7,989)	
Present value of net minimum lease payments	5,684	
Current portion	485	
Long-term lease obligations (Excluding current portion)	¥ 5,199	

TDK leases land, buildings, and machineries etc. under various operating lease agreements and finance lease agreements expiring in and after the year ending March 31, 2021. At inception of a contract, TDK determines whether the contract is a lease contract, or if it contains leases. TDK does not have any significant lease contracts with variable lease payments. Some lease contracts include an option to extend or terminate the lease. When it is reasonably assured that the option will be exercised, lease term is decided in consideration with the term of the option. TDK does not have any lease contracts with residual value guarantees nor financial covenants. Since most of the lease contracts do not clearly state the interest rate, TDK calculates net present value of total lease payments with incremental borrowing rate based on information available at inception of a contract. As some of the lease contracts include lease and nonlease components, TDK accounts for them separately.

The amount of assets under finance leases included in property, plant and equipment on the consolidated balance sheets as of March 31, 2020 are as follows:

	Yen (Millions)	U.S. Dollars (Thousands)
	2020	2020
Buildings	¥ 4,088	\$ 37,505
Machinery and equipment	3,625	33,257
Accumulated depreciation	(3,923)	(35,991)
Total	¥ 3,790	\$ 34,771

The gain and loss related to leases as a lessee are as follows.

	Yen (Millions)	U.S. Dollars (Thousands)
	2020	2020
Finance lease expense		
Right of use asset accumulated depreciation	¥ 724	\$6,642
Interest expenses for lease obligation	829	7,606
Total	¥1,553	\$ 14,248
Operating lease expense	8,958	82,179
Others	674	6,183
Gain and loss related to leases as a lessee total	¥11,185	\$102,610

Other information is as follows.

	Yen (Millions)	U.S. Dollars (Thousands)
	2020	2020
Cash payments including measurement of finance lease obligation		
Cash flows from operating activities	¥ 829	\$7,606
Cash flows from financing activities	675	6,193
Cash payments including measurement of operating lease obligation		
Cash flows from operating activities	8,849	81,179
Right of use assets from exchanging finance lease obligation	529	4,853
Right of use assets from exchanging operating lease obligation	8,044	73,798

	Year
	2020
Weighted average remaining lease period	
Finance lease	15.94
Operating lease	7.24

	%
	2020
Weighted average interest rate	
Finance lease	13.18
Operating lease	2.58

The following is a schedule by year of future minimum lease payments required under finance leases and operating as of March 31, 2020:

	Yen (Millions)		U.S. Dollars (Thousands)	
	Finance leases	Operating leases	Finance leases	Operating leases
Year ending March 31,				
2021	¥ 1,144	¥ 7,884	\$ 10,498	\$ 71,964
2022	1,063	6,646	9,751	60,972
2023	909	4,926	8,338	45,189
2024	779	4,383	7,149	40,211
2025	723	3,929	6,632	36,043
Later years	8,808	10,410	80,808	95,502
Total minimum lease payments	¥ 13,426	¥ 38,137	\$ 123,176	\$ 349,881
Amounts representing interest	7,544	2,061	69,211	18,908
Present value of net minimum lease payments	5,882	36,076	53,962	330,972
Current portion	558	7,252	5,118	66,532
Long-term lease obligations (Excluding current portion)	¥ 5,324	¥28,824	\$ 48,844	\$264,440

14. Commitments and Contingent Liabilities

Commitments outstanding for the purchase of property, plant and equipment as of March 31, 2019 and 2020 are as follows:

	Yen (Millions)		U.S. Dollars (Thousands)
	2019	2020	2020
Commitments outstanding for the purchase of property, plant and equipment	¥ 59,474	¥ 60,057	\$ 550,982

Certain overseas subsidiaries entered into minimum purchase agreements with suppliers for raw materials and electricity that are necessary for production activities. As of March 31, 2019 and 2020, the minimum purchase obligations based on these agreements are as follows:

	Yen (Millions)		U.S. Dollars (Thousands)
	2019	2020	2020
Commitments outstanding for the purchase of raw material and electricity	¥ 21,549	¥ 18,461	\$ 169,367

TDK provides guarantees to third parties on bank loans of its employees. The guarantees on behalf of the employees are made for their housing loans. For each guarantee issued, in the event the employee defaults on payment, TDK would be required to make payments under its guarantee.

The maximum amount of undiscounted payments TDK would have to make in the event of default as of March 31, 2019 and 2020 are as follows:

	Yen (Millions)		U.S. Dollars (Thousands)
	2019	2020	2020
Guarantees to third parties on bank loans of employees	¥ 610	¥ 469	\$ 4,303

As of March 31, 2020, the liability recognized for the estimated fair value of TDK's obligation under the guarantee arrangements is not material.

Several claims against TDK are pending. Claims include class action raised in the United States of America and Canada for violation of antitrust law and damage suit raised by several customers; both cases are associated with HDD suspension assemblies. For these claims, it is not possible to make a reasonable estimate of impact at this time. In the opinion of TDK management, any additional liability not currently provided for will not materially affect the consolidated financial position or result of operations of TDK.

15. Derivative Financial Instruments and Hedging Activities

TDK operates internationally and is exposed to the risk of changes in foreign exchange rates and interest rates as well as changes in raw material prices. TDK assesses these risks by continuously monitoring changes in the exchange rates, interest rates and raw material prices and by evaluating hedging opportunities. Derivative financial instruments are utilized to reduce these risks. TDK does not hold or issue derivative financial instruments for trading purposes. TDK is exposed to credit related losses in the event of nonperformance by the counterparties to those derivative financial instruments, but does not expect any counterparties to fail to meet their obligations given their high credit ratings. The credit exposure of those financial instruments is represented by the fair values of contracts. The fair values of the contracts are calculated based on the quotes presented by financial institutions. TDK does not hold any derivative instruments which consisted credit-risk-related contingent features.

(1) Hedges of net investment in foreign operations

TDK uses forward foreign exchange contracts and borrowings denominated in the subsidiary's local currency to hedge the foreign currency exposure of the net investment in overseas subsidiaries. The gains and losses of these hedging instruments are recorded in foreign currency translation adjustments, which is a part of other comprehensive income (loss). There are no gains (losses) reclassified from other comprehensive income (loss) to earnings. Also, there is no ineffective portion and amount excluded from effectiveness testing.

(2) Derivatives not designated as hedging instruments

TDK uses forward foreign exchange contracts, nondeliverable forward contracts (NDF), currency swap contracts and currency option contracts in order to offset foreign exchange gain (loss) mainly arising from foreign-currency denominated assets and liabilities and forecasted transactions. TDK uses interest rate swap contracts in order to control the fluctuation risks of interest rates. Also, TDK uses commodity forward contracts in order to control the fluctuation risk of raw material prices. Although these contracts are not designated as hedges, which is required to apply hedge accountings, TDK considers that these are effective as hedges from an economic viewpoint. The fair values of these undesignated contracts are recognized as income or expenses as earned or incurred.

The effect of derivative financial instruments on the consolidated statements of income and consolidated statements of comprehensive income (loss) for the years ended March 31, 2019 and 2020 are as follows:

(1) Hedges of net investment in foreign operations and other hedging instruments

	Yen (Millions)	
	2019	
	Gains (losses) recognized in other comprehensive income (loss) on derivatives and other	Gains (losses) reclassified from other comprehensive income (loss) into income (loss) Other income (deductions), Other - net
Forward foreign exchange contracts	¥ (3,911)	¥ -
Borrowings in local currency	(2,850)	-
Total	¥ (6,761)	¥ -

Yen (Millions)

	2020	
	Gains (losses) recognized in other comprehensive income (loss) on derivatives and other	Gains (losses) reclassified from other comprehensive income (loss) into income (loss) <u>Other income (deductions), Other - net</u>
Forward foreign exchange contracts	¥ (227)	¥ (2,563)
Borrowings in local currency	1,831	-
Total	¥ 1,604	¥ (2,563)

	U.S. Dollars (Thousands)	
	2020	
	Gains (losses) recognized in other comprehensive income (loss) on derivatives and other	Gains (losses) reclassified from other comprehensive income (loss) into income (loss) <u>Other income (deductions), Other - net</u>
Forward foreign exchange contracts	\$ (2,083)	\$(23,514)
Borrowings in local currency	16,798	-
Total	\$ 14,715	\$ (23,514)

(2) Derivatives not designated as hedging instruments

		Yen (Millions)		U.S. Dollars (Thousands)
	Account	2019	2020	2020
Forward foreign exchange contracts	Foreign exchange gain (loss)	¥ (5,495)	¥ (485)	\$ (4,449)
Nondeliverable forward contracts (NDF)	Foreign exchange gain (loss)	-	99	908
Currency swap contracts	Foreign exchange gain (loss)	681	(241)	(2,211)
Interest rate swap contracts	Other income (deductions):	(169)	(124)	(1,138)
	Other-net			
Currency option contracts	Foreign exchange gain (loss)	(198)	(300)	(2,752)
Commodity forward contracts	Cost of sales	306	34	312
	Total	¥ (4,875)	¥ (1,017)	\$ (9,330)

Notional amounts and fair value of derivative financial instruments and other as of March 31, 2019 and 2020 are as follows:

Yen (Millions)				
2019				
Derivatives designated as hedging instruments and other:				
	Notional amounts	Asset derivatives		Liability derivatives
		Fair value	Consolidated balance sheets location	Fair value Consolidated balance sheets location
Forward foreign exchange contracts	¥ 135,102	¥ 977	Prepaid expenses and other current assets	¥ 522 Other current liabilities
Borrowings in local currency	66,594	-	-	- -
Derivatives not designated as hedging instruments:				
	Notional amounts	Asset derivatives		Liability derivatives
		Fair value	Consolidated balance sheets location	Fair value Consolidated balance sheets location
Forward foreign exchange contracts	¥ 57,800	¥ 225	Prepaid expenses and other current assets	¥ 698 Other current liabilities
Currency swap contracts	19,701	30	Prepaid expenses and other current assets	29 Other current liabilities
		1,322	Other assets	- -
Interest rate swap contracts	33,297	124	Prepaid expenses and other current assets	- -
Commodity forward contracts	252	150	Prepaid expenses and other current assets	- -

Yen (Millions)				
2020				
Derivatives not designated as hedging instruments:				
	Notional amounts	Asset derivatives		Liability derivatives
		Fair value	Consolidated balance sheets location	Consolidated balance sheets location
Forward foreign exchange contracts	¥ 118,414	¥ 124	Prepaid expenses and other current assets	¥ 1,359
Currency swap contracts	13,051	1,102	Prepaid expenses and other current assets	- -

U.S. Dollars (Thousands)				
2020				
Derivatives not designated as hedging instruments:				
	Notional amounts	Asset derivatives		Liability derivatives
		Fair value	Consolidated balance sheets location	Consolidated balance sheets location
Forward foreign exchange contracts	\$ 1,086,367	\$ 1,138	Prepaid expenses and other current assets	\$ 12,468
Currency swap contracts	119,734	10,110	Prepaid expenses and other current assets	- -

16. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of financial instruments in cases for which it is practicable:

(a) Cash and cash equivalents, Short-term investments, Trade receivables, Income tax receivables, Prepaid expenses and other current assets, Short-term debt, Trade payables, Accrued salaries and wages, Accrued expenses, Income taxes payable and Other current liabilities

Except for derivative financial instruments, the carrying amount approximates fair value because of the short maturity of these instruments.

(b) Marketable securities, Investments in securities and Other assets

The fair values of marketable securities and investments in securities are primarily estimated based on quoted market prices for these instruments. The fair value of TDK's long-term loans included in other assets are estimated based on the amount of future cash flows associated with the instrument discounted using borrower's current borrowing rate for similar borrowing of comparable maturity, or based on the quoted market prices for the same or similar issues. The long-term loans are classified as Level 2, one of the three levels of fair value hierarchy that is discussed in Note 17 of the Notes to Consolidated Financial Statements.

(c) Long-term debt

The fair value of TDK's long-term debt is estimated based on the amount of future cash flows associated with the instrument discounted using TDK's current borrowing rate for similar debt of comparable maturity, or based on the quoted market prices for the same or similar issues. The long-term debt is classified as Level 2, one of the three levels of fair value hierarchy that is discussed in Note 17 of the Notes to Consolidated Financial Statements.

The carrying amounts and estimated fair values of TDK's financial instruments as of March 31, 2019 and 2020 are summarized as follows:

<u>2019</u>	Yen (Millions)	
	Carrying amount	Estimated fair value
Assets:		
Marketable securities	¥ 57	¥ 57
Other investments in securities and other assets	31,051	31,051
Liabilities:		
Long-term debt, including current portion (Excluding lease obligation)	(293,274)	(293,017)
<u>2020</u>		
<u>2020</u>	Yen (Millions)	
	Carrying amount	Estimated fair value
Assets:		
Marketable securities	¥ 56	¥ 56
Other investments in securities and other assets	32,771	32,771
Liabilities:		
Long-term debt, including current portion (Excluding lease obligation)	(202,207)	(202,389)
<u>2020</u>		
<u>2020</u>	U.S. Dollars (Thousands)	
	Carrying amount	Estimated fair value
Assets:		
Marketable securities	\$ 514	\$ 514
Other investments in securities and other assets	300,651	300,651
Liabilities:		
Long-term debt, including current portion (Excluding lease obligation)	(1,855,110)	(1,856,780)

Derivative financial instruments are presented in Note 15 of the Notes to Consolidated Financial Statements.

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

17. Fair Value Measurements

FASB ASC 820 “Fair Value Measurements and Disclosures” defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. ASC 820 establishes a three-level fair value hierarchy for material inputs used in measuring fair value as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that TDK has the ability to access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

Assets and liabilities that are measured at fair value on a recurring basis

Assets and liabilities that are measured at fair value on a recurring basis as of March 31, 2019 and 2020 are as follows:

<u>2019</u>	Yen (Millions)			
	Level 1	Level 2	Level 3	Total
Assets:				
Marketable securities (Debt securities):				
Government bonds	¥ 57	¥ -	¥ -	¥ 57
Derivative contracts:				
Forward foreign exchange contracts	-	1,202	-	1,202
Currency swap contracts	-	1,352	-	1,352
Interest rate swap contracts	-	124	-	124
Commodity forward contracts	-	150	-	150
Investments (Debt securities):				
Commercial papers	-	103	-	103
Public utility bonds	0	-	-	0
Investments (Equity securities):				
Manufacturing companies	2,991	-	8,716	11,707
Other	2,272	-	-	2,272
Investments (Mutual funds)	1,146	-	-	1,146
Rabbi trust investments	6,192	-	-	6,192
Total	¥ 12,658	¥ 2,931	¥ 8,716	¥ 24,305
Liabilities:				
Derivative contracts:				
Forward foreign exchange contracts	¥ -	¥ 1,220	¥ -	¥ 1,220
Currency swap contracts	-	29	-	29
Total	¥ -	¥ 1,249	¥ -	¥ 1,249

2020	Yen (Millions)			
	Level 1	Level 2	Level 3	Total
Assets:				
Marketable securities (Debt securities):				
Government bonds	¥ 56	¥ -	¥ -	¥ 56
Derivative contracts:				
Forward foreign exchange contracts	-	124	-	124
Currency swap contracts	-	1,102	-	1,102
Investments (Debt securities):				
Commercial papers	-	42	-	42
Public utility bonds	0	-	-	0
Investments (Equity securities):				
Stock	3,743	-	12,282	16,025
Mutual funds	1,002	-	-	1,002
Rabbi trust investments	5,799	-	-	5,799
Total	¥ 10,600	¥ 1,268	¥ 12,282	¥ 24,150
Liabilities:				
Derivative contracts:				
Forward foreign exchange contracts	¥ -	¥ 1,359	¥ -	¥ 1,359
Total	¥ -	¥ 1,359	¥ -	¥ 1,359

2020	U.S. Dollars (Thousands)			
	Level 1	Level 2	Level 3	Total
Assets:				
Marketable securities (Debt securities):				
Government bonds	\$ 514	\$ -	\$ -	\$ 514
Derivative contracts:				
Forward foreign exchange contracts	-	1,138	-	1,138
Currency swap contracts	-	10,110	-	10,110
Investments (Debt securities):				
Commercial papers	-	385	-	385
Public utility bonds	0	-	-	0
Investments (Equity securities):				
Stock	34,339	-	112,679	147,018
Mutual funds	9,193	-	-	9,193
Rabbi trust investments	53,202	-	-	53,202
Total	\$ 97,248	\$ 11,633	\$ 112,679	\$ 221,560
Liabilities:				
Derivative contracts:				
Forward foreign exchange contracts	\$ -	\$ 12,468	\$ -	\$ 12,468
Total	\$ -	\$ 12,468	\$ -	\$ 12,468

Level 1 marketable securities and investments are valued using unadjusted quoted prices in active markets in which transactions occur with sufficient frequency and volume. Rabbi trusts investments included in other assets in which a part of the employees' salary is deposited and valued using unadjusted quoted prices in active markets.

Level 2 derivative contracts include forward foreign exchange contracts, currency swap contracts, interest rate swap contracts and commodity forward contracts that are valued based on quotes obtained from counterparties and are verified using observable market inputs, such as foreign currency exchange rates and raw material prices. Investments consist of commercial papers and the fair values thereof are based on third-party assessments using observable market data.

Fair values of Level 3 investments are mainly based on comparable multiple valuation method, etc.

The changes in the carrying amount of assets measured at fair value on a recurring basis that was classified as Level 3 for the year ended March 31, 2019 and 2020 are as follows:

	Yen (Millions)	
	2019	2020
Opening Balance	¥ -	¥8,716
Purchase	-	1,435
Reclassification*	4,471	-
Net income (loss)		2,131
(Realized or unrealized):	4,245	
Included in Earnings	4,137	2,641
Included in Other Comprehensive Income(loss)	108	(510)
Ending Balance	¥ 8,716	¥12,282

	U.S. Dollars (Thousands)
	2020
Opening Balance	\$ 79,963
Purchase	13,165
Net income (loss)	
(Realized or unrealized):	19,551
Included in Earnings	24,230
Included in Other Comprehensive Income(loss)	(4,679)
Ending Balance	\$ 112,679

*Certain investments (equity securities without readily determinable fair values) were measured at fair value on a recurring basis and classified as Level 3. Also, due to the decrease in share ratio resulted from partial sale of shares held, investment in affiliates was reclassified to equity security without readily determinable fair value and was classified as Level 3 which is measured at fair value on a recurring basis.

Assets and liabilities that are measured at fair value on a nonrecurring basis

Assets and liabilities that are measured at fair value on a nonrecurring basis for the year ended March 31, 2019 and 2020 are as follows.

<u>2019</u>	Yen (Millions)			
	Total gains (losses) for 2019	Level 1	Level 2	Level 3
Assets:				
Investments (Equity securities)	(175)	-	-	42
Long-lived assets				
(Property, plant and equipment)	(5,103)	-	-	220
Long-lived assets (Intangible assets)	(9)	-	-	-

<u>2020</u>	Yen (Millions)			
	Total gains (losses) for 2020	Level 1	Level 2	Level 3
Assets:				
Investment in affiliate	(1,305)	1,531	-	-
Long-lived assets				
(Property, plant and equipment)	(17,134)	-	-	6,011
Long-lived assets (Right-of-use assets of operating leases)	(1,062)	-	-	-
Long-lived assets (Intangible assets)	(396)	-	-	-
<u>2020</u>	U.S. Dollars (Thousands)			
	Total gains (losses) for 2020	Level 1	Level 2	Level 3
Assets:				
Investment in affiliate	(11,972)	14,046	-	-
Long-lived assets				
(Property, plant and equipment)	(157,193)	-	-	55,147
Long-lived assets (Right-of-use assets of operating leases)	(9,743)	-	-	-
Long-lived assets (Intangible assets)	(3,633)	-	-	-

For the year ended March 31, 2019, the book value of certain equity security without a readily determinable fair value of ¥217 million was written down to its fair value of ¥42 million. This equity security is classified as Level 3 because it is determined using unobservable inputs. The book value of long-lived assets (property, plant and equipment) of ¥5,323 million was written down to its fair value of ¥220 million, and the book value of long-lived assets (intangible assets) of ¥9 million was fully written down due to impairment. The fair value of these long-lived assets was determined mainly based on the discounted future cash flows expected from the use of each of the assets. These fair values are classified as Level 3 because they were determined using unobservable inputs.

As a result of the above, impairment loss of ¥5,287 million caused by other-than-temporary declines in fair values during the year ended March 31, 2019 was included in the consolidated statements of income.

For the year ended March 31, 2020, the book value of 20.7% investment in Toda Kogyo Corp. of ¥2,836 million (\$26,018 thousand) was written down to its fair value of ¥1,531 million (\$14,046 thousand) due to impairment. This investment in affiliate is classified as Level 1 because fair value of the investment is determined based on quoted prices (unadjusted) in active markets for identical assets or liabilities that TDK has the ability to access at the measurement date. The book value of long-lived assets (property, plant and equipment) of ¥23,145 million (\$212,340 thousand) was written down to its fair value of ¥6,011 million (\$55,147 thousand), moreover, the book value of long-lived assets (right-of-use assets of operating leases) and long-lived assets (intangible assets) of ¥1,062 million (\$9,743 thousand) and ¥396 million (\$3,633 thousand) respectively were fully written down due to impairment. The fair value of these long-lived assets was determined mainly based on the discounted future cash flows expected from the use of each of the assets. These fair values are classified as Level 3 because they were determined using unobservable inputs.

As a result of the above, impairment loss of ¥19,897 million (\$182,541 thousand) caused by other-than-temporary declines in fair values during the year ended March 31, 2020 was included in the consolidated statements of income.

18. Impairment of Long-Lived Assets

For the years ended March 31, 2019 and 2020, impairment losses of ¥5,112 million and ¥18,592 million (\$170,569 thousand), respectively, were recorded. These are the result of a reduction of the carrying value of the long-lived assets to the fair value because of a reduction in profitability derived from lower demand.

The impairment losses are included in other operating expense (income) in the consolidated statements of income.

For the year ended March 31, 2019, the impairment loss includes ¥346 million for the Passive Components segment, ¥59 million for the Sensor Application Products segment, ¥4,707 million for the Magnetic Application Products segment.

For the year ended March 31, 2020, the impairment loss includes ¥2,100 million (\$19,266 thousand) for the Passive Components segment, ¥4 million (\$37 thousand) for the Sensor Application Products segment and ¥14,672 million (\$134,605 thousand) for the Magnetic Application Products segment, ¥1,816 million (\$16,661 thousand) for the other segment.

19. Goodwill and Other Intangible Assets

The components of acquired intangible assets excluding goodwill as of March 31, 2019 and 2020 are as follows:

	Yen (Millions)		
	2019		
	Gross Carrying Amount	Accumulated Amortization	Net Amount
Amortizable intangible assets:			
Patent	¥ 26,578	¥ 9,088	¥ 17,490
Customer relationships	24,243	19,852	4,391
Software	41,391	17,893	23,498
Unpatented technologies	56,642	26,024	30,618
Other	12,198	3,541	8,657
Total	¥ 161,052	¥ 76,398	¥ 84,654
Nonamortizable intangible assets			
Trademark	¥ 3,452		¥ 3,452
In process research and development	355		355
Other	232		232
Total	¥ 4,039		¥ 4,039
	Yen (Millions)		
	2020		
	Gross Carrying Amount	Accumulated Amortization	Net Amount
Amortizable intangible assets:			
Patent	¥ 26,259	¥ 10,858	¥ 15,401
Customer relationships	15,991	12,566	3,425
Software	41,836	17,775	24,061
Unpatented technologies	48,772	23,352	25,420
Other	10,890	3,437	7,453
Total	¥ 143,748	¥ 67,988	¥ 75,760
Nonamortizable intangible assets			
Trademark	¥ 3,452		¥ 3,452
In process research and development	347		347
Other	189		189
Total	¥ 3,988		¥ 3,988

	U.S. Dollars (Thousands)		
	2020		
	Gross Carrying Amount	Accumulated Amortization	Net Amount
Amortizable intangible assets:			
Patent	\$ 240,908	\$ 99,615	\$ 141,293
Customer relationships	146,706	115,284	31,422
Software	383,817	163,073	220,744
Unpatented technologies	447,450	214,239	233,211
Other	99,908	31,532	68,376
Total	\$ 1,318,789	\$ 623,743	\$ 695,046
Nonamortizable intangible assets			
Trademark	\$ 31,670		\$ 31,670
In process research and development	3,183		3,183
Other	1,734		1,734
Total	\$ 36,587		\$ 36,587

Intangible assets subject to amortization are amortized using the straight-line method over their estimated useful lives to their estimated residual value of zero. The useful lives are 3 to 19 years for Patent, 4 to 17 years for Customer relationships, 2 to 10 years for Internal use Software, 3 to 20 years for unpatented technologies and 2 to 7 years for other intangible assets.

Aggregate amortization expenses for the years ended March 31, 2019 and 2020 were ¥12,128 million and ¥13,942 million (\$127,908 thousand), respectively. Estimated amortization expense for the next five years is: ¥14,223 million (\$130,486 thousand) in 2021, ¥13,286 million (\$121,890 thousand) in 2022, ¥11,404 million (\$104,624 thousand) in 2023, ¥9,686 million (\$88,862 thousand) in 2024 and ¥8,900 million (\$81,651 thousand) in 2025.

The changes in the carrying amount of goodwill by segment for the years ended March 31, 2019 and 2020 are as follows:

Yen (Millions)						
	Passive Components	Sensor Application Products	Magnetic Application Products	Energy Application Products	Other	Total
March 31 , 2018						
Goodwill	¥ 16,976	¥ 105,449	¥ 25,304	¥ 15,822	¥ 2,230	¥ 165,781
Accumulated impairment losses	(3,266)	-	(1,734)	(2,247)	(676)	(7,923)
	13,710	105,449	23,570	13,575	1,544	157,858
Acquisitions	1,750	-	-	1,120	-	2,870
Impairments	-	-	-	-	-	-
Others	-	(770)	-	-	-	(770)
Translation adjustment	(584)	4,022	1,066	367	(35)	4,836
March 31 , 2019						
Goodwill	17,993	108,701	26,447	17,309	2,225	172,675
Accumulated impairment losses	(3,117)	-	(1,811)	(2,247)	(706)	(7,881)
	14,876	108,701	24,636	15,062	1,519	164,794
Acquisitions	-	-	-	-	-	-
Impairments	-	-	-	-	-	-
Others	-	-	-	(286)	-	(286)
Translation adjustment	(551)	(2,259)	(486)	(236)	(31)	(3,563)
March 31 , 2020						
Goodwill	17,316	106,442	25,926	16,787	2,189	168,660
Accumulated impairment losses	(2,991)	-	(1,776)	(2,247)	(701)	(7,715)
	¥ 14,325	¥ 106,442	¥ 24,150	¥ 14,540	¥ 1,488	¥ 160,945
U.S. Dollars (Thousands)						
	Passive Components	Sensor Application Products	Magnetic Application Products	Energy Application Products	Other	Total
March 31 , 2019						
Goodwill	\$ 165,073	\$ 997,257	\$ 242,633	\$ 158,798	\$ 20,413	\$ 1,584,174
Accumulated impairment losses	(28,596)	-	(16,615)	(20,615)	(6,477)	(72,303)
	136,477	997,257	226,018	138,183	13,936	1,511,871
Acquisitions	-	-	-	-	-	-
Impairments	-	-	-	-	-	-
Others	-	-	-	(2,624)	-	(2,624)
Translation adjustment	(5,055)	(20,725)	(4,459)	(2,165)	(284)	(32,688)
March 31 , 2020						
Goodwill	158,862	976,532	237,853	154,009	20,083	1,547,339
Accumulated impairment losses	(27,440)	-	(16,294)	(20,615)	(6,431)	(70,780)
	\$ 131,422	\$ 976,532	\$ 221,559	\$ 133,394	\$ 13,652	\$ 1,476,559

20. Net Income attributable to TDK per Share

A reconciliation of the numerators and denominators of the basic and diluted net income attributable to TDK per share computations is as follows:

	Yen (Millions)			
	2019		2020	
	Basic	Diluted	Basic	Diluted
Net income attributable to TDK	¥ 82,205	¥ 82,205	¥ 57,780	¥ 57,780
Number of shares (Thousands)				
Weighted average common shares outstanding	126,271	126,271	126,305	126,305
Incremental shares arising from the exercise of stock option	-	305	-	284
Weighted average common shares outstanding – Total	126,271	126,576	126,305	126,589
Yen				
Per common share :				
Net income attributable to TDK	651.02	649.45	457.47	456.44
U.S. Dollars (Thousands)				
2020				
	Basic	Diluted		
Net income attributable to TDK	\$ 530,092	\$ 530,092		
Number of shares (Thousands)				
Weighted average common shares outstanding	126,305	126,305		
Incremental shares arising from the exercise of stock option	-	284		
Weighted average common shares outstanding - Total	126,305	126,589		
U.S. Dollars				
Per common share :				
Net income attributable to TDK	4.20	4.19		

For the years ended March 31, 2019 and 2020, certain stock options issued by TDK Corporation were excluded from the diluted per share calculation of income from net income attributable to TDK as the effect would have been antidilutive.

21. Related Party Transaction

Receivables and payables include the following balances with affiliated companies as of March 31, 2019 and 2020:

	Yen (Millions)		U.S. Dollars (Thousands)
	2019	2020	2020
Due from	¥ 1,559	¥ 451	\$ 4,138
Due to	1,015	1,046	9,596

Receivables as of March 31, 2019 and 2020 include long-term loans of ¥421 million and ¥426 million (\$3,908 thousand), respectively.

Purchases, research and development expenses, patent fee, advertising costs, interest expense, other income, other expense, and sales transactions with affiliated companies for the years ended March 31, 2019 and 2020 are as follows:

	Yen (Millions)		U.S. Dollars (Thousands)
	2019	2020	2020
Gross purchase	¥ 6,273	¥ 7,734	\$ 70,954
Less raw materials sold with no mark-up	(39)	(14)	(128)
Net purchases	6,234	7,720	70,826
Research and development expenses and patent fee	—	3	28
Advertising costs	129	—	—
Other income	132	3	28
Other expense	9	2	18
Sales	6,000	1,979	18,156

22. Sale of Business

On February 3, 2017, TDK transferred its high-frequency devices business to RF360 Holdings Singapore PTE. Ltd. (“RF360”) and its subsidiaries, and subsequently sold 51% of the common shares of RF360 held by TDK Electronics AG, a wholly owned subsidiary of TDK, to Qualcomm Global Trading PTE. Ltd. (“QGT”), which is a 100% indirect ownership subsidiary of Qualcomm Incorporated (“Qualcomm”) based on the business alliance agreement involving establishment of a joint venture concluded with Qualcomm on January 13, 2016. Contingent consideration to be recognized over several years is included in the total consideration amount, and realized or realizable portion are recognized in other operating expense (income) of consolidated statement of income for the year ended March 31, 2019 and March 31, 2020. An option to put and call the remaining common shares of RF360 (49%) after 30 months after the closing date was granted to TDK and QGT, respectively. TDK exercised the option on August 30, 2019 and sold 49% of the common shares on September 16, 2019. The sales price was U.S.\$1.15 billion as stated in the option and the sales did not have a material impact on the consolidated statements of income for the year ended March 31, 2020.

23. Revenue

TDK disaggregates revenue by industry segment, product and geographic segment based on contracts with customers. The following table presents disaggregation of revenue. In accordance with the redefinition of product portfolio in this period, certain products of Inductive Devices were reclassified into Other Passive Components. The prior year's sales are also reclassified to conform to the new classification.

Detailed information of geographic segment is presented in Note 25.

Yen (millions)						
Year ended March 31, 2019						
	Japan	Americas	Europe	China	Asia and others	Total
Capacitors	¥ 17,027	¥ 29,367	¥ 44,677	¥ 55,194	¥ 27,066	¥ 173,331
Inductive Devices	19,774	16,505	45,248	51,398	17,066	149,991
Other Passive Components	11,098	8,905	29,409	45,560	15,112	110,084
Passive Components	47,899	54,777	119,334	152,152	59,244	433,406
Sensor Application Products	14,387	8,184	21,846	25,273	6,777	76,467
Magnetic Application Products	18,742	9,411	9,033	85,036	150,585	272,807
Energy Application Products	21,094	31,219	14,166	432,519	38,504	537,502
Other	11,247	6,578	2,906	37,475	3,418	61,624
Net Sales Total	¥ 113,369	¥ 110,169	¥167,285	¥ 732,455	¥258,528	¥ 1,381,806
Year ended March 31, 2020						
	Japan	Americas	Europe	China	Asia and others	Total
Capacitors	¥ 18,480	¥ 25,830	¥ 37,556	¥ 46,300	¥ 25,716	¥ 153,882
Inductive Devices	19,529	14,895	39,741	47,818	15,589	137,572
Other Passive Components	10,256	9,368	25,767	42,856	15,755	104,002
Passive Components	48,265	50,093	103,064	136,974	57,060	395,456
Sensor Application Products	13,932	8,209	19,259	26,522	10,016	77,938
Magnetic Application Products	18,888	6,836	7,404	43,223	143,317	219,668
Energy Application Products	18,721	26,691	15,353	458,109	78,824	597,698
Other	10,597	4,306	3,174	49,183	5,017	72,277
Net Sales Total	¥ 110,403	¥ 96,135	¥148,254	¥714,011	¥ 294,234	¥ 1,363,037

U.S. Dollars (Thousands)						
Year ended March 31, 2020						
	Japan	Americas	Europe	China	Asia and others	Total
Capacitors	\$ 169,541	\$ 236,972	\$ 344,550	\$ 424,771	\$ 235,927	\$ 1,411,761
Inductive Devices	179,165	136,652	364,596	438,697	143,018	1,262,128
Other Passive Components	94,092	85,945	236,395	393,174	144,541	954,147
Passive Components	442,798	459,569	945,541	1,256,642	523,486	3,628,036
Sensor Application Products	127,817	75,312	176,688	243,321	91,890	715,028
Magnetic Application Products	173,284	62,716	67,927	396,541	1,314,835	2,015,303
Energy Application Products	171,752	244,872	140,853	4,202,835	723,156	5,483,468
Other	97,220	39,505	29,119	451,220	46,028	663,092
Net Sales Total	\$ 1,012,871	\$ 881,974	\$ 1,360,128	\$ 6,550,559	\$ 2,699,395	\$ 12,504,927

TDK sells passive components, sensor application products, magnetic application products and energy application products to global ICT related companies, manufacturers of automobile and automotive components, manufacturers of home electrical appliances and industrial equipment. For those product sales, TDK recognizes revenue when products are transferred to the customers as the customers gain control over the products and performance obligation is satisfied accordingly.

Transaction price that TDK receives in exchange for products transferred may include variable consideration such as sales discounts, customer privileges, and rebates based on sales volume. Variable consideration is included in the transaction price when uncertainty over the variable consideration is resolved to the extent that a significant reversal in the amount of revenue is not expected. Variable consideration is estimated based on past trend or other elements which are already known as of the transaction date and is updated on a regular basis.

For a certain contract, TDK recognized the consideration received from customers for which the performance obligation to transfer goods or services has not been satisfied as advance received. Balance of advance received as of March 31, 2019 and March 31, 2020 were ¥910 million and ¥970 million (\$8,899 thousand), respectively, and are included in other current liabilities in the consolidated balance sheets. Out of the advance received as of March 31, 2019, ¥795 million (\$7,294 thousand) was recognized as revenue in the consolidated statements of income for the year ended March 31, 2020. The amounts of revenue recognized from performance obligations for the year ended March 31, 2020 that had been satisfied in previous periods were not material.

There are no unsatisfied or partially unsatisfied performance obligations as of March 31, 2020. Furthermore, there is no balance of contract assets as of March 31, 2020.

24. Supplementary Information

Amounts recognized in Research and development, Rent, Maintenance and repairs and Advertising costs for the year ended March 31, 2019 and 2020 are as follows:

	Yen (Millions)		U.S. Dollars (Thousands)
	2019	2020	2020
Statements of Income			
Research and development	¥ 115,155	¥ 117,489	\$ 1,077,881
Rent	10,544	10,429	95,679
Maintenance and repairs	32,317	27,983	256,725
Advertising costs	3,212	3,056	28,037

Other operating expense (income) for the year ended March 31, 2019 and 2020 consist of the following components:

	Yen (Millions)		U.S. Dollars (Thousands)
	2019	2020	2020
Statements of Income			
Gain on sale of business (Note 22)	¥ (4,011)	¥ (2,910)	\$ (26,697)
Impairment of long-lived assets (Note 18)	5,112	18,592	170,569
Total	¥ 1,101	¥ 15,682	\$ 143,872

Cash paid during the year for interest and income taxes for the year ended March 31, 2019 and 2020 are as follows:

	Yen (Millions)		U.S. Dollars (Thousands)
	2019	2020	2020
Statements of Cash Flows			
Cash paid during year for:			
Interest	¥ 4,408	¥ 3,810	\$ 34,954
Income taxes	33,952	42,114	386,367

Noncash activities

For the years ended March 31, 2019 and 2020, there were no material noncash investing and financing activities

25. Segment Information

Business Segment Information

Operating segments are components of TDK for which discrete financial information is available and whose operating results are regularly reviewed by management to make decisions about resources to be allocated to the segment and assess its performance.

Multiple operating segments that have similarities, including type and nature of products, production process, market and so on, are aggregated into the Passive Components segment, the Sensor Application Products segment, the Magnetic Application Products segment and the Energy Application Products segment. Operating segments which are not reportable segments are included in Other.

Principal businesses of each segment are as follows:

Segment	Principal businesses
Passive Components	Ceramic capacitors, Aluminum Electrolytic Capacitors, Film Capacitors, Inductive Devices (Coils, Ferrite Cores and Transformers), High-Frequency Devices, Piezoelectric Material Products, Circuit Protection Components
Sensor Application Products	Temperature and Pressure Sensors, Magnetic Sensors, MEMS Sensors
Magnetic Application Products	HDD Heads, HDD Suspension Assemblies, Magnets
Energy Application Products	Energy Devices (Rechargeable Batteries), Power Supplies
Other	Mechatronics (Production Equipment), Others

Intersegment transactions in operating segments are based on arm's-length prices.

The business segment information for the years ended March 31, 2019 and 2020 are as follows.

Net sales

	Yen (Millions)		U.S. Dollars (Thousands)
	2019	2020	2020
Passive Components:			
External customers	¥ 433,406	¥ 395,456	\$ 3,628,037
Intersegment	3,617	2,886	26,477
Total	437,023	398,342	3,654,514
Sensor Application Products:			
External customers	76,467	77,938	715,028
Intersegment	126	215	1,972
Total	76,593	78,153	717,000
Magnetic Application Products:			
External customers	272,807	219,668	2,015,303
Intersegment	1,838	5,730	52,569
Total	274,645	225,398	2,067,872
Energy Application Products:			
External customers	537,502	597,698	5,483,468
Intersegment	10	3	27
Total	537,512	597,701	5,483,495
Other:			
External customers	61,624	72,277	663,092
Intersegment	28,435	26,170	240,091
Total	90,059	98,447	903,183
Intersegment eliminations	(34,026)	(35,004)	(321,137)
Total	¥ 1,381,806	¥ 1,363,037	\$ 12,504,927

Segment profit (loss)

	Yen (Millions)		U.S. Dollars (Thousands)
	2019	2020	2020
Passive Components	¥ 58,438	¥ 39,072	\$ 358,459
Sensor Application Products	(22,125)	(25,024)	(229,578)
Magnetic Application Products	17,022	425	3,899
Energy Application Products	91,036	124,149	1,138,982
Other	(6,727)	(8,590)	(78,808)
Sub total	137,644	130,032	1,192,954
Corporate and Eliminations	(29,821)	(32,162)	(295,064)
Operating income	107,823	97,870	897,890
Other income, net	7,731	(1,994)	(18,294)
Income before income taxes	¥ 115,554	¥ 95,876	\$ 879,596

Segment profit (loss) consists of net sales less cost of sales and selling, general and administrative expenses and other operating expense (income) except for those attribute to Corporate.

Corporate mainly includes expenses associated with head office functions that are not allocated to operating segments.

Assets

	Yen (Millions)		U.S. Dollars (Thousands)
	2019	2020	2020
Passive Components	¥ 651,154	¥ 566,577	\$ 5,197,954
Sensor Application Products	226,520	219,485	2,013,624
Magnetic Application Products	373,085	358,422	3,288,275
Energy Application Products	661,595	805,366	7,388,679
Other	71,811	88,342	810,477
Corporate and Eliminations	8,315	(94,813)	(869,844)
Total	¥ 1,992,480	¥ 1,943,379	\$ 17,829,165

Corporate mainly includes cash and cash equivalents and property, plant and equipment that are for general corporate use, and deferred tax assets and investments that are not allocated to operating segments.

Depreciation and amortization (including Intangible assets other than Goodwill)

	Yen (Millions)		U.S. Dollars (Thousands)
	2019	2020	2020
Passive Components	¥ 31,552	¥ 32,251	\$ 295,881
Sensor Application Products	10,083	11,718	107,505
Magnetic Application Products	16,810	19,802	181,670
Energy Application Products	38,915	48,470	444,679
Other	3,269	5,692	52,220
Corporate and Eliminations	6,002	7,051	64,687
Total	¥ 106,631	¥ 124,984	\$ 1,146,642

Capital expenditure

	Yen (Millions)		U.S. Dollars (Thousands)
	2019	2020	2020
Passive Components	¥ 43,527	¥ 33,355	\$ 306,009
Sensor Application Products	10,503	6,787	62,266
Magnetic Application Products	34,562	31,408	288,147
Energy Application Products	62,728	80,078	734,661
Other	8,642	14,572	133,688
Corporate and Eliminations	13,630	7,229	66,321
Total	¥ 173,592	¥ 173,429	\$ 1,591,092

Geographic Segment Information

The geographic segment information for the years ended March 31, 2019 and 2020 are as follows.

Net sales

	Yen (Millions)		U.S. Dollars (Thousands)
	2019	2020	2020
Japan	¥ 113,743	¥ 110,403	\$ 1,012,872
Americas	110,169	96,135	881,973
Europe	167,285	148,254	1,360,128
China	732,455	714,011	6,550,560
Asia and others	258,528	294,234	2,699,394
Total	¥ 1,381,806	¥ 1,363,037	\$ 12,504,927

Net sales are based on the location of the customers.

Major countries in each geographic area :

(1) Americas	United States of America
(2) Europe	Germany
(3) Asia and others	Philippines, Thailand, India, Vietnam

Property, plant and equipment

	Yen (Millions)		U.S. Dollars (Thousands)
	2019	2020	2020
Japan	¥ 179,421	¥ 179,922	\$ 1,650,661
Americas	38,967	41,914	384,532
Europe	70,961	64,176	588,771
China	259,496	268,679	2,464,945
Asia and others	54,265	56,459	517,972
Total	¥ 603,110	¥ 611,150	\$ 5,606,881

Major countries in each geographic area :

(1) Americas	United States of America
(2) Europe	Germany, Austria, Hungary
(3) Asia and others	Thailand, India

Sales to major customers

There were two customer groups that accounted for more than 10 percent of net sales for the year ended March 31, 2019. The sales to the customer groups were approximately ¥149.0 billion each. These customer groups were included mainly in the Magnetic Application Products segment and the Energy Application Products segment for the year ended March 31, 2019.

There was one customer group that accounted for more than 10 percent of net sales for the year ended March 31, 2020. The sales to the customer group were approximately ¥160.7 billion (\$1,474.7 million). The customer group was included mainly in the Energy Application Products segment for the year ended March 31, 2020.

VI. Outline of filing company's business concerning shares

Business year	From April 1 to March 31
Ordinary General Meeting of Shareholders	June
Record date	March 31
Record dates for dividends from surplus	September 30 March 31
Number of shares consisting one unit	100 shares
Purchase demands or additional purchase requests of shares less than one unit:	
Office for handling business	(Special Account) Stock Transfer Agency Business Planning Dept., Sumitomo Mitsui Trust Bank, Limited. 1-4-1 Marunouchi, Chiyoda-ku, Tokyo, Japan
Administrator of shareholder registry	(Special Account) Sumitomo Mitsui Trust Bank, Limited. 1-4-1 Marunouchi, Chiyoda-ku, Tokyo, Japan
Forwarding office	—
Handling charge for purchase	Free of charge
Method of public notice	Electronic public notice will be made. However, if TDK is unable to make an electronic public notice due to an incident or any other compelling reason, it will make an alternative public notice in “The Nikkei” newspaper. The electronic public notice will be notified on TDK’s website (https://www.jp.tdk.com/).
Special benefits for shareholders	None

Note: 1. Pursuant to the provisions of TDK Corporation’s Articles of Incorporation, the rights of holders of shares less than one unit are limited to the following: (i) rights listed in the items of Article 189, paragraph 2 of the Companies Act, (ii) rights to request to TDK Corporation in accordance with the provisions of Article 166, paragraph 1 of the same Act, (iii) rights to receive the allotment of the shares for subscription and the stock acquisition rights for subscription in accordance with the number of shares they hold, and (iv) rights to request to TDK Corporation to sell shares less than one unit.

VII. Reference information on filing company

1. Information on filing company's parent company

TDK Corporation does not have a parent company.

B. INFORMATION ON GUARANTEE COMPANIES, ETC. OF FILING COMPANY

No items to report



Independent auditor's report

To the Board of Directors of TDK Corporation:

Opinion

We have audited the accompanying consolidated financial statements of TDK Corporation. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2020 and 2019, the consolidated statements of income, the consolidated statements of comprehensive income (loss), the consolidated statements of equity and the consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020 and 2019, and its consolidated financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and the Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in the United States of America.

The Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in the United States of America, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit & Supervisory Board Members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit & Supervisory Board Members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Company and its subsidiaries which are required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Yutaka Terasawa

Designated Engagement Partner

Certified Public Accountant

Hiroto Yamane

Designated Engagement Partner

Certified Public Accountant

Kohei Shingaki

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Tokyo Office, Japan

July 15, 2020

Notes to the Reader of Independent Auditor's Report:

This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.

Management's Annual Report on Internal Control over Financial Reporting

1. Matters relating to the basic framework for internal control over financial reporting

President & Representative Director Shigenao Ishiguro, and Chief Financial Officer and Executive Vice President & Representative Director Tetsuji Yamanishi of TDK Corporation are responsible for designing and operating effective internal control over financial reporting of TDK and have designed and operated internal control over financial reporting in accordance with the basic framework for internal control set forth in “On the Revision of the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting (Council Opinions)” released by the Business Accounting Council.

The internal control is designed to achieve its objectives to the extent reasonable through the effective function and combination of its basic elements. Therefore, there is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

2. Matters relating to the scope of assessment, the basis date of assessment and the assessment procedures

The assessment of internal control over financial reporting was performed as of March 31, 2020, which is the end of the current fiscal year. The assessment was performed in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

In conducting this assessment, we evaluated internal controls which may have a material effect on our entire financial reporting on a consolidation basis (“company-level controls”) and based on the results of this evaluation, we selected business processes to be tested. In assessing the business processes, we analyzed these selected business processes, identified key controls that may have a material impact on the reliability of TDK’s financial reporting, and assessed the design and operation of these key controls. These procedures have allowed us to evaluate the effectiveness of the internal controls of TDK.

We determined the scope of assessment of internal control over financial reporting, covering TDK Corporation, consolidated subsidiaries and equity-method affiliates and deemed necessary from the perspective of the materiality that may affect the reliability of their financial reporting. The materiality that may affect the reliability of the financial reporting is determined taking into account the materiality of quantitative and qualitative impacts on financial reporting. In light of the results of assessment of company-level controls covering all locations and business units except for consolidated subsidiaries and equity-method affiliates whose materiality of such impacts were deemed immaterial, we reasonably determined the scope of assessment of internal controls over business processes.

Regarding the scope of assessment of internal control over business processes, we selected locations and/or business units to be tested in descending order of sales for the previous

fiscal year, and the locations and/or business units whose combined sales volume reaches approximately two thirds of consolidated sales amount were selected as “significant locations and/or business units.” We included in the scope of assessment, at the selected significant locations and/or business units, business processes leading to sales, accounts receivable and inventories as significant accounts that may have a material impact on the business objectives of TDK. Further, in addition to selected significant locations and/or business units, we also selected for testing, as business processes having greater materiality, business processes relating to (i) greater likelihood of material misstatements and/or (ii) significant accounts involving estimates and the management’s judgment and/or (iii) a business or operation dealing with high-risk transactions, taking into account their impact on the financial reporting.

3. Matters relating to the results of the assessment

As a result of the assessment described above, as of the end of the current fiscal year, we concluded that TDK’s internal control over financial reporting was effectively maintained.

4. Additional notes

Not applicable.

5. Special notes

Not applicable.