June 3, 2019

To Shareholders

# INTERNET DISCLOSURE ITEMS FOR NOTICE OF CONVOCATION OF THE 123RD ORDINARY GENERAL MEETING OF SHAREHOLDERS

1. CONSOLIDATED STATEMENT OF EQUITY
2. LIST OF NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

[123rd Fiscal Year (From April 1, 2018 to March 31, 2019)]

**TDK Corporation**
**Tokyo, Japan**

Disclosure documents audited by the Accounting Auditors and Audit & Supervisory Board Members are provided to shareholders on website of TDK Corporation (https://www.tdk.com/) pursuant to relevant laws and regulations and Article 16 of the Articles of Incorporation of TDK Corporation.

Notes: 1. This is a translation from Japanese of a notice distributed to shareholders in Japan. The translation is prepared solely for the convenience of foreign shareholders. In the case of any discrepancy between the translation and the Japanese original, the latter shall prevail.

2. There are no English translations: Non-Consolidated Statement of Changes in Net Assets and List of Notes to the Non-Consolidated Financial Statements.

# CONSOLIDATED STATEMENT OF EQUITY
(prepared in accordance with U.S. GAAP)

From: April l, 2018
To: March 31, 2019

(¥ in millions)

| | Common stock | Additional paid-in capital | Legal reserve | Retained earnings | Accumulated other comprehensive income (loss) |
|---|---|---|---|---|---|
| Balance as of beginning of period | 32,641 | 8,738 | 45,366 | 874,563 | (119,492) |
| Cumulative effect of adoption of ASC2014-09 | | | | 181 | |
| Cumulative effect of adoption of ASC2016-01 | | | | 3,083 | (3,083) |
| Cumulative effect of adoption of ASC2016-16 | | | | (6,374) | |
| Equity transaction of consolidated subsidiaries and other | | (2,811) | | | 10 |
| Cash dividends | | | | (18,939) | |
| Transferred to legal reserve | | | 1,367 | (1,367) | |
| Transferred to retained earnings | | | (2,297) | 2,297 | |
| Comprehensive income | | | | | |
| Net income | | | | 82,205 | |
| Foreign currency translation adjustments | | | | | 4,533 |
| Pension liability adjustments | | | | | (6,348) |
| Net unrealized gains (losses) on securities | | | | | (55) |
| Total comprehensive income (loss) | | | | | |
| Acquisition of treasury stock | | | | | |
| Sale of treasury stock | | | | | |
| Compensation expenses related to stock options | | 172 | | | |
| Exercise of stock option | | (141) | | | |
| Balance as of end of period | 32,641 | 5,958 | 44,436 | 935,649 | (124,435) |

| | Treasury stock | Total TDK Stockholders' equity | Non controlling interests | Total equity |
|---|---|---|---|---|
| Balance as of beginning of period | (17,182) | 824,634 | 6,598 | 831,232 |
| Cumulative effect of adoption of ASC2014-09 | | 181 | | 181 |
| Cumulative effect of adoption of ASC2016-01 | | — | | — |
| Cumulative effect of adoption of ASC2016-16 | | (6,374) | | (6,374) |
| Equity transaction of consolidated subsidiaries and other | | (2,801) | (371) | (3,172) |
| Cash dividends | | (18,939) | (21) | (18,960) |
| Transferred to legal reserve | | — | | — |
| Transferred to retained earnings | | — | | — |
| Comprehensive income | | | | |
| Net income | | 82,205 | 345 | 82,550 |
| Foreign currency translation adjustments | | 4,533 | (76) | 4,457 |
| Pension liability adjustments | | (6,348) | (9) | (6,357) |
| Net unrealized gains (losses) on securities | | (55) | | (55) |
| 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 |
| Exercise of stock option | 225 | 84 | | 84 |
| Balance as of end of period | (16,959) | 877,290 | 6,466 | 883,756 |

Note: Amounts less than ¥1 million have been rounded to the nearest unit.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## [Important Matters for Preparation of Consolidated Financial Statements]

### 1. Matters Concerning Scope of Consolidation

| | |
|---|---|
| Number of consolidated subsidiaries: | 139 |
| Name of major consolidated subsidiaries: | TDK-Lambda Corporation<br>TDK Akita Corporation<br>SAE Magnetics (Hong Kong) Limited<br>TDK U.S.A. Corporation<br>TDK Europe S.A.<br>TDK Electronics AG<br>Amperex Technology Limited<br>InvenSense, Inc. |

### 2. Matters Concerning Equity-Method

| | |
|---|---|
| Number of Equity-method affiliates: | 7 |
| Name of a principal Equity-method affiliate: | RF360 Holdings Singapore PTE. Ltd.<br>Semiconductor Energy Laboratory Co., Ltd. |

### 3. Significant Accounting Policies

#### (1) Standards for preparation of consolidated financial statements:

TDK Corporation (the "Company")'s consolidated financial statements are prepared based on accounting standards generally accepted in the United States ("US GAAP"), pursuant to the provisions of Article 120-3, Paragraph 1 of the Ordinance of Companies Accounting of Japan. However, some accounting description and notes required by US GAAP have been omitted herein in conformity with the second sentence of Article 120, Paragraph 1 of the same Ordinance, which is applied mutatis mutandis pursuant to Article 120-3, Paragraph 3 of the same Ordinance.

#### (2) Valuation standards and methods for inventories:

Products and works in process are valued at the lower of cost or market mainly using a periodic average method, and raw materials and supplies are valued at the lower of cost or market mainly using a moving-average cost method.

#### (3) Valuation standards and methods for securities:

The Accounting Standards Codification ("ASC") 320, "Investments-Debt Securities" and ASC 321 "Investments-Equity Securities" issued by the U.S. Financial Accounting Standards Board ("FASB") are applied.

| | |
|---|---|
| Equity securities: | In principle, equity securities excluding investments in consolidated subsidiaries and affiliates are measured at fair value and the changes in its fair value are recognized in the consolidated statements of income. The cost of securities sold is primarily calculated by the moving-average method. |
| Debt securities: | Debt securities are classified as available-for-sale securities and measured at fair value. Net unrealized gains (losses) are charged or credited directly to other comprehensive income (loss). The cost of securities sold is primarily calculated by the moving-average method. |

#### (4) Method for depreciating net property, plant and equipment:

Depreciations of property, plants and equipment are computed by the straight-line method.

**(5) 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 determined to have indefinite useful lives are not amortized, but instead are tested for impairment annually except for a case in which it is not more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount. The test is conducted more frequently if certain indicators arise, until the useful life is determined to no longer be indefinite. Intangible assets with finite useful lives are amortized over their respective estimated useful lives. The amortization is computed by the straight-line method.

**(6) Derivative financial instruments:**

TDK group ("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, changes in its fair value, to the extent effective as a hedge, are recorded in the foreign currency translation adjustments account within other comprehensive income (loss).

**(7) Accounting basis of principal allowances:**

Allowance for doubtful receivables:

TDK recognizes an allowance for doubtful receivable that is based on an uncollectible amount estimated in consideration of the historical bad debt ratio of receivable in general and in consideration of individual possibility of collection with respect to specific doubtful receivables.

Retirement and severance benefits:

For the future payment of retirement and severance benefits to employees, TDK recognizes an amount based on projected benefit obligations and the fair value of plan assets as of March 31, 2019, in accordance with ASC 715, "Compensation-Retirement Benefits."

Prior service costs of employees are amortized using the straight-line method over the average remaining service period of employees.

With respect to actuarial net losses, the part exceeding the amount equivalent to 10% of projected benefit obligations or the fair value of plan assets as of the beginning of the fiscal year concerned, whichever is larger, is amortized using the straight-line method over the average remaining service period of employees.

**(8) Accounting method of consumption tax, etc.:**

Consumption taxes are accounted using tax exclusion method.

**(9) Taxes:**

Income taxes are accounted for under the asset and liability method. 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 carry forwards.

The financial statement impact of tax positions is 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% likely of being realized upon settlement with the taxing authorities.

## 4. Adoption of new accounting standards:

### (1) Revenue from Contracts with Customers:

In May 2014, FASB issued Accounting Standards Update ("ASU") 2014-09 "Revenue from Contracts with Customers".

This ASU requires an entity to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. TDK adopted this ASU from April 1, 2018 by applying the modified retrospective method to all contracts and recognized the cumulative-effect as an adjustment to the opening retained earnings.

By recognizing revenue from contracts with customers based on this standard, the timing of revenue recognition has changed for certain transactions compared to the revenue recognized based on the previous revenue recognition standard. As a result, compared to the results based on the previous revenue recognition standard, net sales, cost of sales, and income taxes increased by ¥344 million, ¥23 million, and ¥43 million, respectively, in statements of income for the year ended March 31, 2019. Furthermore, net trade receivables and deferred tax assets increased by ¥1,959 million and ¥49 million, respectively in the balance sheets as of March 31, 2019. On the other hand, inventories and other current assets decreased by ¥1,378 million and ¥119 million, respectively.

The cumulative-effects of the adoption of this ASU did not have a material impact on the opening retained earnings as of April 1, 2018 and TDK's results of operations and financial position.

### (2) Recognition and Measurement of Financial Assets and Financial Liabilities:

In January 2016, FASB issued ASU 2016-01 "Recognition and Measurement of Financial Assets and Financial Liabilities". This ASU requires that equity investments that do not result in consolidation and are not accounted for under the equity method be measured at fair value with changes in fair value recognized in net income. TDK adopted this ASU from April 1, 2018 by applying the modified retrospective method to recognize a cumulative-effect adjustment to the opening retained earnings.

As a result, TDK recognized a cumulative-effect of ¥3,083 million as an increase in the opening retained earnings as of April 1, 2018 related to equity investments classified as available-for-sale securities, which was previously recognized as net of tax unrealized gain in accumulated other comprehensive income.

### (3)Intra-Entity Transfers of Assets Other than Inventory:

In October 2016, FASB issued ASU 2016-16 "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other than Inventory". This ASU eliminates the exception to defer the income tax consequence of intra-entity transfers of assets other than inventory until the assets are ultimately sold to an outside party and requires the recognition of tax consequence when those transfers occur. TDK adopted this ASU from April 1, 2018 by applying the modified retrospective method to recognize a cumulative-effect adjustment to the opening retained earnings.

As a result, TDK recognized a cumulative-effect adjustment of ¥6,374 million as a decrease of the opening retained earnings as of April 1, 2018.

### (4)Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost:

In March 2017, FASB issued ASU 2017-07 "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost". This ASU requires an entity to disaggregate service cost component from other components of net benefit cost and report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in other income (deductions) separately from the service cost component. This ASU restricts only the service cost component to be eligible for capitalization (for example, as a cost of internally manufactured inventory). This ASU is applied retrospectively for the disaggregation of the service cost component and the other components of net benefit cost, and prospectively for the capitalization of the service cost component of net benefit cost. TDK adopted this ASU from April 1, 2018.

As a result, ¥1,991 million from cost of sales, ¥2,068 million from selling, general and administrative expenses and ¥816 million from research and development expenses included in selling, general and administrative expenses were reclassified to other income (deductions) in the consolidated statement of income for the year ended March 31, 2019. The adoption of this ASU, which restricts only the service cost component to be eligible for capitalization, did not have a material impact on TDK's results of operations and financial position.

**5. Reclassifications:**

Certain reclassifications have made to prior year's consolidated financial statements to conform to the presentation used for the year ended March 31, 2019.

**[Notes to Consolidated Balance Sheet]**

1. Allowance for doubtful receivables: ¥1,190 million

2. Accumulated depreciation of property, plants and equipment: ¥758,155 million

3. Accumulated other comprehensive income (loss) includes foreign currency translation adjustments, pension liability adjustments and net unrealized gains (losses) on securities.

4. Assets pledged as collateral:
   TDK has pledged net property, plants and equipment amounting to ¥145 million as collateral for lease obligations amounting to ¥32 million.

5. Contingent liabilities:
   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.
   The maximum amount of undiscounted payments TDK would have to make in the event of default as of March 31, 2019 is ¥610 million.
   Several claims against TDK are pending. In the opinion of TDK management, based on discussions with legal counsel, any additional liability not currently provided for will not materially affect the consolidated financial position or result of operations of TDK.

**[Notes to Consolidated Statements of Income]**

Following is breakdown of Other operating expense (income)

| | |
|---|---|
| Gain on business transfer: | ¥ (4,011) million |
| Impairment loss on Long-lived assets: | ¥5,112 million |

**[Note to Per-Share Data]**

Net income attributable to TDK:

| | |
|---|---|
| Basic: | ¥82,205 million |
| Diluted: | ¥82,205 million |

| | |
|---|---|
| Weighted average common shares outstanding – Basic: | 126,271 thousand shares |
| Incremental shares arising from the exercise of stock option: | 305 thousand shares |
| Weighted average common shares outstanding – Diluted: | 126,576 thousand shares |

Net income attributable to TDK per share:

| | |
|---|---|
| Basic: | ¥651.02 |
| Diluted: | ¥649.45 |

| | |
|---|---|
| TDK stockholders' equity per share: | ¥6,946.70 |
| Total number of issued common shares outstanding: | 129,590 thousand shares |
| Number of common shares of treasury stock: | 3,301 thousand shares |
| Issued number of common shares that are used in calculating TDK stockholders' equity per share: | 126,289 thousand shares |

**[Notes regarding Financial Instruments]**

TDK recognizes cash, etc. (cash, deposits with banks, short-term investments and marketable securities) as liquid funds, and basically invests them on a short-term basis in safe investments.

Furthermore, TDK works to maintain liquidity at a level of at least 2 months of consolidated net sales, and procures funds through short and long-term borrowings from financial institutions and the issuance of straight bonds, depending on the use of the funds.

TDK borrows funds on floating or fixed interest rates and interest payments reflect economic conditions.

Customer credit risk related to trade receivables is properly assessed based on the credit management standards of the Company.

Many of the investments in securities are publicly listed shares, and their fair value is revaluated every quarter.

Regarding derivative financial instruments, TDK uses forward foreign exchange contracts, non-deliverable 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.

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

(1) Cash and cash equivalents, short-term investments, trade receivables, other current assets, short-term debt, trade payables, accrued expenses, income tax payables and other current liabilities

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

(2) Marketable securities and investments in securities, 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 long-term loan, which is included in other assets, is estimated based on the amount of future cash flows associated with the instrument discounted using the current lending rate for a similar loan of comparable maturity, or based on the quoted market prices for the same or similar issues.

(3) 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 a similar debt of comparable maturity, or based on the quoted market prices for the same or similar issues.

The carrying amounts and estimated fair values of TDK's financial instruments as of March 31, 2019 were as follows.

(¥ in millions)

| | Carrying amount | Estimated fair value |
|---|---|---|
| Assets: | | |
| Marketable securities | 57 | 57 |
| Investments in securities and other assets | 31,051 | 31,051 |
| Liability: | | |
| Long-term debt, including current portion (excluding lease obligations) | (293,274) | (293,017) |

(4) Derivative financial instruments

The fair values of derivative financial instruments are estimated based on quotation obtained from financial institutions, and reflect to the consolidated balance sheet.
Amounts of derivative financial instruments as of March 31, 2019, are as follows.

(¥ in millions)

| | Contract amount | Carrying amount | Fair value |
|---|---|---|---|
| Forward foreign exchange contracts | 192,902 | (18) | (18) |
| Currency swap contracts | 19,701 | 1,323 | 1,323 |
| Interest rate swap contracts | 33,297 | 124 | 124 |
| Commodity forward contracts | 252 | 150 | 150 |

**[Notes regarding Revenue Recognition]**

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 will gain control over the products and performance obligation is satisfied accordingly.