

June 5, 2020

To Shareholders

**INTERNET DISCLOSURE ITEMS FOR NOTICE OF CONVOCATION
OF THE 124TH ORDINARY GENERAL
MEETING OF SHAREHOLDERS**

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

[124th Fiscal Year (From April 1, 2019 to March 31, 2020)]

**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 1, 2019)
(To: March 31, 2020)

(¥ 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	5,958	44,436	935,649	(124,435)
Equity transaction of consolidated subsidiaries and other		(4,079)			(19)
Cash dividends				(21,471)	
Transferred to legal reserve			818	(818)	
Comprehensive income					
Net income				57,780	
Foreign currency translation adjustments					(45,445)
Pension liability adjustments					(20,069)
Net unrealized gains (losses) on securities					(87)
Total comprehensive income (loss)					
Acquisition of treasury stock					
Compensation expenses related to stock options		33			
Exercise of stock option		(129)			
Balance as of end of period	32,641	1,783	45,254	971,140	(190,055)

	Treasury stock	Total TDK Stockholders' equity	Non controlling interests	Total equity
Balance as of beginning of period	(16,959)	877,290	6,466	883,756
Equity transaction of consolidated subsidiaries and other		(4,098)	(896)	(4,994)
Cash dividends		(21,471)	(105)	(21,576)
Transferred to legal reserve		—	—	—
Comprehensive income				
Net income		57,780	(623)	57,157
Foreign currency translation adjustments		(45,445)	(239)	(45,684)
Pension liability adjustments		(20,069)	4	(20,065)
Net unrealized gains (losses) on securities		(87)		(87)
Total comprehensive income (loss)		(7,821)	(858)	(8,679)
Acquisition of treasury stock	(5)	(5)		(5)
Compensation expenses related to stock options		33		33
Exercise of stock option	158	29		29
Balance as of end of period	(16,806)	843,957	4,607	848,564

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:	141
Name of major consolidated subsidiaries:	TDK-Lambda Corporation TDK Akita Corporation SAE Magnetics (Hong Kong) Limited TDK U.S.A. Corporation TDK Europe S.A. TDK Electronics AG Amperex Technology Limited InvenSense, Inc.

2. Matters Concerning Equity-Method

Number of Equity-method affiliates:	5
Name of a principal Equity-method affiliate:	TODA KOGYO Co. 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.
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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.
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(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, the entire change in its fair value is 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, 2020, 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) Leases:

In February 2016, the Financial Accounting Standards Board (“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 and ¥35,690 million, 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.

(2) 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.

[Notes to Consolidated Balance Sheet]

1. Allowance for doubtful receivables: ¥1,720 million
2. Accumulated depreciation of property, plants and equipment: ¥812,977 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 ¥81 million as collateral for lease obligations amounting to ¥6 million and time deposit amounting to ¥107 million as guarantee deposit for import duties amounting to ¥107 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, 2020 is ¥469 million.
Several claims against TDK are pending. Claims include class action raised in United States of America and Canada for violation of antitrust law and damage suit raised by a customer; 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.

[Notes to Consolidated Statements of Income]

Following is breakdown of Other operating expense (income)

Gain on business transfer:	¥ (2,910) million
Impairment loss on Long-lived assets:	¥18,592 million

[Note to Per-Share Data]

Net income attributable to TDK:

Basic:	¥57,780 million
Diluted:	¥57,780 million

Weighted average common shares outstanding – Basic:	126,305 thousand shares
Incremental shares arising from the exercise of stock option:	284 thousand shares
Weighted average common shares outstanding – Diluted:	126,589 thousand shares

Net income attributable to TDK per share:

Basic:	¥457.47
Diluted:	¥456.44

TDK stockholders' equity per share:	¥6,681.15
Total number of issued common shares outstanding:	129,590 thousand shares
Number of common shares of treasury stock:	3,271 thousand shares
Issued number of common shares that are used in calculating TDK stockholders' equity per share:	126,319 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, 2020 were as follows.

	<u>Carrying amount</u>	<u>Estimated fair value</u>
		(¥ in millions)
Assets:		
Marketable securities	56	56
Investments in securities and other assets	32,771	32,771
Liability:		
Long-term debt, including current portion (excluding lease obligations)	(202,207)	(202,389)

(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, 2020, are as follows.

	<u>Contract</u> <u>amount</u>	<u>Carrying</u> <u>amount</u>	(¥ in millions) <u>Fair value</u>
Forward foreign exchange contracts	118,414	(1,235)	(1,235)
Currency swap contracts	13,051	1,102	1,102

[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.