

(5) Note Relating to the Going Concern Assumption

Nothing to report.

(6) Summary of Significant Accounting Policies

1) The consolidated financial statements are prepared in conformity with the U.S. GAAP.

Inventories are valued at the lower of cost or market as in the past, with cost mainly determined by the periodic average method.

2) As of March 31, 2020, TDK Corporation had 141 subsidiaries (13 in Japan and 128 overseas).

TDK Corporation also had 5 affiliates (3 in Japan and 2 overseas) whose financial statements are accounted for by the equity method.

3) 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 guidance. 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 Noncurrent 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.

4) In August 2017, FASB issued ASU 2017-12 “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities”. This ASU amends existing guidance 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.

5) The following items have been omitted from this earnings release because they are not deemed to be that necessary for disclosure.

Notes Concerning Consolidated Financial Statements

- Lease transactions
- Related-party transactions
- Tax-effect accounting
- Financial instruments
- Retirement benefits
- Stock options, etc.
- Business combinations, etc.
- Real estate for leasing
- Asset retirement obligations
- Hedge accounting
- Fair value of securities

(7) Segment Information

TDK has four reporting segments: Passive Components, Sensor Application Products, Magnetic Application Products and Energy Application Products, as well as Other, which includes products not included in these four reporting segments.

Sales by industry segment

		FY2019 (April 1, 2018 - March 31, 2019)		FY2020 (April 1, 2019 - March 31, 2020)			Change	
		(Yen millions)	%	(Yen millions)	%	(U.S.\$ thousands)	(Yen millions)	Change(%)
Passive Components	External customers	433,406	31.4	395,456	29.0	3,628,037	(37,950)	-8.8
	Intersegment	3,617		2,886		26,477	(731)	-20.2
	Total	437,023		398,342		3,654,514	(38,681)	-8.9
Sensor Application Products	External customers	76,467	5.5	77,938	5.7	715,028	1,471	1.9
	Intersegment	126		215		1,972	89	70.6
	Total	76,593		78,153		717,000	1,560	2.0
Magnetic Application Products	External customers	272,807	19.7	219,668	16.1	2,015,303	(53,139)	-19.5
	Intersegment	1,838		5,730		52,569	3,892	211.8
	Total	274,645		225,398		2,067,872	(49,247)	-17.9
Energy Application Products	External customers	537,502	38.9	597,698	43.9	5,483,468	60,196	11.2
	Intersegment	10		3		28	(7)	-70.0
	Total	537,512		597,701		5,483,496	60,189	11.2
Other	External customers	61,624	4.5	72,277	5.3	663,091	10,653	17.3
	Intersegment	28,435		26,170		240,092	(2,265)	-8.0
	Total	90,059		98,447		903,183	8,388	9.3
Intersegment eliminations		(34,026)		(35,004)		(321,138)	(978)	
Total		1,381,806	100.0	1,363,037	100.0	12,504,927	(18,769)	-1.4

Note:

U.S.\$1=Yen 109, for convenience only.

Segment profit (loss) by industry segment

		FY2019 (April 1, 2018 - March 31, 2019)		FY2020 (April 1, 2019 - March 31, 2020)			Change	
		(Yen millions)	%	(Yen millions)	%	(U.S.\$ thousands)	(Yen millions)	Change(%)
Passive Components		58,438	13.5	39,072	9.9	358,459	(19,366)	-33.1
Sensor Application Products		(22,125)	-28.9	(25,024)	-32.1	(229,578)	(2,899)	-
Magnetic Application Products		17,022	6.2	425	0.2	3,899	(16,597)	-97.5
Energy Application Products		91,036	16.9	124,149	20.8	1,138,982	33,113	36.4
Other		(6,727)	-10.9	(8,590)	-11.9	(78,808)	(1,863)	-
Sub total		137,644	10.0	130,032	9.5	1,192,954	(7,612)	-5.5
Corporate and Eliminations		(29,821)		(32,162)		(295,064)	(2,341)	
Operating income		107,823	7.8	97,870	7.2	897,890	(9,953)	-9.2

Note:

U.S.\$1=Yen 109, for convenience only.