



Consolidated Financial Statements
for the three-month period ended June 30, 2013
and June 30, 2014 (in English)

On August 12, 2014, the Japanese version of this report was filed with the Director-General of the Kanto Local Finance Bureau of the Ministry of Finance pursuant to Japan's Financial Instruments and Exchange Act.

[This is an English translation prepared for the convenience of non-resident shareholders. Should there be any inconsistency between the translation and the official Japanese text, the latter shall prevail.]

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| Company name (English): | TDK CORPORATION |
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1) Consolidated balance sheets (Unaudited)

| ASSETS | Yen (Millions) | |
|--|----------------|----------------------|
| | March 31, 2014 | June 30, 2014 |
| Current assets: | | |
| Cash and cash equivalents | ¥ 250,848 | ¥ 249,307 |
| Short-term investments | 8,691 | 8,194 |
| Net trade receivables | 206,472 | 204,432 |
| Inventories (Note 3) | 136,387 | 139,570 |
| Other current assets | 50,887 | 53,948 |
| Total current assets | 653,285 | 655,451 |
| Investments in securities (Note 2) | 38,401 | 39,095 |
| Net property, plant and equipment | 374,032 | 375,484 |
| Goodwill and other intangible assets (Note 9) | 118,105 | 115,303 |
| Other assets | 55,766 | 55,940 |
| Total assets | ¥ 1,239,589 | ¥ 1,241,273 |

See accompanying notes to consolidated financial statements.

Yen (Millions)

| LIABILITIES AND EQUITY | March 31, 2014 | June 30, 2014 |
|--|----------------|---------------|
| Current liabilities: | | |
| Short-term debt | ¥ 132,237 | ¥ 147,075 |
| Current installments of long-term debt | 37,147 | 36,486 |
| Trade payables | 95,688 | 101,243 |
| Accrued expenses | 86,664 | 85,502 |
| Other current liabilities | 22,045 | 21,525 |
| Total current liabilities | 373,781 | 391,831 |
| Long-term debt, excluding current installments | 97,623 | 98,270 |
| Retirement and severance benefits | 93,777 | 92,844 |
| Other non-current liabilities | 22,165 | 22,270 |
| Total liabilities | 587,346 | 605,215 |
| TDK stockholders' equity: | | |
| Common stock | | |
| Authorized 480,000,000 shares; issued 129,590,659 shares at March 31, 2014 and June 30, 2014 outstanding 125,814,338 shares at March 31, 2014 and 125,818,261 shares at June 30, 2014 | 32,641 | 32,641 |
| Additional paid-in capital | 57,635 | 49,446 |
| Legal reserve | 26,651 | 26,643 |
| Retained earnings | 624,919 | 625,621 |
| Accumulated other comprehensive income (loss) (Notes 10 and 11) | (87,134) | (96,765) |
| Treasury stock at cost; 3,776,321 shares at March 31, 2014 and 3,772,398 shares at June 30, 2014 | (19,385) | (19,364) |
| Total TDK stockholders' equity | 635,327 | 618,222 |
| Non-controlling interests (Notes 10 and 11) | 16,916 | 17,836 |
| Total equity | 652,243 | 636,058 |
| Total liabilities and equity | ¥ 1,239,589 | ¥ 1,241,273 |

**2) Consolidated statements of income
and Consolidated statements of comprehensive income (Unaudited)**

For the three-month ended June 30, 2013 and 2014

Consolidated statements of income

| | Yen (Millions) | |
|---|-------------------------------------|-------------------------------------|
| | Three months ended June 30, 2013 | Three months ended June 30, 2014 |
| Net sales | ¥ 234,399 | ¥ 237,462 |
| Cost of sales | 185,602 | 179,994 |
| Gross profit | 48,797 | 57,468 |
| Selling, general and administrative expenses | 44,271 | 47,873 |
| Operating income | 4,526 | 9,595 |
| Other income (deductions): | | |
| Interest and dividend income | 643 | 1,136 |
| Interest expense | (859) | (829) |
| Foreign exchange gain (loss) | 273 | 311 |
| Other - net | 602 | 142 |
| Total other income (deductions) | 659 | 760 |
| Income from continuing operations before income taxes | 5,185 | 10,355 |
| Income taxes | 3,665 | 4,068 |
| Income from continuing operations | 1,520 | 6,287 |
| Loss from discontinued operations (Note 13) | (440) | - |
| Net income | 1,080 | 6,287 |
| Less: Net income attributable to non-controlling interests | 708 | 533 |
| Net income attributable to TDK | ¥ 372 | ¥ 5,754 |

Amounts per share:

| | Yen | |
|---|-------------------------------------|-------------------------------------|
| | Three months ended June 30, 2013 | Three months ended June 30, 2014 |
| Net income attributable to TDK per share (Note 12): | | |
| Basic | 2.96 | 45.73 |
| Diluted | 2.10 | 45.08 |
| Cash dividends paid during the period | 30.00 | 40.00 |

Consolidated statements of comprehensive income

| | Yen (Millions) | |
|--|-------------------------------------|-------------------------------------|
| | Three months ended June 30, 2013 | Three months ended June 30, 2014 |
| Net income | ¥ 1,080 | ¥ 6,287 |
| Other comprehensive income (loss), net of taxes (Note 11): | | |
| Foreign currencies translation adjustments | 29,938 | (10,140) |
| Pension liability adjustments | 587 | 367 |
| Net unrealized gains (losses) on securities | 2,547 | (153) |
| Total other comprehensive income (loss) | 33,072 | (9,926) |
| Comprehensive income (loss) (Note 10) | 34,152 | (3,639) |
| Comprehensive income attributable to non-controlling interests | 1,666 | 282 |
| Comprehensive income (loss) attributable to TDK | ¥ 32,486 | ¥ (3,921) |

See accompanying notes to consolidated financial statements.

3) Consolidated statements of cash flows (Unaudited)

| | Yen (Millions) | |
|--|-------------------------------------|-------------------------------------|
| | Three months ended June 30, 2013 | Three months ended June 30, 2014 |
| Cash flows from operating activities: | | |
| Net income | ¥ 1,080 | ¥ 6,287 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 20,747 | 19,650 |
| Changes in assets and liabilities: | | |
| Decrease (increase) in trade receivables | (4,042) | (927) |
| Decrease (increase) in inventories | (1,710) | (4,849) |
| Increase (decrease) in trade payables | 6,323 | 7,630 |
| Increase (decrease) in accrued expenses | (1,809) | (4,014) |
| Decrease (increase) in other assets and liabilities, net | 1,549 | (6,858) |
| Other - net | 660 | 1,810 |
| Net cash provided by operating activities | <u>22,798</u> | <u>18,729</u> |
| Cash flows from investing activities: | | |
| Capital expenditures | (14,444) | (19,974) |
| Proceeds from sale and maturity of short-term investments | 4,994 | 4,155 |
| Payment for purchase of short-term investments | (6,662) | (3,789) |
| Payment for purchase of securities | (943) | (51) |
| Proceeds from sales of tangible and intangible assets | 401 | 654 |
| Other - net | 655 | 458 |
| Net cash used in investing activities | <u>(15,999)</u> | <u>(18,547)</u> |
| Cash flows from financing activities: | | |
| Proceeds from long-term debt | 12,040 | 1,228 |
| Repayment of long-term debt | (176) | (1,080) |
| Increase (decrease) in short-term debt, net | (5,055) | 15,495 |
| Dividends paid | (3,579) | (4,892) |
| Acquisition of noncontrolling interests | (353) | (11,366) |
| Other - net | (226) | 2,340 |
| Net cash provided by financing activities | <u>2,651</u> | <u>1,725</u> |
| Effect of exchange rate changes on cash and cash equivalents | 9,956 | (3,448) |
| Net increase (decrease) in cash and cash equivalents | 19,406 | (1,541) |
| Cash and cash equivalents at beginning of period | 213,687 | 250,848 |
| Cash and cash equivalents at end of period | <u>¥ 233,093</u> | <u>¥ 249,307</u> |

See accompanying notes to consolidated financial statements.

4) Notes to Consolidated Financial Statements (Unaudited)

1. Summary of Significant Accounting Policies

(a) Basis of Presentation

TDK Corporation and most of its domestic subsidiaries maintain their books of account in conformity with the generally accepted accounting principles in Japan, and its foreign subsidiaries mainly 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 subsidiaries, to present the financial position, results of operations and cash flows in conformity with U.S. generally accepted accounting principles ("U.S. GAAP").

(b) 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 under U.S. GAAP. All significant intercompany balances and transactions have been eliminated in consolidation.

The investments in affiliates in which TDK's ownership is 20 percent to 50 percent and 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.

(c) Subsequent Events

TDK has evaluated the subsequent events through August 11, 2014, the date on which the consolidated financial statements are available to be issued.

(d) Reclassifications

Certain reclassifications have been made to the prior year's consolidated financial statements and quarterly consolidated financial statements to conform to the presentation used for the three-month ended June 30, 2014.

Additionally, results of discontinued operations are separately presented under discontinued operations in the consolidated statements of income. Except for otherwise mentioned, figures pertaining to discontinued operations are excluded from the figures disclosed in the Notes to Consolidated Financial Statements.

2. Marketable Securities and Investments in Securities

Marketable securities and investments in securities at March 31, 2014 and June 30, 2014, are as follows:

| | Yen (Millions) | |
|---------------------------------|----------------|---------------|
| | March 31, 2014 | June 30, 2014 |
| Investments in securities: | | |
| Long-term marketable securities | ¥ 20,335 | ¥ 21,325 |
| Nonmarketable securities | 1,449 | 1,230 |
| Investments in affiliates | 16,617 | 16,540 |
| Total | ¥ 38,401 | ¥ 39,095 |

Marketable securities and investments in securities include available-for-sale securities. Information with respect to such securities at March 31, 2014 and June 30, 2014, is as follows:

| As of March 31, 2014 | Yen (Millions) | | | Fair Value |
|----------------------------------|----------------|--------------------------------|---------------------------------|------------|
| | Cost | Gross Unrealized Holding Gains | Gross Unrealized Holding Losses | |
| Investments (Debt securities): | | | | |
| Government bonds | ¥ 1,302 | ¥ - | ¥ 0 | ¥ 1,302 |
| Commercial papers | 64 | 61 | - | 125 |
| Public-utility bonds | 3 | - | - | 3 |
| Investments (Equity securities): | | | | |
| Manufacturing companies | 8,391 | 7,728 | 12 | 16,107 |
| Other | 1,166 | 348 | - | 1,514 |
| Investments (Mutual funds) | 1,155 | 129 | - | 1,284 |
| Total | ¥ 12,081 | ¥ 8,266 | ¥ 12 | ¥ 20,335 |

| As of June 30, 2014 | Yen (Millions) | | | Fair Value |
|----------------------------------|----------------|--------------------------------|---------------------------------|------------|
| | Cost | Gross Unrealized Holding Gains | Gross Unrealized Holding Losses | |
| Investments (Debt securities): | | | | |
| Government bonds | ¥ 1,302 | ¥ 0 | ¥ - | ¥ 1,302 |
| Commercial papers | 61 | 63 | - | 124 |
| Public-utility bonds | 3 | - | - | 3 |
| Investments (Equity securities): | | | | |
| Manufacturing companies | 8,378 | 9,312 | 714 | 16,976 |
| Other | 1,165 | 459 | - | 1,624 |
| Investments (Mutual funds) | 1,142 | 154 | - | 1,296 |
| Total | ¥ 12,051 | ¥ 9,988 | ¥ 714 | ¥ 21,325 |

Debt securities classified as available-for-sale at June 30, 2014 have a weighted average remaining term of 1.5 years.

The proceeds from sale and maturity of available-for-sale securities are ¥4 million for the three-month ended June 30, 2013. The proceeds from sale and maturity of available-for-sale securities and nonmarketable securities are ¥101 million for the three-month ended June 30, 2014. The gross realized gains on the sale and settlement of available-for-sale securities and nonmarketable securities are ¥14 million for the three-month ended June 30, 2014. The costs of available-for-sale securities and nonmarketable securities sold were determined on average cost basis.

TDK recorded an impairment of ¥150 million on certain nonmarketable securities representing other-than-temporary declines in the fair value for the three-month ended June 30, 2014.

As of June 30, 2014, all of the available-for-sale securities with unrealized losses were in a continuous unrealized loss position for less than 12 months. The aggregate cost of nonmarketable securities accounted for under the cost method at March 31, 2014 and June 30, 2014 totaled ¥1,449 million and ¥1,230 million, respectively. As of June 30, 2014, certain debt securities in the amount of ¥1,302 million were pledged as collateral for extended custom duty payments to Tokyo Customs and other customs.

3. Inventories

Inventories at March 31, 2014 and June 30, 2014, are summarized as follows:

| | Yen (Millions) | |
|-----------------|----------------|---------------|
| | March 31, 2014 | June 30, 2014 |
| Finished goods | ¥ 59,746 | ¥ 61,185 |
| Work in process | 31,434 | 32,879 |
| Raw materials | 45,207 | 45,506 |
| Total | ¥ 136,387 | ¥ 139,570 |

4. Cost for Retirement and Severance Benefits

Net periodic benefit cost (including discontinued operations) for TDK's employee retirement and severance defined benefit plans for the three-month ended June 30, 2013 and June 30, 2014 consist of the following components:

| | Yen (Millions) | |
|--|-------------------------------------|-------------------------------------|
| | Three months ended June 30, 2013 | Three months ended June 30, 2014 |
| Service cost-benefits earned during the period | ¥ 1,741 | ¥ 1,731 |
| Interest cost on projected benefit obligation | 1,206 | 1,345 |
| Expected return on plan assets | (879) | (1,015) |
| Amortization of actuarial loss | 1,160 | 1,006 |
| Amortization of prior service cost (benefit) | (504) | (504) |
| Curtailment/settlement loss | 138 | - |
| Net periodic benefit cost | ¥ 2,862 | ¥ 2,563 |

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. 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 at March 31, 2014 and June 30, 2014, are as follows:

| | Yen (Millions) | |
|--|----------------|---------------|
| | March 31, 2014 | June 30, 2014 |
| Guarantees to third parties on bank loans of employees | ¥ 1,870 | ¥ 1,758 |

As of June 30, 2014, the liability recognized for the estimated fair value of TDK's obligation under the guarantee arrangement is not material.

Several claims against TDK are pending. A provision has been made for the estimated liabilities for the items. 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.

6. Risk Management Activities and Derivative Financial Instruments

TDK operates internationally and is exposed to the risk of changes in foreign exchange rates as well as changes in raw material prices. TDK assesses these risks by continuously monitoring changes in the exchange 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 uses forward foreign exchange contracts and currency swaps in order to offset foreign exchange gain (loss) mainly arising from foreign-currency denominated assets and liabilities and forecasted transactions. Also, TDK uses commodity forward transactions in order to control the fluctuation risks of raw material prices. Although these contracts are not designated as hedges, which is required to apply hedge accountings, TDK considers they 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.

Notional amounts of derivative financial instruments at March 31, 2014 and June 30, 2014, are as follows:

| | Yen (Millions) | |
|------------------------------------|----------------|---------------|
| | March 31, 2014 | June 30, 2014 |
| Forward foreign exchange contracts | ¥ 94,707 | ¥ 58,427 |
| Currency swaps | 34,022 | 36,247 |
| Commodity forward transactions | 1,297 | 875 |
| | ¥ 130,026 | ¥ 95,549 |

Fair value of derivative financial instruments at March 31, 2014 and June 30, 2014 are as follows:

| | | Yen (Millions) | |
|------------------------------------|------------------------------|----------------------|------------|
| | | As of March 31, 2014 | |
| | | Account | Fair value |
| Assets: | | | |
| Forward foreign exchange contracts | Other current assets | | ¥ 654 |
| Currency swaps | Other current assets | | 349 |
| Currency swaps | Other assets | | 183 |
| Commodity forward transactions | Other current assets | | 60 |
| Assets total | | | ¥ 1,246 |
| Liabilities: | | | |
| Forward foreign exchange contracts | Other current liabilities | | ¥ 359 |
| Currency swaps | Other current liabilities | | 371 |
| Commodity forward transactions | Other current liabilities | | 14 |
| Liabilities total | | | ¥ 744 |
| | | Yen (Millions) | |
| | | As of June 30, 2014 | |
| | | Account | Fair value |
| Assets: | | | |
| Forward foreign exchange contracts | Other current assets | | ¥ 363 |
| Currency swaps | Other current assets | | 358 |
| Currency swaps | Other assets | | 167 |
| Commodity forward transactions | Other current assets | | 74 |
| Assets total | | | ¥ 962 |
| Liabilities: | | | |
| Forward foreign exchange contracts | Other current liabilities | | ¥ 158 |
| Currency swaps | Other current liabilities | | 16 |
| Currency swaps | Other noncurrent liabilities | | 60 |
| Commodity forward transactions | Other current liabilities | | 3 |
| Liabilities total | | | ¥ 237 |

The effect of derivative financial instruments on the consolidated statements of income for the three-month ended June 30, 2013 and June 30, 2014 are as follows:

| | | Three months ended June 30, 2013 | |
|------------------------------------|------------------------------|----------------------------------|----------------|
| | | Account | Yen (Millions) |
| Forward foreign exchange contracts | Foreign exchange gain (loss) | | ¥ (1,031) |
| Currency swaps | Foreign exchange gain (loss) | | 279 |
| Commodity forward transactions | Cost of sales | | (20) |
| | | | ¥ (772) |
| | | Three months ended June 30, 2014 | |
| | | Account | Yen (Millions) |
| Forward foreign exchange contracts | Foreign exchange gain (loss) | | ¥ 497 |
| Currency swaps | Foreign exchange gain (loss) | | 214 |
| Commodity forward transactions | Cost of sales | | 49 |
| | | | ¥ 760 |

7. 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, Other current assets, Short-term debt, Trade payables, Accrued expenses 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 and Investments in securities

The fair values of marketable securities and investments in securities are primarily estimated based on quoted market prices for these instruments.

(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 8 of the Notes to Consolidated Financial Statements.

The carrying amounts and estimated fair values of TDK's financial instruments at March 31, 2014 and June 30, 2014, are summarized as follows:

| As of March 31, 2014 | Yen (Millions) | |
|---|-----------------|----------------------|
| | Carrying amount | Estimated fair value |
| Assets: | | |
| Investments in securities and other assets | ¥ 34,519 | ¥ 34,519 |
| Liability: | | |
| Long-term debt, including current portion (excluding lease obligation) | (128,185) | (129,382) |
| | | |
| As of June 30, 2014 | Yen (Millions) | |
| | Carrying amount | Estimated fair value |
| Assets: | | |
| Investments in securities and other assets | ¥ 36,025 | ¥ 36,025 |
| Liability: | | |
| Long-term debt, including current portion (excluding lease obligation) | (128,101) | (129,411) |

Derivative financial instruments are presented in Note 6 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.

8. Fair Value Measurements

The Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“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. FASB 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, 2014 and June 30, 2014 are as follows:

| As of March 31, 2014 | Yen (Millions) | | | |
|------------------------------------|----------------|---------|---------|----------|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Derivative contracts: | | | | |
| Forward foreign exchange contracts | ¥ - | ¥ 654 | ¥ - | ¥ 654 |
| Currency swaps | - | 532 | - | 532 |
| Commodity forward transactions | - | 60 | - | 60 |
| Investments (Debt securities): | | | | |
| Government bonds | 1,302 | - | - | 1,302 |
| Commercial papers | - | 125 | - | 125 |
| Public-utility bonds | 3 | - | - | 3 |
| Investments (Equity securities): | | | | |
| Manufacturing companies | 16,107 | - | - | 16,107 |
| Other | 1,514 | - | - | 1,514 |
| Investments (Mutual funds) | 1,284 | - | - | 1,284 |
| Rabbi trust investments | 5,746 | - | - | 5,746 |
| Total | ¥ 25,956 | ¥ 1,371 | ¥ - | ¥ 27,327 |
| Liabilities: | | | | |
| Derivative contracts: | | | | |
| Forward foreign exchange contracts | ¥ - | ¥ 359 | ¥ - | ¥ 359 |
| Currency swaps | - | 371 | - | 371 |
| Commodity forward transactions | - | 14 | - | 14 |
| Total | ¥ - | ¥ 744 | ¥ - | ¥ 744 |
| As of June 30, 2014 | | | | |
| | Yen (Millions) | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Derivative contracts: | | | | |
| Forward foreign exchange contracts | ¥ - | ¥ 363 | ¥ - | ¥ 363 |
| Currency swaps | - | 525 | - | 525 |
| Commodity forward transactions | - | 74 | - | 74 |
| Investments (Debt securities): | | | | |
| Government bonds | 1,302 | - | - | 1,302 |
| Commercial papers | - | 124 | - | 124 |
| Public-utility bonds | 3 | - | - | 3 |
| Investments (Equity securities): | | | | |
| Manufacturing companies | 16,976 | - | - | 16,976 |
| Other | 1,624 | - | - | 1,624 |
| Investments (Mutual funds) | 1,296 | - | - | 1,296 |
| Rabbi trust investments | 5,974 | - | - | 5,974 |
| Total | ¥ 27,175 | ¥ 1,086 | ¥ - | ¥ 28,261 |
| Liabilities: | | | | |
| Derivative contracts: | | | | |
| Forward foreign exchange contracts | ¥ - | ¥ 158 | ¥ - | ¥ 158 |
| Currency swaps | - | 76 | - | 76 |
| Commodity forward transactions | - | 3 | - | 3 |
| Total | ¥ - | ¥ 237 | ¥ - | ¥ 237 |

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 is valued using unadjusted quoted prices in active markets.

Level 2 derivative contracts include forward foreign exchange contracts, currency swaps and commodity forward transactions 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.

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

The fair values measured on a nonrecurring basis for the three-month ended June 30, 2014 is as follows:

| Three months ended June 30, 2014 | Yen (Millions) | | | |
|---|---------------------------------|----------------|----------------|----------------|
| | Total gains (losses) | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Investments (Equity securities) | ¥ (150) | ¥ - | ¥ - | ¥ - |

For the three-month ended June 30, 2014, investments which consist of nonmarketable securities valued using the cost method with the book value of ¥150 million was fully written down due to impairment. These nonmarketable securities are classified as Level 3 because their fair value was calculated using unobservable inputs.

As a result of the above, impairment loss of ¥150 million caused by other-than-temporary declines in fair values during the three-month ended June 30, 2014 was included in the consolidated statements of income.

9. Goodwill and Other Intangible Assets

The components of acquired intangible assets excluding goodwill at March 31, 2014 and June 30, 2014 are as follows:

| As of March 31, 2014 | Yen (Millions) | | Net Amount |
|---------------------------------------|-----------------------|--------------------------|-----------------|
| | Gross Carrying Amount | Accumulated Amortization | |
| Amortized intangible assets: | | | |
| Patent | ¥ 40,887 | ¥ 26,087 | ¥ 14,800 |
| Customer relationships | 25,862 | 18,550 | 7,312 |
| Software | 27,306 | 14,022 | 13,284 |
| Unpatented technologies | 34,234 | 28,252 | 5,982 |
| Other | 6,839 | 1,462 | 5,377 |
| Total | ¥ 135,128 | ¥ 88,373 | ¥ 46,755 |
| Unamortized intangible assets: | | | |
| Trademark | ¥ 7,216 | | ¥ 7,216 |
| Other | 243 | | 243 |
| Total | ¥ 7,459 | | ¥ 7,459 |

| As of June 30, 2014 | Yen (Millions) | | Net Amount |
|---------------------------------------|-----------------------|--------------------------|-----------------|
| | Gross Carrying Amount | Accumulated Amortization | |
| Amortized intangible assets: | | | |
| Patent | ¥ 30,892 | ¥ 16,777 | ¥ 14,115 |
| Customer relationships | 25,541 | 18,593 | 6,948 |
| Software | 27,093 | 13,727 | 13,366 |
| Unpatented technologies | 33,777 | 28,498 | 5,279 |
| Other | 6,948 | 1,490 | 5,458 |
| Total | ¥ 124,251 | ¥ 79,085 | ¥ 45,166 |
| Unamortized intangible assets: | | | |
| Trademark | ¥ 7,121 | | ¥ 7,121 |
| Other | 243 | | 243 |
| Total | ¥ 7,364 | | ¥ 7,364 |

No significant intangible assets other than goodwill were acquired in the three-month ended June 30, 2013 and June 30, 2014.

Intangible assets subject to amortization are amortized using the straight-line method over their estimated useful lives to their estimated residual value of zero. Aggregate amortization expense for the three-month ended June 30, 2014 was ¥2,779 million.

There are no significant changes in the carrying amount of goodwill for the three-month ended June 30, 2014.

Net income attributable to TDK and transfers (to) from noncontrolling interests for the three-month ended June 30, 2013 and June 30, 2014 are as follows:

| | Yen (Millions) | |
|---|--------------------------------|------------------|
| | Three months ended June 30, | |
| | 2013 | 2014 |
| Net income attributable to TDK | ¥ 372 | ¥ 5,754 |
| Decrease in TDK's additional paid-in capital for purchase of Becromal Iceland ehf common shares from third parties | (1,125) | - |
| Decrease in TDK's additional paid-in capital for purchase of Amperex Technology Ltd. common shares from third parties | - | (6,924) |
| Decrease in TDK's additional paid-in capital for issue of Amperex Technology Ltd. common shares to third parties | - | (2,284) |
| Net transfers (to) from noncontrolling interests | (1,125) | (9,208) |
| Change from net income attributable to TDK and transfers (to) from noncontrolling interests | ¥ (753) | ¥ (3,454) |

11. Other Comprehensive Income (Loss)

The changes in the carrying amount of accumulated other comprehensive income (loss) for the three-month ended June 30, 2013 are as follows:

| | Yen (Millions) | | | |
|--|--|-------------------------------|---|-------------|
| | Foreign currency translation adjustments | Pension liability adjustments | Net unrealized gains (losses) on securities | Total |
| March 31, 2013 | ¥ (114,027) | ¥ (46,707) | ¥ 1,718 | ¥ (159,016) |
| Equity transaction of consolidated subsidiaries and other | (125) | - | - | (125) |
| Other comprehensive income (loss) before reclassifications | 29,986 | 54 | 2,547 | 32,587 |
| Amounts reclassified from accumulated other comprehensive income (loss) | (48) | 533 | - | 485 |
| Other comprehensive income (loss) | 29,938 | 587 | 2,547 | 33,072 |
| Other comprehensive income (loss) attributable to noncontrolling interests | 953 | 5 | 0 | 958 |
| June 30, 2013 | ¥ (85,167) | ¥ (46,125) | ¥ 4,265 | ¥ (127,027) |

The changes in the carrying amount of accumulated other comprehensive income (loss) for the three-month ended June 30, 2014 are as follows:

| | Yen (Millions) | | | |
|--|--|-------------------------------|---|-------------------|
| | Foreign currency translation adjustments | Pension liability adjustments | Net unrealized gains (losses) on securities | Total |
| March 31, 2014 | ¥ (54,046) | ¥ (39,528) | ¥ 6,440 | ¥ (87,134) |
| Equity transaction of consolidated subsidiaries and other | 44 | - | - | 44 |
| Other comprehensive income (loss) before reclassifications | (10,140) | - | (153) | (10,293) |
| Amounts reclassified from accumulated other comprehensive income (loss) | - | 367 | - | 367 |
| Other comprehensive income (loss) | (10,140) | 367 | (153) | (9,926) |
| Other comprehensive income (loss) attributable to noncontrolling interests | (251) | 0 | - | (251) |
| June 30, 2014 | ¥ (63,891) | ¥ (39,161) | ¥ 6,287 | ¥ (96,765) |

Tax effects allocated to each component of other comprehensive income (loss) and reclassification adjustments for the three-month ended June 30, 2013 are as follows:

| For the three-month ended June 30, 2013 | Yen (Millions) | | |
|--|-------------------|--------------------------|-------------------|
| | Before tax amount | Tax (expense) or benefit | Net-of-tax amount |
| Foreign currency translation adjustments: | | | |
| Amount arising during the period from investments in foreign entities | ¥ 29,986 | ¥ 0 | ¥ 29,986 |
| Reclassification adjustments for the portion of gains and losses realized upon sale or liquidation of investments in foreign entities *1 | (48) | - | (48) |
| Net foreign currency translation adjustments | 29,938 | 0 | 29,938 |
| Pension liability adjustments: | | | |
| Amount arising during the period | 78 | (24) | 54 |
| Reclassification adjustments for amortization and curtailment/settlement *2 | 707 | (174) | 533 |
| Net pension liability adjustments | 785 | (198) | 587 |
| Unrealized gains (losses) on securities: | | | |
| Unrealized holding gains (losses) arising during the period | 3,380 | (833) | 2,547 |
| Net unrealized gains (losses) | 3,380 | (833) | 2,547 |
| Other comprehensive income (loss) | ¥ 34,103 | ¥ (1,031) | ¥ 33,072 |

Tax effects allocated to each component of other comprehensive income (loss) and reclassification adjustments for the three-month ended June 30, 2014 are as follows:

| For the three-month ended June 30, 2014 | Yen (Millions) | | |
|--|-------------------|--------------------------|-------------------|
| | Before tax amount | Tax (expense) or benefit | Net-of-tax amount |
| Foreign currency translation adjustments: | | | |
| Amount arising during the period from investments in foreign entities | ¥ (10,140) | ¥ 0 | ¥ (10,140) |
| Reclassification adjustments for the portion of gains and losses realized upon sale or liquidation of investments in foreign entities *1 | - | - | - |
| Net foreign currency translation adjustments | (10,140) | 0 | (10,140) |
| Pension liability adjustments: | | | |
| Reclassification adjustments for amortization and curtailment/settlement *2 | 495 | (128) | 367 |
| Net pension liability adjustments | 495 | (128) | 367 |
| Unrealized gains (losses) on securities: | | | |
| Unrealized holding gains (losses) arising during the period | 1,026 | (1,179) | (153) |
| Net unrealized gains (losses) | 1,026 | (1,179) | (153) |
| Other comprehensive income (loss) | ¥ (8,619) | ¥ (1,307) | ¥ (9,926) |

*1 The line item in consolidated statements of income affected by “Before tax amount” is “Other - net”.

*2 “Before tax amount” is included in the computation of net periodic benefit cost that is presented in Note 4 of the Notes to Consolidated Financial Statements.

12. 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 calculations is as follows:

| | Yen (Millions) | | | |
|--|-------------------------------------|---------|-------------------------------------|---------|
| | Three months ended June 30, 2013 | | Three months ended June 30, 2014 | |
| | Basic | Diluted | Basic | Diluted |
| Income from continuing operations attributable to TDK | ¥ 765 | ¥ 658 | ¥ 5,754 | ¥ 5,682 |
| Loss from discontinued operations attributable to TDK | (393) | (393) | - | - |
| Net income attributable to TDK | ¥ 372 | ¥ 265 | ¥ 5,754 | ¥ 5,682 |
| | Number of shares (Thousands) | | | |
| Weighted average common shares outstanding | 125,802 | 125,802 | 125,816 | 125,816 |
| Incremental shares arising from the exercise of stock option | - | 180 | - | 229 |
| Weighted average common shares outstanding – Total | 125,802 | 125,982 | 125,816 | 126,045 |
| | Yen | | | |
| Per common share: | | | | |
| Income from continuing operations attributable to TDK | 6.08 | 5.22 | 45.73 | 45.08 |
| Loss from discontinued operations attributable to TDK | (3.12) | (3.12) | - | - |
| Net income attributable to TDK | 2.96 | 2.10 | 45.73 | 45.08 |

For the three-month ended June 30, 2013, incremental 180,000 shares arising from the exercise of stock options were excluded from the per share calculation of diluted loss from discontinued operations attributable to TDK as the effect would have been antidilutive.

The decline of income from continuing operations attributable to TDK and net income attributable to TDK for the three-month ended June 30, 2013 and June 30, 2014 were caused by a dilutive effect of stock options issued by a subsidiary of TDK Corporation.

Per common share data are calculated separately for income from continuing operations attributable to TDK, loss from discontinued operations attributable to TDK and net income attributable to TDK.

For the three-month ended June 30, 2013 and June 30, 2014, certain stock options issued by TDK Corporation were excluded from the diluted per share calculation of income from continuing operations attributable to TDK, loss from discontinued operations attributable to TDK and net income attributable to TDK as the effect would have been antidilutive. The stock options issued by a subsidiary that are vested when a certain performance condition is achieved were also excluded from the diluted per share calculation of income from continuing operations attributable to TDK and net income attributable to TDK for the three-month ended June 30, 2013 and June 30, 2014 as it was not probable that the performance condition would be achieved as of June 30, 2013 and June 30, 2014.

13. Discontinued Operations

As a part of reviewing the entire group portfolio and concentration in core competence, TDK withdrew from the data tape business and the blu-ray business, both of which belonged to the Film Application Products segment, during the year ended March 31, 2014.

In accordance with the provisions of FASB ASC 205-20, "Presentation of Financial Statements-Discontinued Operations", profit and loss pertaining to the data tape business and the blu-ray business are presented under discontinued operations in the consolidated statements of income.

The selected financial information for the discontinued operations for the three-month ended June 30, 2013 is as follows and nil for the three-month ended June 30, 2014.

| | <u>Yen (Millions)</u> <u>Three months ended</u> <u>June 30, 2013</u> |
|---|--|
| Net sales | ¥ 2,137 |
| Cost of sales and expenses | <u>2,800</u> |
| Loss from discontinued operations before income taxes | (663) |
| Income taxes | <u>(223)</u> |
| Net loss from discontinued operations | (440) |
| Net loss from discontinued operations attributable to noncontrolling interests | <u>(47)</u> |
| Net loss from discontinued operations attributable to TDK | <u>¥ (393)</u> |

14. 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 Magnetic Application Products segment and the Film Application Products segment. Operating segments which are not reportable segments are included in Other.

In accordance with the provisions of FASB ASC 205-20, "Presentation of Financial Statements-Discontinued Operations", figures pertaining to the data tape business and the blu-ray business, both of which became discontinued operations in the year ended March 31, 2014, are excluded.

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 components, Piezoelectric materials and circuit protection components, Sensors |
| Magnetic Application Products | Recording devices, Power supplies, Magnets |
| Film Application Products | Energy devices (Rechargeable batteries), Applied films |
| Other | Mechatronics (Production equipments), other |

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

The business segment information for the three-month ended June 30, 2013 and June 30, 2014 are as follows:

Net sales

| | Yen (Millions) | |
|--------------------------------|-----------------------------|------------------|
| | Three months ended June 30, | |
| | 2013 | 2014 |
| Passive Components: | | |
| External customers | ¥ 117,027 | ¥ 123,414 |
| Intersegment | 859 | 815 |
| | <u>117,886</u> | <u>124,229</u> |
| Magnetic Application Products: | | |
| External customers | 86,195 | 87,057 |
| Intersegment | 292 | 21 |
| | <u>86,487</u> | <u>87,078</u> |
| Film Application Products: | | |
| External customers | 26,467 | 22,484 |
| Intersegment | 734 | 713 |
| | <u>27,201</u> | <u>23,197</u> |
| Other: | | |
| External customers | 4,710 | 4,507 |
| Intersegment | 2,214 | 3,081 |
| | <u>6,924</u> | <u>7,588</u> |
| Intersegment eliminations | (4,099) | (4,630) |
| Total | <u>¥ 234,399</u> | <u>¥ 237,462</u> |

Segment profit (loss)

| | Yen (Millions) | |
|--|-----------------------------|-----------------|
| | Three months ended June 30, | |
| | 2013 | 2014 |
| Passive Components | ¥ 2,822 | ¥ 7,818 |
| Magnetic Application Products | 4,623 | 7,123 |
| Film Application Products | 2,110 | 286 |
| Other | (822) | (417) |
| | <u>8,733</u> | <u>14,810</u> |
| Corporate and eliminations | (4,207) | (5,215) |
| Operating income | 4,526 | 9,595 |
| Other income (deductions), net | 659 | 760 |
| Income from continuing operations before income taxes | <u>¥ 5,185</u> | <u>¥ 10,355</u> |

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

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

Geographic Segment Information

The geographic segment information for the three-month ended June 30, 2013 and June 30, 2014 are as follows:

Net sales

| | Yen (Millions) | |
|-----------------|-----------------------------|------------------|
| | Three months ended June 30, | |
| | 2013 | 2014 |
| Japan | ¥ 22,719 | ¥ 23,897 |
| Americas | 21,328 | 19,195 |
| Europe | 34,386 | 36,918 |
| China | 109,935 | 117,576 |
| Asia and others | 46,031 | 39,876 |
| Total | ¥ 234,399 | ¥ 237,462 |

Net sales are based on the location of the customers.

Net sales pertaining to the data tape business and the blu-ray business, both of which became discontinued operations in the year ended March 31, 2014, are excluded.

Major countries in each geographic area:

- (1) Americas United States of America
- (2) Europe Germany, Hungary, France
- (3) Asia and others Thailand, Korea, Taiwan, Malaysia, Singapore