



**Consolidated Financial Statements**  
**for the six-month ended and as of September 30, 2017 (in English)**

On November 13, 2017, 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.]

**[Cover]**

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September 30, 2017 (in English)

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## 1) Consolidated balance sheets (Unaudited)

ASSETS	Yen (Millions)	
	March 31, 2017	September 30, 2017
<b>Current assets:</b>		
Cash and cash equivalents	¥ 330,388	¥ 270,630
Short-term investments	56,131	77,952
Marketable securities (Note 2)	-	1,099
Net trade receivables	254,909	337,968
Inventories (Note 3)	154,499	199,525
Other current assets	70,209	74,516
<b>Total current assets</b>	<b>866,136</b>	<b>961,690</b>
<b>Investments in affiliates (Note 2)</b>	<b>149,057</b>	<b>138,677</b>
<b>Other investments in securities (Note 2)</b>	<b>12,768</b>	<b>11,068</b>
<b>Net property, plant and equipment</b>	<b>464,667</b>	<b>518,341</b>
<b>Goodwill (Note 9)</b>	<b>61,031</b>	<b>189,228</b>
<b>Intangible assets (Note 9)</b>	<b>51,821</b>	<b>62,639</b>
<b>Other assets</b>	<b>58,853</b>	<b>62,598</b>
<b>Total assets</b>	<b>¥ 1,664,333</b>	<b>¥ 1,944,241</b>

*See accompanying notes to consolidated financial statements.*

LIABILITIES AND EQUITY	Yen (Millions)	
	March 31, 2017	September 30, 2017
<b>Current liabilities:</b>		
Short-term debt	¥ 77,680	¥ 131,938
Current installments of long-term debt	42,517	53,819
Trade payables	176,644	228,562
Accrued expenses	148,609	160,968
Other current liabilities	32,144	30,264
<b>Total current liabilities</b>	<b>477,594</b>	<b>605,551</b>
<b>Long-term debt, excluding current installments</b>	<b>213,935</b>	<b>329,021</b>
<b>Retirement and severance benefits</b>	<b>125,202</b>	<b>127,595</b>
<b>Other noncurrent liabilities</b>	<b>45,484</b>	<b>49,169</b>
<b>Total noncurrent liabilities</b>	<b>384,621</b>	<b>505,785</b>
<b>Total liabilities</b>	<b>862,215</b>	<b>1,111,336</b>
<b>TDK stockholders' equity:</b>		
Common stock		
Authorized 480,000,000 shares; issued 129,590,659 shares at March 31, 2017 and September 30, 2017 outstanding 126,199,815 shares at March 31, 2017 and 126,220,152 shares at September 30, 2017	32,641	32,641
Additional paid-in capital	15,349	8,685
Legal reserve	37,727	37,162
Retained earnings	833,884	857,566
Accumulated other comprehensive income (loss) (Notes 10 and 11)	(108,575)	(92,459)
Treasury stock at cost; 3,390,844 shares at March 31, 2017 and 3,370,507 shares at September 30, 2017	(17,412)	(17,309)
Total TDK stockholders' equity	793,614	826,286
<b>Noncontrolling interests (Notes 10 and 11)</b>	<b>8,504</b>	<b>6,619</b>
<b>Total equity</b>	<b>802,118</b>	<b>832,905</b>
<b>Total liabilities and equity</b>	<b>¥ 1,664,333</b>	<b>¥ 1,944,241</b>

## 2) Consolidated statements of income

### and Consolidated statements of comprehensive income (loss) (Unaudited)

For the Six-month ended September 30, 2016 and 2017

#### Consolidated statements of income

	Yen (Millions)	
	Six-month ended September 30, 2016	Six-month ended September 30, 2017
Net sales	¥ 579,181	¥ 623,571
Cost of sales	420,244	456,446
<b>Gross profit</b>	<b>158,937</b>	<b>167,125</b>
Selling, general and administrative expenses	112,507	127,766
Other operating expense (income) (Note 1)	2,117	(2,910)
<b>Operating income</b>	<b>44,313</b>	<b>42,269</b>
<b>Other income (deductions):</b>		
Interest and dividend income	1,886	3,002
Interest expense	(1,583)	(2,176)
Foreign exchange gain (loss)	(1,381)	(287)
Other - net	1,091	1,446
<b>Total other income (deductions)</b>	<b>13</b>	<b>1,985</b>
<b>Income before income taxes</b>	<b>44,326</b>	<b>44,254</b>
<b>Income taxes</b>	<b>11,277</b>	<b>13,207</b>
<b>Net income</b>	<b>33,049</b>	<b>31,047</b>
<b>Less: Net income attributable to noncontrolling interests</b>	<b>375</b>	<b>358</b>
<b>Net income attributable to TDK</b>	<b>¥ 32,674</b>	<b>¥ 30,689</b>

#### Amounts per share:

	Yen	
	Six-month ended September 30, 2016	Six-month ended September 30, 2017
Net income attributable to TDK per share (Note 12):		
Basic	¥ 259.01	¥ 243.15
Diluted	254.26	242.56
Cash dividends paid during the period	¥ 60.00	¥ 60.00

#### Consolidated statements of comprehensive income (loss)

	Yen (Millions)	
	Six-month ended September 30, 2016	Six-month ended September 30, 2017
Net income	¥ 33,049	¥ 31,047
Other comprehensive income (loss), net of taxes (Note 11):		
Foreign currencies translation adjustments	(95,260)	14,380
Pension liability adjustments	2,016	1,956
Net unrealized gains (losses) on securities	(826)	(247)
<b>Total other comprehensive income (loss)</b>	<b>(94,070)</b>	<b>16,089</b>
<b>Comprehensive income (loss) (Note 10)</b>	<b>(61,021)</b>	<b>47,136</b>
Comprehensive income (loss) attributable to noncontrolling interests	(557)	404
<b>Comprehensive income (loss) attributable to TDK</b>	<b>¥ (60,464)</b>	<b>¥ 46,732</b>

See accompanying notes to consolidated financial statements.

For the Three-month ended September 30, 2016 and 2017  
Consolidated statements of income

	Yen (Millions)	
	Three-month ended September 30, 2016	Three-month ended September 30, 2017
Net sales	¥ 300,412	¥ 334,045
Cost of sales	215,973	243,160
<b>Gross profit</b>	<b>84,439</b>	<b>90,885</b>
Selling, general and administrative expenses	55,469	65,442
Other operating expense (income) (Note 1)	1,159	(1,188)
<b>Operating income</b>	<b>27,811</b>	<b>26,631</b>
<b>Other income (deductions):</b>		
Interest and dividend income	933	1,635
Interest expense	(770)	(1,230)
Foreign exchange gain (loss)	(168)	120
Other - net	138	162
<b>Total other income (deductions)</b>	<b>133</b>	<b>687</b>
<b>Income before income taxes</b>	<b>27,944</b>	<b>27,318</b>
Income taxes	7,482	7,445
<b>Net income</b>	<b>20,462</b>	<b>19,873</b>
Less: Net income attributable to noncontrolling interests	189	139
<b>Net income attributable to TDK</b>	<b>¥ 20,273</b>	<b>¥ 19,734</b>

Amounts per share:

	Yen	
	Three-month ended September 30, 2016	Three-month ended September 30, 2017
Net income attributable to TDK per share (Note 12):		
Basic	¥ 160.71	¥ 156.35
Diluted	157.61	155.96
Cash dividends paid during the period	¥ -	¥ -

Consolidated statements of comprehensive income

	Yen (Millions)	
	Three-month ended September 30, 2016	Three-month ended September 30, 2017
Net income	¥ 20,462	¥ 19,873
Other comprehensive income (loss), net of taxes (Note 11):		
Foreign currencies translation adjustments	(14,009)	10,944
Pension liability adjustments	1,081	966
Net unrealized gains (losses) on securities	649	57
Total other comprehensive income (loss)	(12,279)	11,967
Comprehensive income (Note 10)	8,183	31,840
Comprehensive income attributable to noncontrolling interests	91	174
<b>Comprehensive income attributable to TDK</b>	<b>¥ 8,092</b>	<b>¥ 31,666</b>

See accompanying notes to consolidated financial statements.

### 3) Consolidated statements of cash flows (Unaudited)

	Yen (Millions)	
	Six-month ended September 30, 2016	Six-month ended September 30, 2017
<b>Cash flows from operating activities:</b>		
Net income	¥ 33,049	¥ 31,047
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	41,376	43,249
Changes in assets and liabilities:		
Decrease (increase) in trade receivables	(66,594)	(72,278)
Decrease (increase) in inventories	(9,834)	(32,601)
Increase (decrease) in trade payables	64,450	44,881
Increase (decrease) in accrued expenses	2,746	(2,935)
Decrease (increase) in other assets and liabilities, net	(12,812)	(19,699)
Other - net	2,219	(2,510)
Net cash provided by (used in) operating activities	<u>54,600</u>	<u>(10,846)</u>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(87,839)	(84,677)
Proceeds from sales of tangible and intangible assets	6,776	6,221
Proceeds from sale and maturity of short-term investments	19,393	80,804
Payment for purchase of short-term investments	(19,630)	(101,724)
Proceeds from sale and maturity of securities	86	23,679
Payment for purchase of securities	(450)	(791)
Proceeds from sale of business	-	18,047
Acquisition of subsidiaries, net of cash acquired	-	(138,847)
Payment for escrow deposit for purchase of shares of subsidiaries	(5,569)	-
Other - net	(309)	(1,497)
Net cash used in investing activities	<u>(87,542)</u>	<u>(198,785)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from long-term debt	41,228	146,811
Repayment of long-term debt	(35,293)	(43,097)
Increase (decrease) in short-term debt, net	71,412	56,147
Dividends paid	(7,563)	(7,566)
Acquisition of noncontrolling interests	(7,496)	(8,795)
Other - net	46	(162)
Net cash provided by financing activities	<u>62,334</u>	<u>143,338</u>
Effect of exchange rate changes on cash and cash equivalents	(30,140)	6,535
Net decrease in cash and cash equivalents	(748)	(59,758)
Cash and cash equivalents at beginning of period	285,468	330,388
Cash and cash equivalents at end of period	<u>¥ 284,720</u>	<u>¥ 270,630</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' books of accounts are 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 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").

#### (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 where TDK exercises significant influence over their operating and financial policies are accounted for using the equity method of accounting. All significant intercompany profits from transactions with these affiliates have been eliminated.

#### (c) Adoption of New Accounting Standards

##### Simplifying the Measurement of Inventory

In July 2015, Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-11 "Simplifying the Measurement of Inventory".

This ASU applies to all inventories except for which is measured using last-in, first-out (LIFO) or the retail inventory method, and requires an entity to measure inventory at the lower of cost and net realizable value. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. TDK adopted this ASU prospectively from April 1, 2017.

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

##### Simplifying the Test for Goodwill Impairment

In January 2017, FASB issued ASU 2017-04 "Simplifying the Test for Goodwill Impairment". This ASU eliminates Step 2 of the goodwill impairment test, instead requires an entity to recognize an impairment charge for the amount by which the carrying amount of a reporting unit exceeds its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. TDK early adopted this ASU prospectively from April 1, 2017.

The adoption of this ASU did not have impacts on TDK's results of operations and financial position for the six-month and the three-month ended September 30, 2017.

#### (d) Other operating expense (income)

Other operating expense (income) for the six-month ended September 30, 2016 and 2017 are as follows:

	Yen (Millions)	
	Six-month ended September 30, 2016	Six-month ended September 30, 2017
Gain on sale of business (Note 14)	¥ 1,271	¥ (2,935)
Impairment of long-lived assets	846	25
Other operating expense (income) total	¥ 2,117	¥ (2,910)

Other operating expense (income) for the three-month ended September 30, 2016 and 2017 are as follows:

	Yen (Millions)	
	Three-month ended September 30, 2016	Three-month ended September 30, 2017
Gain on sale of business (Note 14)	¥ 631	¥ (1,195)
Impairment of long-lived assets	528	7
Other operating expense (income) total	¥ 1,159	¥ (1,188)

**(e) Subsequent Events**

TDK has evaluated the subsequent events through November 10, 2017, the date on which the consolidated financial statements are available to be issued.

**(f) 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 six-month and the three-month ended June 30, 2017.

## 2. Marketable Securities and Investments in Securities

Marketable securities and investments in securities as of March 31, 2017 and September 30, 2017, are as follows:

	Yen (Millions)	
	March 31, 2017	September 30, 2017
Marketable securities	¥ -	¥ 1,099
Investments in affiliates	149,057	138,677
Other investments in securities:		
Long-term marketable securities	10,118	9,989
Nonmarketable securities	2,650	1,079
Total other investments in securities	12,768	11,068
<b>Total</b>	<b>¥ 161,825</b>	<b>¥ 150,844</b>

Marketable securities and investments in securities include available-for-sale securities. Information with respect to such securities as of March 31, 2017 and September 30, 2017, is as follows:

As of March 31, 2017	Yen (Millions)			
	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Investments (Debt securities):				
Commercial papers	¥ 25	¥ 91	¥ -	¥ 116
Public-utility bonds	2	-	-	2
Investments (Equity securities):				
Manufacturing companies	2,717	4,179	112	6,784
Other	1,147	1,042	-	2,189
Investments (Mutual funds)	936	96	5	1,027
<b>Total</b>	<b>¥ 4,827</b>	<b>¥ 5,408</b>	<b>¥ 117</b>	<b>¥ 10,118</b>

As of September 30, 2017	Yen (Millions)			
	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Marketable securities (Debt securities):				
Commercial papers	¥ 444	¥ -	¥ 0	¥ 444
Corporate bonds	599	-	1	598
Government bonds	55	2	-	57
Investments (Debt securities):				
Commercial papers	21	99	-	120
Public-utility bonds	0	-	-	0
Investments (Equity securities):				
Manufacturing companies	2,719	3,420	60	6,079
Other	1,146	1,351	-	2,497
Investments (Mutual funds)	1,191	105	3	1,293
<b>Total</b>	<b>¥ 6,175</b>	<b>¥ 4,977</b>	<b>¥ 64</b>	<b>¥ 11,088</b>

The proceeds from sale and maturity of available-for-sale securities and nonmarketable securities were ¥86 million and ¥19 million for the six-month and the three-month ended September 30, 2016, respectively. The proceeds from sale and maturity of available-for-sale securities and nonmarketable securities were ¥23,679 million and ¥3,304 million for the six-month and the three-month ended September 30, 2017, respectively. The gross realized gains on the sale and settlement of available-for-sale securities was ¥31 million and ¥2 million for the six-month and the three-month ended September 30, 2016, respectively. The gross realized gains on the sale and settlement of available-for-sale securities was ¥559

million for the six-month ended September 30, 2017, respectively. The gross realized loss on the sale and settlement of available-for-sale securities was ¥275 million for the six-month and three-month ended September 30, 2017, respectively. The costs of available-for-sale securities sold were determined on average cost basis.

As of September 30, 2017, 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 as of March 31, 2016 and September 30, 2017 totaled ¥2,650 million and ¥1,079 million, respectively.

### 3. Inventories

Inventories as of March 31, 2017 and September 30, 2017, are summarized as follows:

	Yen (Millions)	
	March 31, 2017	September 30, 2017
Finished goods	¥ 62,278	¥ 74,209
Work in process	38,582	49,026
Raw materials	53,639	76,290
Total	¥ 154,499	¥ 199,525

### 4. Cost for Retirement and Severance Benefits

Net periodic benefit cost for TDK's employee retirement and severance defined benefit plans for the six-month ended September 30, 2016 and 2017 consist of the following components:

	Yen (Millions)	
	Six-month ended September 30, 2016	Six-month ended September 30, 2017
Service cost-benefits earned during the period	¥ 4,375	¥ 4,086
Interest cost on projected benefit obligation	1,800	1,858
Expected return on plan assets	(2,147)	(2,063)
Amortization of actuarial loss	3,337	2,847
Amortization of prior service cost (benefit)	(970)	(697)
Net periodic benefit cost	¥ 6,395	¥ 6,031

Net periodic benefit cost for TDK's employee retirement and severance defined benefit plans for the three-month ended September 30, 2016 and 2017 consist of the following components:

	Yen (Millions)	
	Three-month ended September 30, 2016	Three-month ended September 30, 2017
Service cost-benefits earned during the period	¥ 2,180	¥ 2,045
Interest cost on projected benefit obligation	888	935
Expected return on plan assets	(1,071)	(1,031)
Amortization of actuarial loss	1,657	1,420
Amortization of prior service cost (benefit)	(483)	(343)
Net periodic benefit cost	¥ 3,171	¥ 3,026

## 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 as of March 31, 2017 and September 30, 2017, are as follows:

	Yen (Millions)	
	March 31, 2017	September 30, 2017
Guarantees to third parties on bank loans of employees	¥ 956	¥ 862

As of September 30, 2017, the liability recognized for the estimated fair value of TDK's obligation under the guarantee arrangement is not material.

In July 2016, competition authorities started an investigation of TDK Corporation based on suspicion of a violation of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade in connection with the HDD suspension assembly business. At this stage, it is not possible to reasonably predict the outcome of the investigation and the impact on TDK's results of operations.

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.

## 6. 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 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 six-month ended September 30, 2016 and 2017 are as follows:

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

	Yen (Millions)	
	Gains (losses) recognized in other comprehensive income on derivative (effective portion)	
	Six-month ended September 30, 2016	Six-month ended September 30, 2017
Forward foreign exchange contracts	¥ -	¥ (941)
Borrowings in local currency	-	420
Total	¥ -	¥ (521)

(2) Derivatives not designated as hedging instruments

		Yen (Millions)	
		Six-month ended September 30, 2016	Six-month ended September 30, 2017
Forward foreign exchange contracts	Foreign exchange gain (loss)	¥ (2,323)	¥ 3,650
Nondeliverable forward contracts (NDF)	Foreign exchange gain (loss)	444	(523)
Currency swap contracts	Foreign exchange gain (loss)	298	(23)
Interest rate swap contracts	Other income (deductions): Other-net	-	(99)
Currency option contracts	Foreign exchange gain (loss)	29	(58)
Commodity forward contracts	Cost of sales	161	21
Total		¥ (1,391)	¥ 2,968

The effect of derivative financial instruments on the consolidated statements of income and consolidated statements of comprehensive income (loss) for the three-month ended September 30, 2016 and 2017 are as follows:

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

	Yen (Millions)	
	Gains (losses) recognized in other comprehensive income on derivative (effective portion)	
	Three-month ended September 30, 2016	Three-month ended September 30, 2017
Forward foreign exchange contracts	¥ -	¥ (443)
Borrowings in local currency	-	(438)
Total	¥ -	¥ (881)

(2) Derivatives not designated as hedging instruments

		Yen (Millions)	
		Three-month ended September 30, 2016	Three-month ended September 30, 2017
Forward foreign exchange contracts	Foreign exchange gain (loss)	¥ (223)	¥ 1,913
Nondeliverable forward contracts (NDF)	Foreign exchange gain (loss)	(29)	(363)
Currency swap contracts	Foreign exchange gain (loss)	171	114
Interest rate swap contracts	Other income (deductions): Other-net	-	79
Currency option contracts	Foreign exchange gain (loss)	(1)	(75)
Commodity forward contracts	Cost of sales	119	27
Total		¥ 37	¥ 1,695

Notional amounts and fair value of derivative financial instruments as of March 31, 2017 and September 30, 2017 are as follows:

Yen (Millions)					
March 31, 2017					
Derivatives designated as hedging instruments:					
	Notional amounts	Asset derivatives		Liability derivatives	
		Fair value	Consolidated balance sheets item	Fair value	Consolidated balance sheets item
Forward foreign exchange contracts	¥ 133,201	¥ 752	Other current assets	¥ 27	Other current liabilities
Derivatives not designated as hedging instruments:					
	Notional amounts	Asset derivatives		Liability derivatives	
		Fair value	Consolidated balance sheets item	Fair value	Consolidated balance sheets item
Forward foreign exchange contracts	¥ 97,837	¥ 119	Other current assets	¥ 670	Other current liabilities
Nondeliverable forward contracts (NDF)	5,181	-	-	71	Other current liabilities
Currency swap contracts	17,093	188 1,351	Other current assets Other assets	- 11	- Other liabilities
Commodity forward contracts	943	186	Other current assets	-	-

Yen (Millions)					
September 30, 2017					
Derivatives designated as hedging instruments and other:					
	Notional amounts	Asset derivatives		Liability derivatives	
		Fair value	Consolidated balance sheets item	Fair value	Consolidated balance sheets item
Forward foreign exchange contracts	¥ 140,704	¥ 7,457	Other current assets	¥ -	Other current liabilities
Borrowings in local currency	67,638	-	-	-	-
Derivatives not designated as hedging instruments:					
	Notional amounts	Asset derivatives		Liability derivatives	
		Fair value	Consolidated balance sheets item	Fair value	Consolidated balance sheets item
Forward foreign exchange contracts	¥ 96,167	¥ 2,316	Other current assets	¥ 987	Other current liabilities
Nondeliverable forward contracts (NDF)	8,460	-	-	65	Other current liabilities
Currency swap contracts	22,056	16 1,414	Other current assets Other assets	82 38	Other current liabilities Other liabilities
Interest rate swap contracts	33,819	-	-	99	Other liabilities
Commodity forward contracts	361	103	Other current assets	7	Other current liabilities



## **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, 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 receivable included in other assets are estimated based on the amount of future cash flows associated with the instrument discounted using the 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 receivable are 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.

### **(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 as of March 31, 2017 and September 30, 2017, are summarized as follows:

As of March 31, 2017	Yen (Millions)	
	Carrying amount	Estimated fair value
Assets:		
Other investments in securities and other assets	¥ 24,156	¥ 24,156
Liability:		
Long-term debt, including current portion (excluding lease obligations)	(250,969)	(250,289)
As of September 30, 2017	Yen (Millions)	
	Carrying amount	Estimated fair value
Assets:		
Marketable securities	¥ 1,099	¥ 1,099
Other investments in securities and other assets	25,069	25,069
Liability:		
Long-term debt, including current portion (excluding lease obligations)	(377,468)	(376,596)

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

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, 2017 and September 30, 2017 are as follows:

As of March 31, 2017	Yen (Millions)			Total
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Derivative contracts:				
Forward foreign exchange contracts	¥ -	¥ 871	¥ -	¥ 871
Currency swap contracts	-	1,539	-	1,539
Commodity forward contracts	-	186	-	186
Investments (Debt securities):				
Commercial papers	-	116	-	116
Public-utility bonds	2	-	-	2
Investments (Equity securities):				
Manufacturing companies	6,784	-	-	6,784
Other	2,189	-	-	2,189
Investments (Mutual funds)	1,027	-	-	1,027
Rabbi trust investments	6,850	-	-	6,850
Total	¥ 16,852	¥ 2,712	¥ -	¥ 19,564
<b>Liabilities:</b>				
Derivative contracts:				
Forward foreign exchange contracts	¥ -	¥ 697	¥ -	¥ 697
Non-deliverable forward contracts (NDF)	-	71	-	71
Currency swap contracts	-	11	-	11
Total	¥ -	¥ 779	¥ -	¥ 779

As of September 30, 2017	Yen (Millions)			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Marketable securities (Debt securities):				
Government bonds	¥ 57	¥ -	¥ -	¥ 57
Commercial papers	-	444	-	444
Corporate bonds	-	598	-	598
Derivative contracts:				
Forward foreign exchange contracts	-	9,773	-	9,773
Currency swap contracts	-	1,430	-	1,430
Commodity forward contracts	-	103	-	103
Investments (Debt securities):				
Commercial papers	-	120	-	120
Public-utility bonds	0	-	-	0
Investments (Equity securities):				
Manufacturing companies	6,079	-	-	6,079
Other	2,497	-	-	2,497
Investments (Mutual funds)	1,293	-	-	1,293
Rabbi trust investments	6,211	-	-	6,211
Total	¥ 16,137	¥ 12,468	¥ -	¥ 28,605
<b>Liabilities:</b>				
Derivative contracts:				
Forward foreign exchange contracts	¥ -	¥ 987	¥ -	¥ 987
Non-deliverable forward contracts (NDF)	-	65	-	65
Currency swap contracts	-	120	-	120
Interest rate swap contracts	-	99	-	99
Commodity forward contracts	-	7	-	7
Total	¥ -	¥ 1,278	¥ -	¥ 1,278

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, Non-deliverable forward contracts (NDF), 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.

## 9. Goodwill and Other Intangible Assets

The components of acquired intangible assets excluding goodwill as of March 31, 2017 and September 30, 2017 are as follows:

As of March 31, 2017	Yen (Millions)		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<b>Amortizable intangible assets:</b>			
Patent	¥ 17,016	¥ 7,069	¥ 9,947
Customer relationships	21,510	17,307	4,203
Software	31,832	14,642	17,190
Unpatented technologies	25,170	17,853	7,317
Other	11,339	2,642	8,697
<b>Total</b>	<b>¥ 106,867</b>	<b>¥ 59,513</b>	<b>¥ 47,354</b>
<b>Nonamortizable intangible assets:</b>			
Trademark	¥ 3,087		¥ 3,087
Other	1,380		1,380
<b>Total</b>	<b>¥ 4,467</b>		<b>¥ 4,467</b>
<b>As of September 30, 2017</b>	Yen (Millions)		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<b>Amortizable intangible assets:</b>			
Patent	¥ 21,545	¥ 6,494	¥ 15,051
Customer relationships	23,431	18,779	4,652
Software	33,104	14,430	18,674
Unpatented technologies	31,643	20,595	11,048
Other	11,684	2,841	8,843
<b>Total</b>	<b>¥ 121,407</b>	<b>¥ 63,139</b>	<b>¥ 58,268</b>
<b>Nonamortizable intangible assets:</b>			
Trademark	¥ 3,452		¥ 3,452
Other	919		919
<b>Total</b>	<b>¥ 4,371</b>		<b>¥ 4,371</b>

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 six-month ended September 30, 2017 was ¥4,963 million.

The purchase price allocation in relation to the acquisition of Tronics Microsystems SA and its subsidiaries was performed based on the available information as of the date on which the consolidated financial statements were issued. The goodwill related to the Sensor Application Products segment was provisionally stated at ¥2,429 million and customer relationships, unpatented technologies and other amortizable intangible assets were provisionally stated at ¥778 million, ¥1,285 million and ¥150 million respectively as of June 30, 2017.

As a result of the completion of the allocation of the acquisition cost during the six-month ended September 30, 2017, the carrying amount of goodwill was modified to ¥2,537 million and the modified amounts for customer relationships, unpatented technologies and other amortizable intangible assets were ¥663 million, ¥1,303 million and ¥150 million respectively.

The purchase price allocation in relation to the acquisition of ICsense NV was performed based on the available information as of the date on which the consolidated financial statements were issued. The goodwill related to the Sensor Application Products segment was provisionally stated at ¥1,878 million as of June 30, 2017.

As a result of the completion of the allocation of the acquisition cost during the six-month ended September 30, 2017, the carrying amount of goodwill was modified to ¥1,515 million and the modified amounts for customer relationships and software were ¥503 million and ¥52 million respectively.

The purchase price allocation in relation to the acquisition of InvenSense, Inc. and its

subsidiaries was performed based on the available information as of the date on which the consolidated financial statements were issued. The goodwill related to the Sensor Application Products segment was provisionally stated at ¥126,547 million and customer relationships, software, unpatented technologies and other amortizable intangible assets were provisionally stated at ¥87 million, ¥162 million, ¥3,942 million and ¥173 million respectively as of September 30, 2017. The amounts were still provisional as the purchase price allocation had not been completed as of September 30, 2017.

The details of the acquisitions are disclosed in Note 13 of the Notes to Consolidated Financial Statements.



Net income attributable to TDK and transfers (to) from noncontrolling interests for the six-month ended September 30, 2016 and 2017 are as follows:

	Yen (Millions)	
	Six-month ended	
	September 30,	
	2016	2017
Net income attributable to TDK	¥ 32,674	¥ <b>30,689</b>
Decrease in TDK's additional paid-in capital for purchase of Amperex Technology Ltd.'s common shares from third parties	(5,805)	(6,893)
Increase in TDK's additional paid-in capital for purchase of Tronics Microsystems SA's common shares from third parties	-	0
Decrease in TDK's additional paid-in capital for purchase of Micronas Semiconductor Holding AG's common shares from third parties	(173)	-
Net transfers (to) from noncontrolling interests	(5,978)	(6,893)
Changes arising from net income attributable to TDK and transfers (to) from noncontrolling interests	¥ 26,696	¥ <b>23,796</b>



## 11. Other Comprehensive Income (Loss)

The changes in the carrying amount of accumulated other comprehensive income (loss) for the six-month ended September 30, 2016 and 2017 are as follows:

	Yen (Millions)			
	Foreign currency translation adjustments	Pension liability adjustments	Net unrealized gains (losses) on securities	Total
March 31, 2016	¥ (21,309)	¥ (84,885)	¥ 3,909	¥ (102,285)
Equity transaction of consolidated subsidiaries and other	(25)	-	-	(25)
Other comprehensive income (loss) before reclassifications	(94,509)	(149)	(795)	(95,453)
Amounts reclassified from accumulated other comprehensive income (loss)	(751)	2,165	(31)	1,383
Other comprehensive income (loss)	(95,260)	2,016	(826)	(94,070)
Other comprehensive income (loss) attributable to noncontrolling interests	(932)	0	-	(932)
September 30, 2016	¥ (115,662)	¥ (82,869)	¥ 3,083	¥ (195,448)

	Yen (Millions)			
	Foreign currency translation adjustments	Pension liability adjustments	Net unrealized gains (losses) on securities	Total
<b>March 31, 2017</b>	<b>¥ (40,789)</b>	<b>¥ (71,421)</b>	<b>¥ 3,635</b>	<b>¥ (108,575)</b>
Equity transaction of consolidated subsidiaries and other	73	-	-	73
Other comprehensive income (loss) before reclassifications	14,380	29	(246)	14,163
Amounts reclassified from accumulated other comprehensive income (loss)	-	1,927	(1)	1,926
Other comprehensive income (loss)	14,380	1,956	(247)	16,089
Other comprehensive income (loss) attributable to noncontrolling interests	46	0	-	46
September 30, 2017	¥ (26,382)	¥ (69,465)	¥ 3,388	¥ (92,459)

The reclassifications out of accumulated other comprehensive income (loss) for the six-month ended September 30, 2016 and 2017 are as follows:

For the six-month ended September 30,	Amount reclassified from accumulated other comprehensive income (loss) *1		Affected line items in consolidated statements of income
	2016	2017	
Foreign currencies translation	¥ 751	¥ -	*2
	-	-	Tax (expense) or benefit
	<u>751</u>	<u>-</u>	Net of tax
Pension liability adjustments:	¥ (2,362)	¥ (2,156)	*2
	197	229	Tax (expense) or benefit
	<u>(2,165)</u>	<u>(1,927)</u>	Net of tax
Net unrealized gains (losses) on securities:	31	1	Others
	-	-	Tax (expense) or benefit
	<u>31</u>	<u>1</u>	Net of tax
Total amount reclassified, net of tax	<u>¥ (1,383)</u>	<u>¥ (1,926)</u>	

\*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 for TDK's employee retirement and severance defined benefit plans that is presented in Note 4 of the Notes to Consolidated Financial Statements.

The reclassifications out of accumulated other comprehensive income (loss) for the six-month ended September 30, 2016 and 2017 are as follows:

For the three-month ended September 30,	Amount reclassified from accumulated other comprehensive income (loss) *1		Affected line items in consolidated statements of income
	2016	2017	
Foreign currencies translation	¥ 751	¥ -	*2
	-	-	Tax (expense) or benefit
	<u>751</u>	<u>-</u>	Net of tax
Pension liability adjustments:	¥ (1,172)	¥ (1,080)	*2
	91	114	Tax (expense) or benefit
	<u>(1,081)</u>	<u>(966)</u>	Net of tax
Net unrealized gains (losses) on securities:	2	0	Others
	-	-	Tax (expense) or benefit
	<u>2</u>	<u>0</u>	Net of tax
Total amount reclassified, net of tax	<u>¥ (328)</u>	<u>¥ (966)</u>	

\*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 for TDK's employee retirement and severance defined benefit plans that is presented in Note 4 of the Notes to Consolidated Financial Statements.

Tax effects allocated to each component of other comprehensive income (loss) and reclassification adjustments for the six-month ended September 30, 2016 and, 2017 are as follows:

For the six-month ended September 30, 2016	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	¥ (94,600)	¥ 91	¥ (94,509)
Reclassification adjustments for the portion of gains and losses realized upon sale or liquidation of investments in foreign entities	(751)	-	(751)
Net foreign currency translation adjustments	(95,351)	91	(95,260)
Pension liability adjustments:			
Amount arising during the period	(152)	3	(149)
Reclassification adjustments for amortization	2,362	(197)	2,165
Net pension liability adjustments	2,210	(194)	2,016
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the period	(1,176)	381	(795)
Reclassification adjustment	(31)	-	(31)
Net unrealized gains (losses)	(1,207)	381	(826)
Other comprehensive income (loss)	¥ (94,348)	¥ 278	¥ (94,070)

For the six-month ended September 30, 2017	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	¥ 12,593	¥ 1,787	¥ 14,380
Net foreign currency translation adjustments	12,593	1,787	14,380
Pension liability adjustments:			
Amount arising during the period	29	(0)	29
Reclassification adjustments for amortization	2,156	(229)	1,927
Net pension liability adjustments	2,185	(229)	1,956
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the period	(374)	128	(246)
Reclassification adjustment	(1)	-	(1)
Net unrealized gains (losses)	(375)	128	(247)
Other comprehensive income (loss)	¥ 14,403	¥ 1,686	¥ 16,089

Tax effects allocated to each component of other comprehensive income (loss) and reclassification adjustments for the three-month ended September 30, 2016 and 2017 are as follows:

For the three-month ended September 30, 2016	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	¥ (13,301)	¥ 43	¥ (13,258)
Reclassification adjustments for the portion of gains and losses realized upon sale or liquidation of investments in foreign entities	(751)	-	(751)
Net foreign currency translation adjustments	(14,052)	43	(14,009)
Pension liability adjustments:			
Amount arising during the period	-	-	-
Reclassification adjustments for amortization	1,172	(91)	1,081
Net pension liability adjustments	1,172	(91)	1,081
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the period	918	(267)	651
Reclassification adjustment	(2)	-	(2)
Net unrealized gains (losses)	916	(267)	649
Other comprehensive income (loss)	¥ (11,964)	¥ (315)	¥ (12,279)

For the three-month ended September 30, 2017	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	¥ 10,458	¥ 486	¥ 10,944
Net foreign currency translation adjustments	10,458	486	10,944
Pension liability adjustments:			
Amount arising during the period	-	-	-
Reclassification adjustments for amortization	1,080	(114)	966
Net pension liability adjustments	1,080	(114)	966
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the period	66	(9)	57
Reclassification adjustment	0	-	0
Net unrealized gains (losses)	66	(9)	57
Other comprehensive income (loss)	¥ 11,604	¥ 363	¥ 11,967

## 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)			
	Six-month ended September 30, 2016		Six-month ended September 30, 2017	
	Basic	Diluted	Basic	Diluted
Net income attributable to TDK	¥ 32,674	¥ 32,146	¥ 30,689	¥ 30,689
	Number of shares (Thousands)			
Weighted average common shares outstanding	126,150	126,150	126,215	126,215
Incremental shares arising from the exercise of stock option	-	281	-	305
Weighted average common shares outstanding – Total	126,150	126,431	126,215	126,520
	Yen			
Per common share:				
Net income attributable to TDK	¥ 259.01	¥ 254.26	¥ 243.15	¥ 242.56
	Yen (Millions)			
	Three-month ended September 30, 2016		Three-month ended September 30, 2017	
	Basic	Diluted	Basic	Diluted
Net income attributable to TDK	¥ 20,273	¥ 19,928	¥ 19,734	¥ 19,734
	Number of shares (Thousands)			
Weighted average common shares outstanding	126,147	126,147	126,216	126,216
Incremental shares arising from the exercise of stock option	-	291	-	317
Weighted average common shares outstanding – Total	126,147	126,438	126,216	126,533
	Yen			
Per common share:				
Net income attributable to TDK	¥ 160.71	¥ 157.61	¥ 156.35	¥ 155.96

The decline of net income attributable to TDK for the six-month and the three-month ended September 30, 2016 was caused by a diluted effect of stock options issued by a subsidiary of TDK Corporation.

For the six-month and the three-month ended September 30, 2016 and 2017, certain stock options issued by TDK Corporation were excluded from the diluted per share calculation of 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 net income attributable to TDK for the six-month and the three-month ended September 30, 2016 as it was not probable that the performance condition would be achieved as of September 30, 2016.

### 13. Acquisition

#### (1) Hutchinson Technology Incorporated (“HTI”)

On October 5, 2016 (“acquisition date”), TDK acquired 33,942 thousand shares (100% of equity interest) of HTI at a cost of ¥14,262 million, which was paid in cash, in accordance with an acquisition agreement dated November 1, 2015. As a result, HTI and its subsidiaries became consolidated subsidiaries of TDK Corporation.

The acquisition-related costs of ¥1,347 million were recognized as a part of selling, general and administrative expenses.

HTI is headquartered in Minnesota, U.S.A., and its primary businesses are designing, manufacturing, and sales of HDD suspension and its components.

The purpose of acquisition is to strengthen TDK’s HDD suspension assemble business and HDD head business.

The following table summarizes the assets acquired and liabilities assumed at the acquisition date. As of March 31, 2017, the allocation of the acquisition cost had been completed.

	Yen (millions)
	Fair values
Current assets	8,502
Net property, plant and equipment	10,925
Intangible assets	2,807
Investments in securities and Other assets	4,247
Total assets	26,481
Current liabilities	17,520
Noncurrent liabilities	508
Total liabilities	18,028
Net assets acquired	8,453
Goodwill	5,809
Total	14,262

Other intangible assets acquired mainly include technologies of ¥1,409 million, which are subject to amortization. TDK had estimated the amortization period for technologies to be 3 years. Goodwill recognized of ¥5,809 million was attributable primarily to the expected synergies from combining operations of HTI and TDK. The goodwill is not deductible for tax purpose.

Although TDK included the results of operations of HTI and its subsidiaries subsequent to the acquisition date in its consolidated financial statements, the results were not material. The effect of the acquisition to net sales and net income attributable to TDK for the six-month ended September 30, 2016 as though the acquisition had occurred at the beginning of the year ended March 31, 2017 were not material either.

## (2) Tronics Microsystems SA (“Tronics”)

On December 27, 2016 (“acquisition date”), TDK acquired 2,546 thousand shares (72.78% of equity interest) of Tronics at a cost of ¥4,107 million, which was paid in cash, through a public tender in accordance with a transaction agreement dated August 1, 2016. As a result, Tronics and its subsidiaries became consolidated subsidiaries of TDK Corporation. The acquisition-related costs of ¥94 million were recognized as a part of selling, general and administrative expenses.

Tronics is headquartered in Crolles, France, and its primary businesses are R&D, manufacturing, and sales of MEMS (Micro Electro Mechanical System) sensors.

Through the acquisition of Tronics, TDK broadens its portfolio of cutting-edge sensor technologies and strengthens its basis for faster growth in the strategic field of sensors.

The following table summarizes the assets acquired and liabilities assumed at the acquisition date. As of September 30, 2017, the allocation of the acquisition cost had been completed. The fair value of noncontrolling interests was measured based on the market price of the common shares of Tronics as of the acquisition date.

	Yen (millions)
	Fair values
Current assets	1,470
Net property, plant and equipment	780
Intangible assets	2,116
Investments in securities and Other assets	107
Total assets	4,473
Current liabilities	578
Noncurrent liabilities	788
Total liabilities	1,366
Noncontrolling interests	1,537
Net assets acquired	1,570
Goodwill	2,537
Total	4,107

Other intangible assets acquired mainly include technologies of ¥1,303 million, which are subject to amortization. TDK had estimated the amortization period for technologies to be 15 years. Goodwill recognized of ¥2,537 million was attributable primarily to expected synergies from combining operations of Tronics and TDK. The goodwill is not deductible for tax purpose.

As of September 30, 2017, TDK held 2,752 thousand shares (74.7% of equity interest) of Tronics at a cost of ¥4,439 million, which was paid in cash.

Although TDK included the results of operations of Tronics and its subsidiaries subsequent to the acquisition date in its consolidated financial statements, the results were not material. The effect of the acquisition to net sales and net income attributable to TDK for the six-month ended September 30, 2016 as though the acquisition had occurred at the beginning of the year ended March 31, 2017 were not material either.



### (3) ICsense NV (“ICsense”)

On March 22, 2017 (“acquisition date”), TDK acquired 17 thousand shares (100% of equity interest) of ICsense at a cost of ¥2,396 million, which was paid in cash, in accordance with a share acquisition agreement. As a result, ICsense became a consolidated subsidiary of TDK Corporation.

The acquisition-related costs of ¥25 million were recognized as a part of selling, general and administrative expenses.

ICsense is headquartered in Leuven, Belgium, and its primary businesses are development and supply of ASICs, as well as design of custom ICs.

Through the acquisition of ICsense, TDK broadens its portfolio of cutting-edge sensor technologies and expands its sensor business.

The following table summarizes the assets acquired and liabilities assumed at the acquisition date. As of September 30, 2017, the allocation of the acquisition cost had been completed.

	Yen (millions)
	Fair values
Current assets	666
Net property, plant and equipment	53
Intangible assets	555
Investments in securities and Other assets	48
Total assets	1,322
Current liabilities	254
Noncurrent liabilities	187
Total liabilities	441
Net assets acquired	881
Goodwill	1,515
Total	2,396

Other intangible assets acquired mainly include customer relationship of ¥354 million, which is amortized over ten years. Goodwill recognized of ¥1,515 million was attributable primarily to expected synergies from combining operations of ICsense and TDK. The goodwill is not deductible for tax purpose.

Although TDK included the results of operations of ICsense subsequent to the acquisition date in its consolidated financial statements, the results were not material. The effect of the acquisition to net sales and net income attributable to TDK for the six-month ended September 30, 2016 as though the acquisition had occurred at the beginning of the year ended March 31, 2017 were not material either.

#### (4) InvenSense, Inc. (“InvenSense”)

On May 18, 2017 (“acquisition date”), TDK acquired 96,253 thousand shares (100% of equity interest) of InvenSense at a cost of ¥142,758 million, which was paid in cash, in accordance with an acquisition agreement dated December 21, 2016. As a result, InvenSense and its subsidiaries became consolidated subsidiaries of TDK Corporation.

The acquisition-related costs of ¥1,194 million were recognized as a part of selling, general and administrative expenses.

InvenSense is headquartered in San Jose, California, U.S.A., and its primary businesses are Development, fabless-manufacture and sales of inertial sensors, acceleration sensors, angular velocity sensors, magnetic compasses, voice sensors etc. and control software.

Through the acquisition of InvenSense, TDK will be able to strengthen its product line-ups and technologies, which is expected to enable TDK to become a stronger player in broad based sensor solutions for IoT, automotive and ICT by accelerating the sensor product roadmap to offer innovative next generation products and platforms. In addition, sensor fusion, the combination of various sensor technologies and software creates products with enhanced added value for customers across multiple fields.

The following table summarizes the provisional fair values of the assets acquired and liabilities assumed at the acquisition date. As of November 13, 2017, the date on which the consolidated financial statements were issued, the allocation of the acquisition cost had not been completed yet.

	Yen (millions)
	Fair values
Current assets	38,048
Net property, plant and equipment	3,632
Intangible assets	4,364
Investments in securities and Other assets	565
Total assets	46,609
Current liabilities	27,679
Noncurrent liabilities	2,719
Total liabilities	30,398
Net assets acquired	16,211
Goodwill	126,547
Total	142,758

Goodwill of ¥126,547 million was recognized primarily because the acquisition cost exceeded the tentative net assets acquired as of acquisition date. The goodwill is not deductible for tax purpose.

Although TDK included the results of operations of InvenSense and its subsidiaries subsequent to the acquisition date in its consolidated financial statements, the results were not material. The effect of the acquisition to net sales and net income attributable to TDK for the six-month ended September 30, 2016 as though the acquisition had occurred at the beginning of the year ended March 31, 2017 were not material either.

#### **14. 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 EPCOS 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. An option to put and call the remaining common shares (49%) of RF360 after 30 months after the closing date is held by TDK and QGT, respectively. Contingent consideration to be recognized over several years is included in the total consideration amount, realized or realizable portion of which is recognized in other operating expense (income) of consolidated statement of income for the six month ended September 30, 2017. The remaining common shares (49%) of RF360 Holdings is recognized in consolidated balance sheet as investments in affiliates.

## 15. 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 Film Application Products segment. Operating segments which are not reportable segments are included in Other.

In addition, TDK newly established Sensor Systems Business Company on April 1, 2017, and established the Sensor Application Products segment from the three month ended June 30, 2017 in accordance with the change in the management category of certain businesses. Sensors of the Passive Components segment, Magnetic Sensors of the Magnetic Application Products segment and certain products of Other were reclassified into newly established reporting segment of the Sensor Application Products from the three month ended June 30, 2017.

Furthermore, in accordance with the reorganization for the three month ended June 30, 2017, certain products of Other were reclassified into the Passive Components segment and certain products of the Magnetic Application Products segment were reclassified into Other.

In accordance with the above, the prior year's figures are also reclassified to conform to the new segmentation.

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/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, Power Supplies, Magnets
Film Application Products	Energy Devices (Rechargeable Batteries)
Other	Mechatronics (Production Equipment), Others

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

The business segment information for the six-month ended September 30, 2016 and 2017 are as follows:

**Net sales**

	Yen (Millions)	
	Six-month ended September 30,	
	2016	2017
Passive Components:		
External customers	¥ 271,882	¥ 214,978
Intersegment	1,547	1,940
	<u>273,429</u>	<u>216,918</u>
Sensor Application Products:		
External customers	20,917	36,592
Intersegment	22	65
	<u>20,939</u>	<u>36,657</u>
Magnetic Application Products:		
External customers	156,248	165,611
Intersegment	57	96
	<u>156,305</u>	<u>165,707</u>
Film Application Products:		
External customers	116,978	183,180
Intersegment	-	-
	<u>116,978</u>	<u>183,180</u>
Other:		
External customers	13,156	23,210
Intersegment	12,756	18,034
	<u>25,912</u>	<u>41,244</u>
Intersegment eliminations	(14,382)	(20,135)
Total	<u>¥ 579,181</u>	<u>¥ 623,571</u>

**Segment profit (loss)**

	Yen (Millions)	
	Six-month ended September 30,	
	2016	2017
Passive Components	¥ 34,509	¥ 22,647
Sensor Application Products	(2,777)	(10,648)
Magnetic Application Products	9,929	10,958
Film Application Products	20,083	33,955
Other	(4,166)	(860)
	<u>57,578</u>	<u>56,052</u>
Corporate and eliminations	(13,265)	(13,783)
Operating income	44,313	42,269
Other income (deductions), net	13	1,985
Income before income taxes	<u>¥ 44,326</u>	<u>¥ 44,254</u>

The business segment information for the three-month ended September 30, 2016 and 2017 are as follows:

### Net sales

	Yen (Millions)	
	Three-month ended September 30,	
	2016	2017
Passive Components:		
External customers	¥ 139,221	¥ 111,466
Intersegment	740	1,085
	<u>139,961</u>	<u>112,551</u>
Sensor Application Products:		
External customers	10,472	20,199
Intersegment	10	17
	<u>10,482</u>	<u>20,216</u>
Magnetic Application Products:		
External customers	78,948	85,568
Intersegment	34	25
	<u>78,982</u>	<u>85,593</u>
Film Application Products:		
External customers	65,166	103,481
Intersegment	-	-
	<u>65,166</u>	<u>103,481</u>
Other:		
External customers	6,605	13,331
Intersegment	5,936	10,536
	<u>12,541</u>	<u>23,867</u>
Intersegment eliminations	(6,720)	(11,663)
Total	<u>¥ 300,412</u>	<u>¥ 334,045</u>

### Segment profit (loss)

	Yen (Millions)	
	Three-month ended September 30,	
	2016	2017
Passive Components	¥ 19,728	¥ 12,409
Sensor Application Products	(1,816)	(6,074)
Magnetic Application Products	5,839	6,120
Film Application Products	13,021	21,262
Other	(2,634)	(1,188)
	<u>34,138</u>	<u>35,529</u>
Corporate and eliminations	(6,327)	(5,898)
Operating income	27,811	26,631
Other income (deductions), net	(133)	687
Income before income taxes	<u>¥ 27,944</u>	<u>¥ 27,318</u>

Segment profit (loss) consists of net sales less cost of sales, 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.

## **Geographic Segment Information**

The geographic segment information for the six-month ended September 30, 2016 and 2017 are as follows:

### **Net sales**

	Yen (Millions)	
	Six-month ended September 30,	
	2016	2017
Japan	¥ 49,776	¥ 54,099
Americas	53,867	53,015
Europe	72,819	78,231
China	299,216	334,040
Asia and others	103,503	104,186
Total	¥ 579,181	¥ 623,571

The geographic segment information for the three-month ended September 30, 2016 and 2017 are as follows:

### **Net sales**

	Yen (Millions)	
	Three-month ended September 30,	
	2016	2017
Japan	¥ 25,640	¥ 25,566
Americas	26,691	28,766
Europe	35,558	40,647
China	160,121	187,598
Asia and others	52,402	51,468
Total	¥ 300,412	¥ 334,045

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 ..... Thailand, Philippines, Vietnam, Korea