Consolidated Results for 1Q of FY March 2017

Tetsuji Yamanishi
Corporate Officer

I'm Tetsuji Yamanishi, Corporate Officer at TDK. Thank you for taking the time to attend TDK's performance briefing for the first quarter (April to June) of the fiscal year ending March 2017. I will be presenting an overview of our consolidated results.

Key points concerning earnings for 1Q of FY March 2017

- Net sales decreased by 0.3% and operating income decreased by 8.8% year on year.
- The passive components segment secured a year on year increase in operating income, driven by an improvement in profit margin on high-frequency components.
- Both sales and operating income on rechargeable batteries increased year on year after the customer portfolio expanded and sales for new applications continued to grow.
- HDD head sales were stronger than initially projected, despite the sluggish HDD market.

First, let’s take a look at the key points concerning earnings for the first quarter. Net sales decreased by 0.3% and operating income decreased by 8.8% year on year. This was in line with the yen’s sharp appreciation since the beginning of the fiscal year.

Looking at year-on-year comparisons, TDK is susceptible to a large forex impact from the yen’s appreciation in the prevailing business environment. In the Passive Components segment and Film Application Products segment, TDK secured a year-on-year increase in operating income amid a marked deceleration in growth in the smartphone market as a whole. This result can be put down to improved profitability atop increased sales of unique products to winning customers in China, in addition to sales to North American customers.

Passive components have seen growing sales of high-frequency components along with better profitability, driving the earnings of the Passive Components segment as a whole.

In rechargeable batteries, we achieved both higher sales and operating income year on year. The main contributing factors were an expanded and more stable customer portfolio reflecting sales of unique products to winning Chinese customers and an increased share among South Korean customers, coupled with a lower dependence on North American customers. Another major contributor was growing sales for use in new applications such as drones.

In HDD heads, the HDD market was sluggish as initially expected. In this environment, HDD manufacturers are significantly changing the allocation of resources to each application. Our share of HDDs for clients increased markedly among non-captive HDD manufacturers. In anticipation of contraction in the HDD market, as a means of contributing to industry right-sizing, we are working to strengthen vertically integrated collaboration with our non-captive customers in development and manufacturing in a manner that transcends traditional boundaries. Through these collaborations and other initiatives, we are providing active support to our clients with respect to increasing HDD heads for clients. As a result, HDD head shipments in the first quarter far surpassed our initial forecast by more than 10%, with HDD head sales increasing 12% year on year.

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Consolidated Results for 1Q of FY March 2017

(Yen billions)	FY March 2016 1Q Results	FY March 2017 1Q Results	Change Yen billions	Change %
Net Sales	279.6	**278.8**	(0.8)	-0.3
Operating Income	18.1	**16.5**	(1.6)	-8.8
Operating Income Margin	6.5%	**5.9%**	-0.6 pt	-
Income before Income Taxes	18.9	**16.4**	(2.5)	-13.2
Net Income	13.1	**12.4**	(0.7)	-5.3
Earning Per Share (JPY)	103.96	**98.32**	-	-
Ex-rate US$ /JPY	121.29	**108.37**	Appreciated by 10.7%	
Ex-rate EURO /JPY	134.15	**122.41**	Appreciated by 8.8%	
Ex-rate impact to Net sales & Operating Income	Net sales：Decreased by about 31.9 billion Yen Operating income：Decreased by about 5.9 billion Yen			

Next, let’s take a look at our results for the first quarter. Net sales were 278.8 billion yen, down 0.8 billion yen, or 0.3% year on year. Operating income decreased 1.6 billion yen, or 8.8%, to 16.5 billion yen. The operating income margin was 5.9%, down 0.6 of a percentage point.

Income before income taxes was 16.4 billion, down 2.5 billion yen. Net income declined by 0.7 billion yen, or 5.3%, to 12.4 billion yen. Consequently, earning per share was 98.32.

The average exchange rate for the first quarter of fiscal 2017 was 108.37 yen against the US dollar, an appreciation of 10.7%, and 122.41 yen against the euro, an appreciation of 8.8%. In terms of the impact of these exchange rate movements, exchange rates pushed down net sales and operating income by around 31.9 billion yen and 5.9 billion yen, respectively.

As for the exchange rate sensitivity, assuming the same relationship between the yen and U.S. dollar as before, we estimate that every change of 1 yen in the exchange rate will have an impact of around 1.4 billion yen on operating income on an annual basis.

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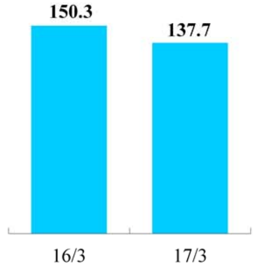
1Q Results - Passive Components Segment

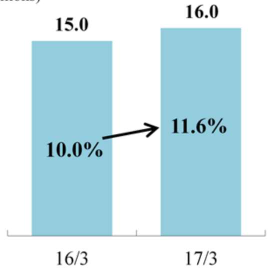
Net Sales

(Yen billions)



Operating Income (OP margin)

(Yen billions)



16/3: FY March 2016

Net Sales 137.7 billion yen (down 8.4% year on year)
Operating Income 16.0 billion yen (up 6.7% year on year)

◆ **Ceramic Capacitors**
- Sales decreased year on year.
- Sales to the automobile market increased, while sales to the ICT market decreased.

◆ **Inductive Devices**
- Sales decreased year on year.
- Sales to the automobile market increased, while sales to the ICT market decreased.

◆ **High-frequency Components**
- Sales decreased slightly year on year.
- Sales of discrete products increased, while sales of modules decreased.

◆ **Piezoelectric Material Products**
- Sales decreased year on year.
- Sales of OIS for camera modules increased.

Next, I would like to explain our business segment performance.

First, in the Passive Components segment, net sales were 137.7 billion yen, down 8.4% year on year, and operating income was 16.0 billion yen, up 6.7% year on year. The operating income margin was 11.6%. Profitability has improved sharply in step with expanding earnings, absorbing the forex impact of the yen's appreciation, and the segment is now able to steadily generate a double-digit profit margin.

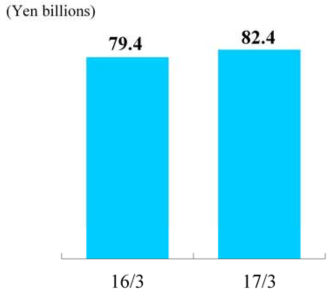
In ceramic capacitors and inductive devices, both sales and profits decreased year on year. This was mainly owing to a decrease in sales to the ICT market, particularly sales for use in smartphones, while sales to the automobile market were solid, particularly in North America, Europe and China. Sales of ceramic capacitors and inductive devices in the automotive market account for around half of the overall sales for both products.

High-frequency products continued to see favorable sales of discrete products for smartphones to major customers in North America, as well as in China and South Korea. There was also a substantial increase in earnings due to the benefits of increased productivity and an improved product mix, in addition to growth in sales volume of discrete products, although sales of high-frequency components declined as a whole due to lower sales volume of Wi-Fi modules. As a result, high-frequency components drove not only the earnings of the Passive Components segment, but also that of the Company as a whole.

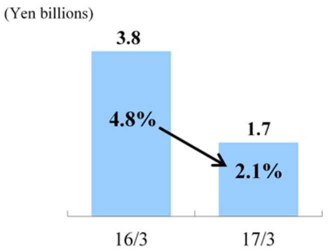
In piezoelectric material products, both sales and profits decreased year on year, due in part to the impact of the yen's appreciation, despite increased sales of OISs for camera modules to smartphone manufacturers in China.

1Q Results - Magnetic Application Products Segment

Net Sales



Operating Income (OP margin)



16/3: FY March 2016

Net Sales 82.4 billion yen (up 3.8% year on year)
Operating income 1.7 billion yen (down 55.3% year on year)

◆ HDD Heads
- Sales increased year on year.
- HDD head sales were stronger than initially projected, despite the sluggish HDD market.

◆ Magnets
- Sales decreased year on year.
- Sales to the HDD market decreased.

◆ Power Supplies
- Sales decreased year on year.
- Sales to the industrial equipment market decreased.

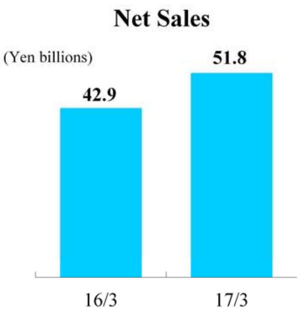
Turning to the Magnetic Application Products segment, net sales were 82.4 billion yen, an increase of 3.8% year on year. Operating income decreased more than 50% year on year to 1.7 billion yen, with an operating income margin of 2.1%.

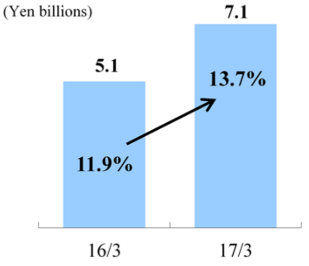
In recording devices, an increase of just over 20% in sales was included in 61.0 billion yen. This was mainly due to the switch of contract manufacturing of 3.5-inch HDDs, which TDK had been undertaking for non-captive customers, to full-turnkey sales covering manufacturing functions including in-house parts procurement, from the fiscal year under review. Another factor was the full consolidation of the sales of Micronas from fiscal 2017, which was acquired in March of the previous fiscal year. With the change in manufacturing format, shipment volume of 3.5-inch HDDs increased. Combined with an increase in HDD head shipment volume for 2.5-inch HDD clients, overall HDD head shipment volume increased 12% year on year. With HDD head shipments in the first quarter of the previous fiscal year indexed as 100, the HDD head shipment index for the first quarter of fiscal 2017 was 112, far above the initially projected 102, representing an increase of 12% year on year. In terms of profitability, earnings declined mainly due to a worsening product mix in addition to sales price reductions primarily for new products for nearline HDDs and other devices.

In magnets, conditions also remained under pressure mainly due to a decline in HDD magnet sales in line with a drop in HDD demand, and a decrease in sales of magnets for use in home electronics such as air conditioners, reflecting the decelerating Chinese economy.

In power supplies, sales declined slightly but profits increased owing to steady improvement in profitability. The increase in profits was mainly due to strong sales of power supplies to the semiconductor manufacturing equipment and measuring equipment markets.

1Q Results - Film Application Products Segment





16/3: FY March 2016

Net sales 51.8 billion yen (up 20.7% year on year)
Operating income 7.1 billion yen (up 39.2% year on year)

◆ **Energy Devices (Rechargeable Batteries)**

- Sales increased year on year.
- Sales for smartphones and new applications other than smartphones increased.
- Operating income margin also increased year on year.

Next is the Film Application Products segment. In this segment, net sales were 51.8 billion yen and operating income was 7.1 billion yen. Sales rose by 20.7% year on year and profits increased significantly by around 39.2% year on year. The segment has maintained high profitability, with an operating income margin of 13.7%.

In rechargeable batteries, there were increases in sales to winning customers in South Korea and China and sales for use in new applications such as drones. Sales to North American customers also grew steadily as initially expected. Combined with these factors, TDK has achieved much higher sales and profits as a result of meeting increased demand by executing timely investments in boosting production capacity in conjunction with increasing productivity.

Quarterly Results by Segment

		(Yen billions)	1Q of FY March 2016 (A)	4Q of FY March 2016 (B)	1Q of FY March 2017 (C)	YoY Change (C)-(A)		QoQ Change (C)-(B)	
						Yen billions	%	Yen billions	%
Net Sales		Capacitors	39.1	35.4	**34.4**	(4.7)	-12.0	(1.0)	-2.8
		Inductive Devices	39.7	36.3	**35.7**	(4.0)	-10.1	(0.6)	-1.7
		Other Passive Components	71.4	65.8	**67.6**	(3.8)	-5.3	1.8	2.7
	Passive Components		150.3	137.4	**137.7**	(12.6)	-8.4	0.3	0.2
		Recording Devices	54.6	46.0	**61.0**	6.4	11.7	15.0	32.6
		Other Magnetic Application Products	24.8	22.9	**21.4**	(3.4)	-13.7	(1.5)	-6.6
	Magnetic Application Products		79.4	68.9	**82.4**	3.0	3.8	13.5	19.6
	Film Application Products		42.9	46.1	**51.8**	8.9	20.7	5.7	12.4
	Other		7.0	10.5	**6.9**	(0.1)	-1.4	(3.6)	-34.3
	Total		279.6	262.9	**278.8**	(0.8)	-0.3	15.9	6.0
Operating Income	**Passive Components**		15.0	16.5	**16.0**	1.0	6.7	(0.5)	-3.0
	Magnetic Application Products		3.8	0.2	**1.7**	(2.1)	-55.3	1.5	750.0
	Film Application Products		5.1	5.6	**7.1**	2.0	39.2	1.5	26.8
	Other		0.0	1.2	**(1.4)**	(1.4)	-	(2.6)	-
	Sub total		23.9	23.5	**23.4**	(0.5)	-2.1	(0.1)	-0.4
	Corporate and Eliminations		(5.8)	(6.0)	**(6.9)**	(1.1)	-	(0.9)	-
	Total		18.1	17.5	**16.5**	(1.6)	-8.8	(1.0)	-5.7
Operating Income margin			6.5%	6.7%	**5.9%**	-0.6 pt	-	-0.8 pt	-

Ex-rate	US$/JPY	121.29	115.46	**108.37**
	EURO/JPY	134.15	127.37	**122.41**

Next, I would like to explain the factors behind the changes in segment net sales and operating income from the fourth quarter of the fiscal year ended March 2016 to the first quarter of the fiscal year ending March 2017. First, and once again, certain products were reclassified between segments in the fiscal year ending March 2017. Certain products in the Film Application Products segment have been reclassified to the Other segment from the fiscal year ending March 2017. The impact of this change was to increase net sales of the Other segment by 0.3 billion yen in the first quarter of the fiscal year ended March 2016. Also, certain products in the Other segment have been reclassified to the Passive Components segment from the fiscal year ending March 2017. The impact of this change was to increase net sales of the Passive Components segment by 2.5 billion yen in the first quarter of the fiscal year ended March 2016. These reclassifications had virtually no impact on operating income.

Let’s now look at the changes in each segment, beginning with the Passive Components segment. In this segment, net sales increased slightly by 0.3 billion yen, or 0.2%, from the fourth quarter. Capacitor sales were strong to the automotive market, but declined for use in ICT. In aluminum electrolytic capacitors and film capacitors, sales declined slightly from the fourth quarter for use in industrial equipment owing to the continuing impacts of decelerating economies, particularly China, and low crude oil prices. However, excluding the impact of the yen’s appreciation, sales were mostly flat. Sales of inductive devices declined by 0.6 billion yen, or 1.7%, from the fourth quarter. Sales to the automotive market and the ICT market remained strong from the fourth quarter. Excluding the impact of the yen’s appreciation, sales increased slightly. In other passive components, net sales increased by 1.8 billion yen, or 2.7%. This increase reflected substantial growth in sales of high-frequency components, driven by expanded sales to Chinese smartphone customers, in addition to strong sales to North American customers. Sales of camera modules declined due to the impact of inventory adjustments on OIS sales to Chinese customers.

Operating income in the Passive Components segment decreased by 0.5 billion yen, or 3.0% from the fourth quarter. This decrease was mainly the result of the impact of the yen’s appreciation. In this segment, we have continued to maintain a double digit operating income margin.

Next is the Magnet Application Products segment. In this segment, net sales increased by 13.5 billion yen, or 19.6%, from the fourth quarter. In sales of recording devices, the HDD head shipment index was 112 in the first quarter, up by around 20% from 93 in the fourth quarter, and net sales were up 15.0 billion yen, or 32.6%. As explained earlier, net sales were pushed up by just over approximately 20% in the first quarter as a result of the switch of contract manufacturing of 3.5-inch HDDs to full-turnkey manufacturing and the consolidation of the sales of Micronas from the first quarter of the fiscal year ending March 2017. Excluding the increases from these factors, net sales rose by approximately 6% in the first quarter compared to the fourth quarter on the basis of HDD head shipments. Sales of other magnetic application products declined by 1.5 billion yen, or 6.6%, from the fourth quarter. However, excluding the impact of the yen’s appreciation, sales remained largely flat. Operating income in the Magnetic Application Products segment increased by 1.5 billion yen from the fourth quarter. However, excluding the impact of approximately 1.8 billion yen from restructuring expenses incurred in recording devices in the fourth quarter, operating income decreased slightly. This slight decrease in earnings mainly reflected a worsening product mix, despite higher earnings from an increase in HDD head shipment volume for 2.5 inch HDDs.

Moving on to the Film Application Products segment, net sales increased by 5.7 billion yen, or 12.4%, from the fourth quarter. Sales grew substantially owing to a major contribution from sales of unique products to winning Chinese customers. In addition, strong sales to North American smartphone customers were posted in line with initial forecasts. Operating income rose by 1.5 billion yen to 7.1 billion yen, from 5.6 billion yen in the fourth quarter. We achieved significant earnings growth as an increase in marginal profit due to higher sales volume, and the pursuit of cost improvements absorbed the impact of severe sales price reductions.

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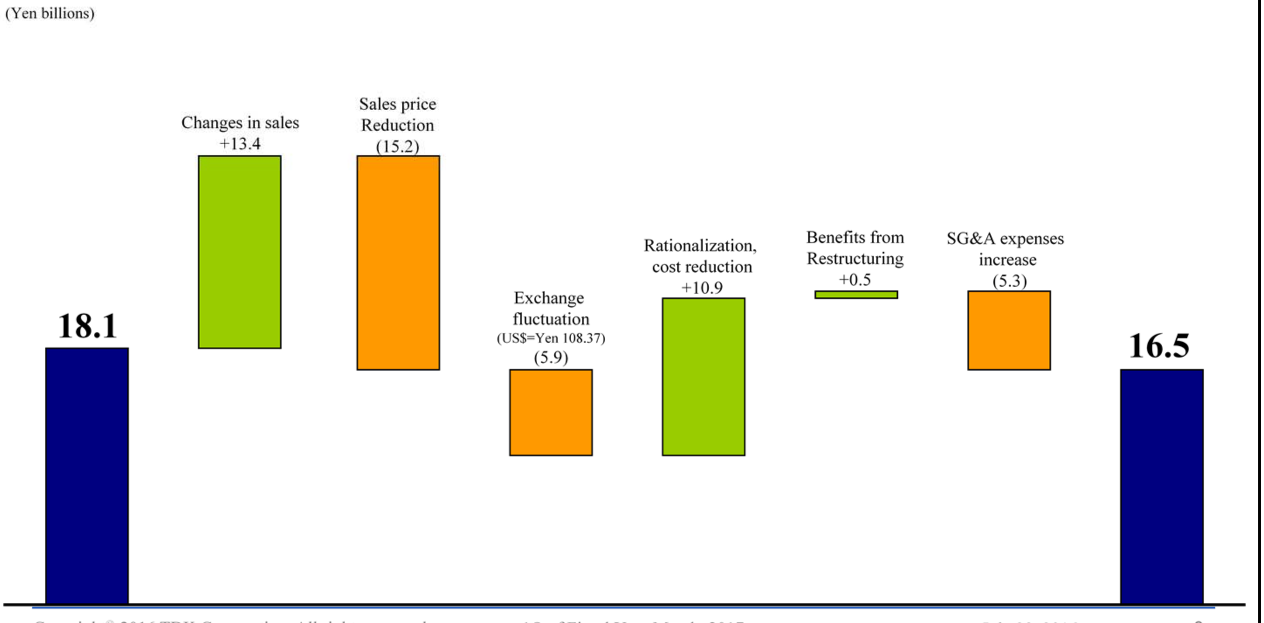
Breakdown of Operating Income Changes

1Q of FY March 2016 18.1 billion yen	Operating Income -1.6 billion yen	1Q of FY March 2017 16.5 billion yen



Next is the breakdown of changes in operating income. Looking at the factors behind the 1.6 billion yen decrease in operating income, the first factor, changes in sales, had a positive impact of approximately 13.4 billion yen, reflecting sales increases attributable to factors including capacity utilization and product mix. The main contributor here was continued strong sales of high-frequency components and rechargeable batteries for use in smartphones.

The next factor, sales price reduction, had a negative impact of approximately 15.2 billion yen. Exchange fluctuation, specifically the stronger yen, had a negative impact of approximately 5.9 billion yen on operating income. Rationalization and cost reduction, in combination with progress on boosting efficiency and improving production yields, as well as discounts on raw materials, had a positive impact of 10.9 billion yen on operating income. Benefits from restructuring lifted operating income by 0.5 billion yen.

An increase in SG&A expenses had a negative impact of 5.3 billion yen on operating income. The main contributors to this increase were an increase in expenses associated with the consolidation of Micronas, and an increase in costs related primarily to preparations for establishing a joint venture with Qualcomm. Another main contributor was an increase in research and development expenses for strengthening new product development and process development in connection with the expansion in high-frequency components and rechargeable batteries, and for promoting the TDK Monozukuri revolution.

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Projections for 2Q of FY March 2017 –Image of change in sales

(Yen billions)

Segment	1Q of FY March 2017	2Q Projections (Q on Q Change)
Passive Components	137.7	+7%～+9%
Magnetic Application Products	82.4	±0%
Film Application Products	51.8	+30%+α
Other	6.9	—
Total	278.8	+9%～+11%

		Forex assumptions
US$/Yen	108.37	110.00
EURO/Yen	122.41	125.00

Let me know discuss our image of changes in sales for the second quarter of the fiscal year ending March 2017.

Looking first at passive components, we expect steady growth in sales of products centered on capacitors and inductive devices. This outlook is based on expectations of continued strong sales of automobiles in the North American, European and the Chinese markets. In the smartphone market, we expect strong sales of products centered on high-frequency components. This outlook is mainly based on expectations of continued surging demand primarily from winning Chinese customers, and the start of full-scale shipments eyeing the launch of new devices by North American customers. Overall, net sales in the Passive Components segment are expected to increase by 7% to 9%.

In magnetic application products, we expect overall HDD demand to remain low at the initially anticipated level. However, sales to non-captive customers are projected to remain firm. The HDD head shipment index is projected to remain mostly unchanged from 112 in the first quarter to around 111 in the second quarter. As a result, net sales in the Magnetic Application Products segment are projected to remain mostly flat on the whole.

In film applications products, we expect sales of products to the Chinese market to continue growing steadily, in addition to the start of full-scale shipments eyeing the launch of new devices by North American customers. Net sales in the Film Application Products segment are projected to increase by just over 30% on the whole.

Based on these factors, we expect total net sales in the second quarter of the fiscal year ending March 2017 to increase by around 9% to 11% compared with total sales of 278.8 billion yen in the first quarter of the fiscal year ending March 2017.

FY March 2017 Full Year / Dividend Projections

TDK keeps initial projections (announced on April 28) unchanged.

(Yen billions)		FY March 2016 Full Year Results	FY March 2017 Full Year Projections	YoY Change	
				Yen billions	%
Net sales		1,152.3	**1,160.0**	7.7	0.7%
Operating income		93.4	**74.0**	(19.4)	-20.8%
Operating income margin		8.1%	**6.4%**	1.7 pt	-
Income before income taxes		91.8	**73.0**	(18.8)	-20.5%
Net income		64.8	**50.0**	(14.8)	-22.8%
Earning per share (JPY)		514.23	**396.00**	-	-
Dividends (JPY)		1st half : 60 2nd half : 60 Annual: 120	**1st half : 60 2nd half : 60 Annual : 120**	-	-
Ex-rate	US$(JPY)	120.13	**110.00**	-	
	EURO(JPY)	132.67	**125.00**	-	
Capital expenditure		160.7	**200.0**	39.3	24.5%
Depreciation and amortization		83.2	**95.0**	11.8	14.2%
Research and development		84.9	**90.0**	5.1	6.0%

Finally, our consolidated full-year projections for the fiscal year ending March 2017 are unchanged from the projections previously announced in April 2016. We are projecting net sales of 1,160.0 billion yen, operating income of 74.0 billion yen, and net income of 50.0 billion yen. For the second quarter of the fiscal year ending March 2017 onward, we are assuming an average exchange rate of 110 yen against the U.S. dollar, and 125 yen against the euro, maintaining the assumptions previously announced in April 2016.

Earlier, I explained our image of changes in sales for the second quarter. Looking ahead, we recognize that the yen could possibly appreciate further. From the second half onward, the trends in demand for the new devices of North American customers remain uncertain. However, we expect to post continued strong sales of high-frequency components and rechargeable batteries to winning Chinese customers, with overall sales to the smartphone market projected to remain largely in line with initial forecasts. In addition, we anticipate that the trends in HDD head demand that we saw in the first quarter will not change sharply through the close of the fiscal year ending March 2017. Based on these factors, we have kept our initial full-year projections for the fiscal year ending March 2017 unchanged.

That concludes my presentation. Thank you for your attention today.

Cautionary Statements with Respect to Forward-Looking Statements

This material contains forward-looking statements, including projections, plans, policies, management strategies, targets, schedules, understandings, and evaluations about TDK, or its group companies (TDK Group). These forward-looking statements are based on the current forecasts, estimates, assumptions, plans, beliefs, and evaluations of the TDK Group in light of the information currently available to it, and contain known and unknown risks, uncertainties, and other factors. The TDK Group therefore wishes to caution readers that, being subject to risks, uncertainties, and other factors, the TDK Group's actual results, performance, achievements, or financial position could be materially different from any future results, performance, achievements, or financial position expressed or implied by these forward-looking statements, and the TDK Group undertakes no obligation to publicly update or revise any forward-looking statements after the issue of this material except as provided for in laws and ordinances.

The electronics markets in which the TDK Group operates are highly susceptible to rapid changes, risks, uncertainties, and other factors that can have significant effects on the TDK Group including, but not limited to, shifts in technology, fluctuations in demand, prices, interest and foreign exchange rates, and changes in economic environments, conditions of competition, laws and regulations. Also, since the purpose of these materials is only to give readers a general outline of business performance, many numerical values are shown in units of a billion yen. Because original values, which are managed in units of a million yen, are rounded off, the totals, differences, etc. shown in these materials may appear inaccurate. If detailed figures are necessary, please refer to our financial statements and supplementary materials.

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