May 31, 2023

To Shareholders

127TH ORDINARY GENERAL MEETING OF SHAREHOLDERS

MATTERS NOT DESCRIBED IN DOCUMENTS DELIVERED UPON REQUEST AMONG MATTERS FOR WHICH ELECTRONIC PROVISION MEASURES HAVE BEEN TAKEN

1. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

2. LIST OF NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

[127th Fiscal Year (From April 1, 2022 to March 31, 2023)]

TDK Corporation
Tokyo, Japan

In accordance with laws and regulations and Article 16 of the Articles of Incorporation of the Company, the above matters are omitted from the paper media to be delivered to shareholders who have requested delivery.

Notes: 1. This is a translation from Japanese of a notice distributed to shareholders in Japan. The translation is prepared solely for the convenience of foreign shareholders. In the case of any discrepancy between the translation and the Japanese original, the latter shall prevail.

2. There are no English translations: Non-Consolidated Statement of Changes in Net Assets and List of Notes to the Non-Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

From: April l, 2022
To: March 31, 2023

(¥ in millions)

	Share capital	Capital surplus	Retained earnings	Other components of equity
Balance as of April 1, 2022	32,641	-	974,767	309,607
Comprehensive income				
Net profit	-	-	114,187	-
Other comprehensive income, net of tax	-	-	-	80,716
Total comprehensive income	-	-	114,187	80,716
Transactions with owners				
Equity transactions with non-controlling interests	-	170	-	-
Dividends paid	-	-	(37,153)	-
Transfer from retained earnings to capital surplus	-	105	(105)	-
Purchase of treasury shares	-	-	-	-
Share-based payment transactions	-	209	-	-
Exercise of share options	-	(439)	-	-
Total transactions with owners	-	45	(37,258)	-
Transfer from other components of equity to retained earnings	-	-	3,042	(3,042)
Balance as of March 31, 2023	32,641	45	1,054,738	387,281

	Treasury shares	Equity attributable to owners of parent	Non-controlling interests	Total equity
Balance as of April 1, 2022	(16,698)	1,300,317	3,438	1,303,755
Comprehensive income				
Net profit	-	114,187	114	114,301
Other comprehensive income, net of tax	-	80,716	(100)	80,616
Total comprehensive income	-	194,903	14	194,917
Transactions with owners				
Equity transactions with non-controlling interests	-	170	1,209	1,379
Dividends paid	-	(37,153)	(380)	(37,533)
Transfer from retained earnings to capital surplus	-	-	-	-
Purchase of treasury shares	(0)	(0)	-	(0)
Share-based payment transactions	-	209	140	349
Exercise of share options	439	0	-	0
Total transactions with owners	439	(36,774)	969	(35,805)
Transfer from other components of equity to retained earnings	-	-	-	-
Balance as of March 31, 2023	(16,259)	1,458,446	4,421	1,462,867

Note: The amounts are rounded to the nearest million yen.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

[Significant matters underlying preparation of the consolidated financial statements]

1. Basis of preparation of the consolidated financial statements

TDK's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as prescribed in Article 120, Paragraph 1 of the Regulation on Corporate Accounting. As prescribed in the second sentence of the Paragraph 1, certain disclosure items required under IFRS are omitted.

2. Matters concerning scope of consolidation

Number of consolidated subsidiaries	140 companies
Major subsidiaries	TDK-Lambda Corporation TDK Electronics Factories Corporation TDK China Co., Ltd. SAE Magnetics (Hong Kong) Limited TDK U.S.A. Corporation TDK Europe S.A. TDK Electronics AG Amperex Technology Limited InvenSense, Inc.

3. **Matters concerning application of equity method**

Number of associates accounted for using the equity method	6 companies
Major associates accounted for using the equity method	TODA KOGYO CORP. Semiconductor Energy Laboratory Co., Ltd. Xiamen Ampcore Technology Limited

4. Significant accounting policies

(1) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost is determined based mainly on the weighted average cost formula, and includes the costs of purchase, the costs of conversion and all other costs incurred in bringing the inventories to their present location and condition.

The net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(2) Financial instruments

I. Non-derivative financial assets

(i) Initial recognition and measurement

Regular way purchase or sale of securities is initially recognized at the settlement date, and the rest of the financial assets are initially recognized when TDK Group becomes a contractual party to the financial instruments.

Financial assets are, at initial recognition, classified into financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income or financial assets measured at fair value through profit or loss. This classification is made based on whether the financial assets are debt instruments or equity instruments.

A financial asset that is a debt instrument is classified as financial assets measured at amortized cost if both of the conditions described below are met. Otherwise, it is classified as financial assets measured at fair value through profit or loss. TDK Group does not hold debt instruments measured at fair value through other comprehensive income.

・The financial asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows

・The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

In principle, TDK Group makes an irrevocable election for financial assets that are equity instruments to present subsequent changes in fair value in other comprehensive income, except for equity instruments held for trading. These financial assets are classified as financial assets measured at fair value through other comprehensive income.

For financial assets measured at fair value through profit or loss, transaction costs are initially recognized in profit or loss when incurred. Financial assets measured at fair value through other comprehensive income and financial assets measured at amortized cost are initially measured at fair value plus the transaction costs that are directly attributable to the acquisition of the assets. Trade receivables that do not have a significant financing component are initially measured at their transaction price.

(ii) Subsequent measurement

Financial assets measured at amortized cost are measured using the effective interest method and the interest is recognized in profit or loss.

Financial assets other than those measured at amortized cost are measured at fair value. Changes in fair value of equity instruments that are classified as financial assets measured at fair value through other comprehensive income are recognized in other comprehensive income. When a financial asset is derecognized or when a decline in fair value of the financial asset below cost is significant or prolonged, cumulative gains or losses recognized in other comprehensive income are transferred to retained earnings. Dividends are recognized in profit or loss.

Changes in fair value of financial assets measured at fair value through profit or loss are recognized in profit or loss.

(iii) Impairment

A financial asset measured at amortized cost is assessed for impairment and loss allowance is recognized based on expected credit losses at each reporting date.

At the reporting date, if credit risk on the financial asset has not increased significantly since initial recognition, the loss allowance for that financial asset is measured at an amount equal to 12-month expected credit losses. If the credit risk has increased significantly since initial recognition, the loss allowance for that financial asset is measured at an amount equal to lifetime expected credit losses, taking reasonable and supportable information including forecasts into consideration.

However, the loss allowance for trade receivables is recognized at an amount equal to lifetime expected credit losses regardless of whether credit risk has increased significantly since initial recognition. The amount of expected credit losses or reversal is recognized in profit or loss.

(iv) Derecognition

When contractual rights to the cash flows from a financial asset expire, or TDK Group transfers contractual rights to receive the cash flows of that financial asset and substantially all the risks and rewards of ownership of the financial asset, the financial asset is derecognized.

II. Non-derivative financial liabilities

(i) Initial recognition and measurement

Financial liabilities are initially recognized when TDK Group becomes a contractual party to the financial instruments. Financial liabilities other than contingent considerations are classified into financial liabilities measured at amortized cost upon initial recognition. All financial liabilities are initially measured at fair value. Financial liabilities measured at amortized cost are measured at fair value less transaction costs that are directly attributable to the issue of the financial liabilities.

(ii) Subsequent measurement

Financial liabilities measured at amortized cost are measured using the effective interest method. Interest calculated using the effective interest method and gains and losses from derecognition are recognized in profit or loss.

Contingent considerations are measured at fair value and changes in the fair value are recognized in profit or loss.

(iii) Derecognition

Financial liabilities are derecognized when an obligation specified in a contract is discharged or cancelled or expires.

III. Derivatives

TDK Group enters into derivative contracts, such as forward foreign exchange contracts, to hedge the risk of foreign exchange rates fluctuations. These derivatives are initially recognized at fair value at the date of contract and subsequently remeasured at fair value. Changes in fair value of derivatives are recognized in profit or loss.

TDK Group does not apply hedge accounting to any of these derivatives.

(3) Property, plant and equipment

Property, plant and equipment is measured at its cost less accumulated depreciation and accumulated impairment losses using the cost model. The cost includes the incidental costs directly related to acquisition of the assets and the costs of site dismantlement, removal and restoration. Property, plant and equipment is depreciated using the straight-line method over its estimated useful lives.

Residual values, estimated useful lives and depreciation methods are reviewed at the end of each fiscal year. Changes in these items, if any, are applied prospectively as a change in accounting estimates.

(4) Goodwill and intangible assets

I. Goodwill

Goodwill acquired in a business combination is recorded at cost less any accumulated impairment losses.

II. Intangible assets

Intangible assets are measured using the cost model. Intangible assets with finite useful lives are recorded at cost less accumulated amortization and accumulated impairment losses, and intangible assets with indefinite useful lives are recorded at cost less accumulated impairment losses.

Intangible assets acquired separately are measured at their cost upon initial recognition. Intangible assets acquired in a business combination are recognized separately from goodwill at their acquisition-date fair values if they meet the definition of intangible assets, they are identifiable and their fair values are measured reliably.

All expenditure incurred in a research phase with the prospect of gaining new scientific or technical knowledge is expensed when it is incurred.

An expenditure incurred in a development phase is capitalized if the expenditure can demonstrate all the following criteria; otherwise, it is expensed as incurred.

・The technical feasibility of completing the intangible asset so that it will be available for use or sale
・The intention to complete the intangible asset and use or sell it
・The ability to use or sell the intangible asset
・How the intangible asset will generate probable future economic benefits
・The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset
・The ability to measure reliably the expenditure attributable to the intangible asset during its development

Intangible assets with finite useful lives are amortized using the straight-line method over their estimated useful lives.

Residual values, estimated useful lives and amortization methods are reviewed at the end of each fiscal year. Changes in these items, if any, are applied prospectively as a change in accounting estimates.

(5) Leases

TDK Group determines whether a contract is a lease contract, or if it contains a lease at inception of the contract. Some of the lease contracts include lease and non-lease components, and TDK Group accounts for them separately.

At commencement date of the lease, TDK Group as a lessee recognizes a right-of-use asset and a lease liability.

The right-of-use asset is initially measured at cost. The cost comprises the amount of the initial measurement of the lease liability adjusted for initial direct costs, lease payments made at or before the commencement date and other. After initial recognition, if the lease transfers ownership of the underlying asset to the lessee by the end of the lease term or if the cost of the right-of-use asset reflects the possibilities that the lessee will exercise a purchase option, the right-of-use asset is depreciated using the straight-line method from the commencement date to the end of the useful life of the underlying asset. Otherwise, it is depreciated from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The lease liability is measured at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease if that rate can be readily determined. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used based on the information available at the commencement date.

For short-term leases with a lease term of 12 months or less and leases of low-value assets, a right-of-use asset and a lease liability are not recognized. Instead, total lease payment is recognized as an expense over the lease term using the straight-line method.

(6) Impairment of non-financial assets

Non-financial assets (excluding inventories, deferred tax assets, etc.) are assessed for impairment at each reporting date. If any indication of impairment exists, an impairment test is performed based on recoverable amount of that asset. The recoverable amount is determined for a cash-generating unit to which the individual asset belongs, unless the asset generates cash inflows that are largely independent of those from other assets or groups of assets. A cash-generating unit is the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

An impairment test is performed for goodwill and intangible assets with indefinite useful lives at the same time every year, regardless of indications of impairment. The impairment test is also performed whenever there is an indication of impairment. When goodwill acquired in a business combination is tested for impairment, the goodwill is allocated to a cash-generating unit or a group of cash-generating units that are expected to benefit from the business combination.

For investments accounted for using the equity method, the carrying amount of the entire investment is treated as a single asset to test for impairment when there is objective evidence of impairment.

The recoverable amount of an asset, a cash-generating unit or a group of cash-generating units is the higher of its value in use and fair value less costs of disposal. In determining value in use, estimated future cash flows are discounted to their present values at pre-tax discount rates that reflect the time value of money and the risks specific to the asset.

If the recoverable amount of an asset, a cash-generating unit or a group of cash-generating units is less than its carrying amount, the carrying amount is reduced to the recoverable amount. That reduction is an impairment loss, which is recognized in profit or loss.

TDK Group assesses whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If there is such indication and the recoverable amount of the asset or the cash-generating unit exceeds its carrying amount, the impairment loss recognized in prior periods is reversed. In this case, the carrying amount of the asset is increased to its recoverable amount. The increased carrying amount does not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.

(7) Provisions

A provision is recognized when TDK Group has a present obligation, legal or constructive, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

If the effect of time value of money is material, estimated future cash flows are discounted to the present value using the discount rates that reflect the time value of money and the risks specific to the liability.

(8) Employee benefits

I. Post-employment benefits

TDK Group sponsors defined benefit plans and defined contribution plans for its employees.

Net defined benefit asset or liability is calculated as present value of defined benefit obligations less the fair value of any plan assets. The net defined benefit asset has the asset ceiling, which is the present value of future economic benefits available in the form of a cash refund or a reduction in future contributions.

The projected unit credit method is used to determine defined benefit obligations. The present value of the defined benefit obligations is calculated as expected future benefits discounted using the discount rate. The discount rate is determined by reference to market yields on high quality corporate bonds with the term similar to the estimated period of benefit. Service cost and net interest on the net defined benefit asset or liability are recognized in profit or loss. Actuarial gains and losses, and return on plan assets and any change in the effect of the asset ceiling excluding amounts included in net interest on the net defined benefit asset or liability are recognized in other comprehensive income as remeasurements of defined benefit plans in the period in which they occur and immediately transferred to retained earnings.

Past service cost is recognized in profit or loss in the period in which it occurs.

The amount of contributions required under defined contribution plans for the services rendered by employees is recognized in profit or loss and included in employee benefit expenses.

II. Short-term employee benefits

Short-term employee benefits are recognized in profit or loss at undiscounted amount during the period in which employees provide relevant services and included in employee benefit expenses.

The estimated amounts of bonuses and compensated absences are recognized as liabilities when there is a legal or constructive obligation to make payments and a reliable estimate of the amount can be made.

(9) Revenue

TDK Group recognizes revenue arising from transactions within the scope of IFRS 15 Revenue from contracts with customers based on the following five steps:

Step 1: Identify the contract with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

TDK Group sells passive components, sensor application products, magnetic application products and energy application products to global ICT related companies, manufacturers of automobile and automotive components, and manufacturers of home electrical appliances and industrial equipment. For these product sales, TDK Group recognizes revenue when products are transferred to the customers as the customers gain control over the products and performance obligation is satisfied accordingly.

Transaction price that TDK Group receives in exchange for products transferred may include variable considerations such as sales discounts, customer rewards and sales rebates. Variable consideration is included in the transaction price when uncertainty over the variable consideration is resolved to the extent that a significant reversal in the amount of revenue is not expected. Variable consideration is estimated based on past trend or other elements known as of the transaction date and is updated based on the information available at each reporting date.

The amount of consideration in exchange for transactions is received within one year from the satisfaction of the performance obligation, and the consideration does not include a significant financing component.

(10) Income taxes

Income tax expense consists of current income tax and deferred income tax and is recognized in profit or loss except to the extent that the tax arises from a business combination and a transaction or event which is recognized either in other comprehensive income or directly in equity.

Current tax is measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognized for the temporary differences between the carrying amount and tax base of assets and liabilities, the net operating loss carryforwards and the tax credit carryforwards. Deferred tax assets and liabilities are not recognized for the following temporary differences:

・Temporary differences arising from initial recognition of goodwill

・Temporary differences arising from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profits

・Deductible temporary differences arising from investments in subsidiaries and associates to the extent that it is probable that the temporary difference will not reverse in the foreseeable future or taxable profit will not be available against which the temporary difference can be utilized

・Taxable temporary differences arising from investments in subsidiaries and associates to the extent that the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the temporary differences are expected to reverse, based on tax laws that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets and deferred tax liabilities are included in non-current assets or non-current liabilities.

Deferred tax assets and deferred tax liabilities are offset if TDK Group has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Deferred tax assets are recognized for the deductible temporary differences, net operating loss carryforwards and tax credit carryforwards to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, net operating loss carryforwards and tax credit carryforwards can be utilized. Deferred tax assets are reassessed at each reporting date and reduced by the extent that it has become probable that tax benefits will not flow to TDK Group.

Uncertain tax positions are recognized as assets or liabilities at the amount reasonably estimated when it is probable that the tax positions will be sustained upon examinations by the taxation authorities.

[Notes to accounting estimates]

In preparing the consolidated financial statements in accordance with IFRS, TDK Group makes judgements, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets and liabilities and revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results may differ from these estimates, and these estimates and assumptions are regularly reviewed. The impact of changes in accounting estimates is recognized in the financial statements for the period in which the change occurs and the future periods affected by the change.

The information about the assumptions and estimates that could have a material impact on the consolidated financial statements for the fiscal year ending March 31, 2024 is as follows:

・Impairment of property, plant and equipment, goodwill and intangible assets

For the fiscal year ended March 31, 2023, an impairment loss of ¥35,064 million was recognized in the consolidated statements of profit or loss. The amount of property, plant and equipment, goodwill and intangible assets, net of impairment losses, are presented in the consolidated statements of financial position.

The impairment loss of ¥19,204 million and ¥11,832 million were recognized for property, plant and equipment related to suspension application products of Magnetic Application Products segment and EVs' power source products of Energy Application Products segment, respectively, which resulted from decreased profitability due to weak sales. Calculation methods for these estimates are set out in (6) Impairment of non-financial assets of 4. Significant accounting policies under Significant matters underlying preparation of the consolidated financial statements.

Certain assumptions are used to estimate the recoverable amounts, including future cash flows, discount rates and perpetual growth rates. TDK Group believes that these assumptions are reasonable; however, if unforeseen events in the course of business operations result in changes in these assumptions, the recoverable amounts could fall below the originally estimated amounts, which could significantly affect TDK Group's financial position and results of operations.

・Measurement of defined benefit obligations

The amount of retirement benefit liabilities recognized for the fiscal year ended March 31, 2023 is presented in the consolidated statements of financial position. The accounting policies are set out in (8) Employee benefits of 4. Significant accounting policies under Significant matters underlying preparation of the consolidated financial statements.

Employee defined benefit costs and defined benefit obligations are measured based on assumptions used by actuaries in calculating such amounts. These assumptions include discount rates, retirement rates and mortality rates which are based upon current statistical data, as well as salary growth and other factors. While TDK Group believes that its assumptions used are appropriate, differences in actual experience or changes in assumptions may affect TDK Group's future defined benefit costs and defined benefit obligations. The discount rate is determined by reference to market yields on high quality corporate bonds with a term similar to the estimated period of benefit. A decrease in the discount rate leads to an increase in defined benefit obligations. These could significantly affect TDK Group's financial position and results of operations.

・Recoverability of deferred tax assets

The amount of deferred tax assets recognized for the fiscal year ended March 31, 2023 is presented in the consolidated statements of financial position. The accounting policies are set out in (10) Income taxes of 4. Significant accounting policies under Significant matters underlying preparation of the consolidated financial statements.

The recoverability of deferred tax assets is determined by the level of future taxable profits during the periods in which these temporary differences, net operating loss carryforwards and tax credit carryforwards will be deducted. TDK Group assesses the ultimate recoverability of deferred tax assets by considering the expected timing of reversal of taxable temporary differences, estimated future taxable profits and tax planning strategies. TDK Group believes it is probable that the deferred tax assets recognized are recoverable based on the consideration of taxable profits in the previous years and the estimated taxable profits of future periods in which deferred tax assets will be used. However, in the event future projections for income are not realized or are realized in lesser amounts, or in cases where TDK Group revises the assessment of the potential for recoverability of deferred tax assets based on other factors, it would require TDK Group to decrease the portion which is not probable to recover. These events could significantly affect TDK Group's financial position and results of operations.

・Recognition and measurement of provisions, and the possibility of an outflow of future economic benefits related to contingent liabilities

The amount of provisions recognized for the fiscal year ended March 31, 2023 is presented in the consolidated statements of financial position. Details on contingent liabilities are set out in 4. Contingent liabilities under Notes to the consolidated statements of financial position. The accounting policies for provisions are set out in (7) Provisions of 4. Significant accounting policies under Significant matters underlying preparation of the consolidated financial statements.

When it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or a reliable estimate cannot be made of the amount of the obligation, a contingent liability is recognized, depending on its materiality.

The amount of provisions and contingent liabilities is determined based on the best estimates of the timing and amount of future outflows of economic benefits as of the closing date. However, if the results differ from the assumptions used in the estimates, the amount of provisions could change, which could significantly affect TDK Group’s financial position and results of operations.

(Impact of COVID-19)

Based on the external information that TDK Group has the ability to access, in the fiscal year ending March 31, 2024, socioeconomic and production activities are assumed to recover from COVID-19 in some regions.

It is also assumed that the resurgence of COVID-19 will not cause significant disruptions in TDK Group’s production activities and supply chains, including raw material procurement.

Based on these assumptions, TDK Group has made accounting estimates relating to impairment of property, plant and equipment, goodwill and intangible assets and others.

[Notes to the consolidated statements of financial position]

1. Loss allowance directly deducted from assets Trade receivables	¥2,314 million
2. Accumulated depreciation and accumulated impairment losses for property, plant and equipment	¥1,556,144 million

3. Other components of equity includes net change in fair value of equity instruments measured at fair value through other comprehensive income and exchange differences on translation of foreign operations.

4. Contingent liabilities

Several claims against TDK and certain of its subsidiaries are pending. The claims include class action lawsuits filed in the United States and Canada for violation of antitrust law associated with HDD suspension assemblies. It is not possible to make a reasonable estimate of the impact at this time. In the opinion of TDK management, any additional liability not currently provided for will not materially affect the consolidated financial position and results of operations of TDK Group.

[Notes to the consolidated statements of profit or loss]

Other operating income and other operating expenses comprise the following:

	(Millions of yen)
Government grants	7,757
Compensation income	1,798
Proceeds from sale of tangible and intangible assets	3,629
Other	6,209
Other operating income	19,393
Loss on sale of tangible and intangible assets	285
Other operating expenses	285

[Notes to the consolidated statements of changes in equity]

1. Number of shares issued

Type of shares	Opening balance	Increase	Decrease	Ending balance
Common shares	388,771 thousand shares	-	-	388,771 thousand shares

2. Number of treasury shares

Type of shares	Opening balance	Increase	Decrease	Ending balance
Common shares	9,747 thousand shares	0 thousand shares	257 thousand shares	9,490 thousand shares

The increase in the number of treasury shares was due to the purchase of shares less than one unit.

The decrease in the number of treasury shares related to the decrease of 0 thousand shares from the sale of shares less than one unit and the decrease of 257 thousand shares from the exercise of share options.

3. Dividends

(1) Dividends paid

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 24, 2022	Common shares	17,056	45	March 31, 2022	June 27, 2022
Board of Directors Meeting held on November 1, 2022	Common shares	20,097	53	September 30, 2022	December 2, 2022

(2) Dividends for which the record date is in the fiscal year ended March 31, 2023 and the effective date is in the fiscal year ending March 31, 2024

The following agenda items will be proposed at the Ordinary General Meeting of Shareholders to be held on June 22, 2023.

Type of shares	Total dividends (Millions of yen)	Sources of dividends	Dividends per share (Yen)	Record date	Effective date
Common shares	20,101	Retained earnings	53	March 31, 2023	June 23, 2023

4. Share subscription rights for the fiscal year ended March 31, 2023

Effective date	Type of shares to be issued	Number of shares to be issued
July 4, 2010	Common shares	7,200 shares
July 3, 2011	Common shares	9,300 shares
July 8, 2012	Common shares	15,300 shares
July 7, 2013	Common shares	19,500 shares
July 6, 2014	Common shares	44,100 shares
August 23, 2015	Common shares	112,800 shares
July 10, 2016	Common shares	91,500 shares
July 9, 2017	Common shares	56,400 shares
April 8, 2018	Common shares	135,300 shares
July 8, 2018	Common shares	7,200 shares
April 7, 2019	Common shares	40,800 shares
July 7, 2019	Common shares	9,600 shares
April 12, 2020	Common shares	600 shares

5. Share acquisition rights for the fiscal year ended March 31, 2023

Grant date	Type of share	Number of shares
August 20, 2021	Common shares	24,900 shares
August 20, 2021	Common shares	67,800 shares
November 8, 2021	Common shares	16,400 shares
August 26, 2022	Common shares	19,000 shares
August 26, 2022	Common shares	13,400 shares
September 9, 2022	Common shares	18,100 shares
October 7, 2022	Common shares	800 shares
October 7, 2022	Common shares	2,000 shares

[Notes to earnings per share]

Profit attributable to owners of parent	
Basic	¥114,187 million
Diluted	¥114,187 million
Weighted average number of common shares issued - basic	379,117 thousand shares
Incremental shares arising from exercise of share options	651 thousand shares
Incremental shares arising from delivery under restricted share unit plan	41 thousand shares
Incremental shares arising from delivery under performance share unit plan	7 thousand shares
Weighted average number of common shares issued - diluted	379,816 thousand shares
Earnings per share	
Basic	301.19 yen
Diluted	300.64 yen
Equity attributable to owners of parent per share	3,845.28 yen

[Notes to financial instruments]

1. Financial instruments

(1) Financial risk management

TDK Group is exposed to various risks such as credit risk, liquidity risk and market risk (including currency risk, interest rate risk and risk of market price changes). TDK Group uses derivative financial instruments, such as forward foreign exchange contracts, to hedge market risk. Derivative transactions are executed and managed based on the Group’s internal rules that stipulate the level of trading authorizations. TDK Group has a policy not to conduct speculative transactions using derivative financial instruments.

(2) Credit risk

Credit risk is the risk that counterparties to financial instruments will default on their contractual obligations and results in financial losses for TDK Group. In the course of its business operations, TDK Group is exposed to credit risks of its customers and counterparties that arise from trade receivables, other receivables and other financial assets (such as derivatives).

In order to prevent or reduce such risks, TDK Group does not hold any exposures that result in excessive concentration of credit risks.

(3) Liquidity risk

Liquidity risk is the risk that TDK Group will be unable to repay its financial obligations when due. TDK Group needs working capital primarily for manufacturing costs, such as procuring raw materials and components used in manufacturing of products, as well as for selling, general and administrative costs which include research and development costs used for continuous development of new products. In addition, the Group needs long-term capital for capital expenditures to appropriately respond to rapid technological innovations and intensified sales competition in the electronics market, and also for M&As in line with its strategies for further growth.

TDK Group’s basic policy is to ensure that it has sufficient liquidity and capital resources necessary for its business operations. TDK Group introduces a cash management system in Japan, the U.S., Europe, China and ASEAN regions to improve its capital efficiencies as well as to ensure liquidity through commitment line agreements.

(4) Currency risk

TDK Group operates businesses globally, with overseas sales ratio exceeding 90% on a consolidated basis, and many of the currencies used in the transactions are currencies other than Japanese yen, such as USD and Euro. The sudden appreciation of yen against these currencies will have an impact on profit or loss, such as decreases in sales and profits. To mitigate this risk, TDK Group is pursuing a strategy to increase the purchase of raw materials denominated in foreign currencies and to promote local procurement of materials that are consumed overseas. In addition, as assets and liabilities denominated in foreign currencies are translated into Japanese yen on the financial statements, fluctuations in foreign exchange rates have an impact on the financial statements arising from the translation differences. TDK Group is taking measures to respond to these fluctuations in foreign exchange rates, such as obtaining funding in foreign currencies and entering into forward foreign exchange contracts. However, sudden or substantial fluctuations in foreign exchange rates could have a significant impact on the Group's financial position and results of operations.

(5) Interest rate risk

TDK Group pays interest incurred in procuring funds necessary for working capital and capital expenditures in the course of its business activities. TDK Group is exposed to interest rate risk arising from changes in future cash flows when interests on variable interest loans are affected by changes in market interest rates.

TDK Group may use interest rate swap contracts to maintain a desired level of exposures to interest rate risk and to minimize interest expense. Interest-bearing liabilities consist primarily of bonds and borrowings with fixed interest rates and borrowings with variable interest rates that are hedged against risk of interest rate fluctuations through interest rate swap contracts. Therefore, the impact of interest rate risk on TDK Group’s cash flows is immaterial.

(6) Market price change risk

TDK Group is exposed to risk of share price changes as it primarily holds shares of companies with which it has business relationships for the purpose of facilitating its business activities. TDK Group regularly monitors market prices of shares held and financial conditions of the issuers to determine valuation gains and losses. In addition, the Group continuously reviews its holdings of shares, taking into account the relationships with the issuers.

Shares are classified as financial assets measured at fair value through other comprehensive income and financial assets measured at fair value through profit or loss. The impact of share price changes on other comprehensive income and profit or loss is not material.

2. Fair value measurement of financial instruments

Financial instruments measured at fair value on a recurring basis subsequent to initial recognition are classified into three levels of a fair value hierarchy based on the observability and significance of inputs used in the measurement.

In this categorization, the fair value hierarchy is defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that TDK Group has the ability to access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are available from the market for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

(1) Comparison of fair values and carrying amounts of financial instruments

Carrying amounts and fair values of financial instruments are as follows:

(Millions of yen)

	Carrying amount	Fair value
Bonds	199,399	196,447
Long-term borrowings (including current portion)	255,434	250,946

Financial instruments measured at fair value or for which the carrying amount is a reasonable approximation of fair value are not included in the table above.

The fair value of TDK Group’s bonds and long-term borrowings (including current portion) above is estimated based on the amount of their respective future cash flows discounted by the borrowing rate applied to TDK Group for similar borrowings with comparable maturity as at the closing date or based on the quoted market prices for the same or similar bonds. These financial instruments are classified as Level 2.

(2) Categorization by level of fair value hierarchy

Categorization of financial instruments measured at fair value on a recurring basis by level of fair value hierarchy is as follows:

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets				
Forward foreign exchange contracts	-	4,921	-	4,921
Currency option contracts	-	1,423	-	1,423
Commercial papers	-	34	-	34
SAFE investments	-	-	3,739	3,739
Convertible bonds	-	-	2,370	2,370
Shares	4,283	-	123,393	127,676
Mutual funds	1,394	-	-	1,394
Rabbi trust investments	8,243	-	-	8,243
Total	13,920	6,378	129,502	149,800
Financial liabilities				
Derivative financial liabilities				
Forward foreign exchange contracts	-	3,190	-	3,190
Currency option contracts	-	1	-	1
Total	-	3,191	-	3,191

Level 1 shares and mutual funds are measured at unadjusted quoted prices in active markets in which transactions occur with sufficient frequency and volume. Rabbi trust investments represent an investment in which a portion of the employees' salaries is placed into the trust and invested in financial instruments with quoted prices (require no adjustments) in active markets.

Level 2 derivatives, including forward foreign exchange contracts, currency option contracts and others, are measured at quoted prices obtained from counterparties, which are calculated using observable market inputs such as foreign currency exchange rates.

Fair values of Level 3 shares are measured mainly based on the comparable multiple valuation method or transaction cases comparison method.

For financial assets measured at fair value on a recurring basis that are classified as Level 3, significant unobservable inputs used in fair value measurement of equity instruments are primarily EBITDA multiples. As of March 31, 2023, the weighted average of EBITDA multiples is 5.3 times. If EBITDA multiples increase, fair values of shares increase. Changes in fair value resulting from changing unobservable inputs to reflect reasonably possible alternative assumptions are not material.

Transfers between levels of the fair value hierarchy are recognized as if they occurred at the end of reporting period. There are no transfers between Level 1 and Level 2.

(3) Fair value measurement of financial instruments classified as Level 3

I. Valuation process

Fair values of financial instruments are calculated by TDK Group's Finance and Accounting staff members using valuation techniques and inputs that most appropriately reflect the nature, characteristics and risks of the financial instruments in accordance with the Group's internal rules. In addition, external experts are used in the fair value measurement of financial instruments when the amount of financial instruments is significant and the measurement requires a high degree of knowledge and expertise. In order to verify results of each period-end fair value measurement of financial instruments including results of measurement by external experts, a result of the fair value fluctuation analysis is reviewed and approved by Finance and Accounting managers.

II. Reconciliation of financial instruments classified as Level 3

A reconciliation of financial instruments classified as Level 3 at the beginning and end of the period is as follows:

Financial assets	(Millions of yen)
Opening balance	104,581
Gains or losses	
Profit or loss	300
Other comprehensive income	8,497
Acquisition	11,479
Transfers from Level 3	(88)
Other	4,733
Ending balance	129,502

Transfers from Level 3 were due to listing of investees.

[Notes to revenue recognition]

TDK Group disaggregates revenue by industry segment, product and geographic segment based on contracts with customers. The following table presents disaggregation of revenue.

In accordance with the reorganization for the fiscal year ended March 31, 2023, certain products of Other are reclassified into Other passive components and certain products of Other passive components are reclassified into Capacitors and Inductive devices.

(Millions of yen)

	Japan	Americas	Europe	China	Asia and others	Total
Capacitors	22,996	45,586	53,473	76,329	41,309	239,693
Inductive devices	24,647	20,401	50,609	75,936	26,888	198,481
Other passive components	13,225	17,074	37,678	45,026	24,762	137,765
Passive Components	60,868	83,061	141,760	197,291	92,959	575,939
Sensor Application Products	19,138	13,797	27,275	84,813	24,520	169,543
Magnetic Application Products	34,850	1,099	6,036	33,708	124,880	200,573
Energy Application Products	39,978	65,331	31,857	859,276	176,913	1,173,355
Other	21,602	9,415	3,393	18,925	8,072	61,407
Net sales total	176,436	172,703	210,321	1,194,013	427,344	2,180,817

Net sales are primarily revenue recognized from contracts with customers. The revenue recognized from other sources is not material.

TDK Group sells passive components, sensor application products, magnetic application products and energy application products to global ICT related companies, manufacturers of automobile and automotive components, manufacturers of home electrical appliances and industrial equipment. For these product sales, TDK recognizes revenue when products are transferred to the customers as the customers gain control over the products and performance obligation is satisfied accordingly.

Transaction price that TDK Group receives in exchange for products transferred may include variable considerations such as sales discounts, customer rewards and sales rebates. Variable consideration is included in the transaction price when uncertainty over the variable consideration is resolved to the extent that a significant reversal in the amount of revenue is not expected. Variable consideration is estimated based on past trend or other elements known as of the transaction date and is updated based on the information available at each reporting date.

Mainly for the sale of products based on individual contracts, TDK Group recognizes the consideration received from customers that exceeds the amount already recognized as revenue as advance received until the performance obligation is satisfied by delivery of the goods. Advance received is ¥7,988 million for the fiscal year ended March 31, 2023 and included in Other current liabilities in the consolidated statements of financial position. Of the advance received as of March 31, 2022, ¥8,086 million is recognized as revenue for the fiscal year ended March 31, 2023. For the fiscal year ended March 31, 2023, the amount of revenue recognized from performance obligation that had been satisfied in the previous periods is not material.

TDK Group does not disclose information on the remaining performance obligations if they are part of the contracts with original contract term not exceeding one year, applying the practical expedient. There are no significant transactions with the individual expected contract term exceeding one year.