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Voluntary Adoption of International Financial Reporting Standards (IFRS): Impact on the Consolidated Financial Statements

TDK Corporation
Corporate Communications Group
February 22, 2022

Adoption of IFRS: Purpose and Disclosure Schedule

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Adoption of IFRS: Purpose

- To enhance the international comparability of the financial information in the capital market
- To improve the efficiency and quality of group management

Disclosure Schedule (Plan)

The voluntary adoption of International Financial Reporting Standards (“IFRS”) to its consolidated financial statements in place of the current Generally Accepted Accounting Principles in the United States (“U.S. GAAP”) will take place from the Annual Securities Report for the fiscal year ending March 31, 2022.

As for the Summary of Consolidated Financial Results and Consolidated Financial Statements under the Companies Act for the fiscal year ending March 31, 2022, these disclosure materials will be disclosed under the U.S. GAAP.

Disclosure schedule for the voluntary adoption of IFRS (plan):

<table>
<tr><th>Period</th><th colspan="2">Disclosure Materials</th><th>Accounting Standard</th></tr>
<tr><td rowspan="2">Fiscal year ending March 31, 2022</td><td rowspan="2">Year-end</td><td>Summary of Consolidated Financial Results*
Consolidated Financial Statements</td><td>U.S. GAAP</td></tr>
<tr><td>Annual Securities Reports</td><td>IFRS</td></tr>
<tr><td rowspan="2">Fiscal year ending March 31, 2023</td><td>First, Second and Third Quarter</td><td>Summary of Consolidated Quarterly Financial Results
Quarterly Report</td><td>IFRS</td></tr>
<tr><td>Year-end</td><td>Summary of Consolidated Financial Results
Consolidated Financial Statements
Annual Securities Report</td><td>IFRS</td></tr>
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*The Summary of Consolidated Financial Results for the fiscal year ending March 31, 2022 will also be disclosed under IFRS at a later date.

Changes to the Balance Sheet at the date of transition to IFRS (April 1, 2020)

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Unit: 100 million yen

	U.S. GAAP	Main impacts of adopting IFRS			IFRS
		1 Goodwill Impairment	2 Deemed Cost	Others	
Total Assets	19,434	-388	-40	3	19,009
Total Liabilities	10,948			14	10,962
Total Equity	8,486	-388	-40	-11	8,047
Total Liabilities and Equity	19,434	-388	-40	3	19,009

*Audit has not been completed for the numbers above

Main impacts of adopting IFRS

1. Goodwill Impairment

- Unit of testing impairment for goodwill is different for IFRS. The unit of testing for both accounting standards are the following:
  U.S. GAAP＝Reporting Unit (business segment or the unit which is one level below the business segment)
  IFRS ＝cash generating unit or groups of units that generate cash
- For some cash generating unit or groups of units that generate cash under IFRS – the units are smaller than the units under U.S. GAAP, so impairment loss was recognized for some of the goodwill on the date of transition to IFRS.

2. Deemed Cost

- Applied the optional exemption for deemed cost - some property, plant, and equipment has been measured at fair value as of the date of transition to IFRS, and this has been used as deemed cost

Supplementary Information for goodwill impairment

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The main impairment loss recognized at the date of transition for goodwill is mainly for groups of units that generate cash in relation to MEMS sensors (segment: Sensor Application Products).

<Background Information: Recognition of Goodwill>

The Sensor Application Products segment was found in 2017, and it is comprised of temperature and pressure sensors, magnetic sensors, and MEMS sensors. Under U.S. GAAP, goodwill amounting 106,400 million yen is booked as of the transition date to IFRS for companies acquired in 2017 such as InvenSense, Inc. (U.S.A.).

<Difference between U.S. GAAP and IFRS>

The impairment test unit for goodwill under U.S. GAAP is “reporting unit” – TDK recognized Sensor Application Products segment as 1 reporting unit when performing impairment test for goodwill.

On the other hand, the impairment test unit under IFRS is cash generating unit or groups of units that generate cash. For the Sensor Application Products segment, each business within the segment (temperature and pressure sensors / magnetic sensors / MEMS sensors) are individual impairment testing units.

<Background Information: events leading up to recognizing impairment loss>

For InvenSense, Inc. (U.S.A.), the production development has been delayed etc. for the MEMS sensors business, and it has been estimated that the recoverable amount is lower than the carrying amount for the cash generating unit as of the transition date to IFRS. Therefore, we recognized impairment loss for the MEMS sensors business. As for the comparable prior year (fiscal year ending March 2021), the recoverable amount was higher than the carrying amount, so the recognition of additional impairment loss was not necessary.

Changes to Total Equity at the date of transition to IFRS (April 1, 2020)

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Unit: 100 million yen

	U.S. GAAP	Main impacts of adopting IFRS						IFRS
		Reclassification	Goodwill Impairment	Deemed Cost	1 Retirement Benefits	2 Exchange diff on translation of foreign operations	Others	
Common Stock	326							326
Additional Paid-in Capital	18							18
Legal Reserve	453	-453						
Retained Earnings	9,711	453	-388	-40	-959	-944	-46	7,787
Accumulated Other Comprehensive Income (loss)	-1,900				957	944	37	38
Treasury stock at cost	-168							-168
Total TDK Stockholders' Equity	8,440		-388	-40	-2		-9	8,001
Noncontrolling Interests	46							46
Total Equity	8,486							8,047

*Audit has not been completed for the numbers above

Main impacts of adopting IFRS

1. Retirement Benefits

Treatment of prior service cost and actuarial gains/losses for defined benefit pension plan and lump-sum pension plan:

- U.S. GAAP: The amount that is not recognized in the net profit will be booked in accumulated other comprehensive income (loss) and amortized as a component of net periodic cost in future periods.
- IFRS: Prior service cost is recognized in net profit when the amendment occurs. Actuarial gains and losses will be booked in other comprehensive income and instantly transferred to retained earnings.

2. Exchange differences on translation of foreign operations

Applied the optional exemption – deemed the cumulative amount of the exchange differences on translation of foreign operations to be zero as of the date of translation to IFRS.

Changes to Statements of Income in the comparable prior year (Fiscal year ending March 2021)

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Unit: 100 million yen

	U.S. GAAP	Main impacts of adopting IFRS			IFRS
		1 Retirement Benefits	2 Classification Change: Equity Instruments	Others	
Net Sales	14,790				14,790
Operating Income	1,115			2	1,117
Income before income taxes	1,219	39	-88	8	1,178
Net income attributable to TDK	793	38	-83	-1	747

*Audit has not been completed for the numbers above

Main impacts of adopting IFRS

1. Retirement Benefits

Treatment of prior service cost and actuarial gains/losses for defined benefit pension plan and lump-sum pension plan:

- U.S. GAAP: Both are booked in accumulated other comprehensive income (loss) and amortized as a component of net periodic cost in future periods.
- IFRS: Prior service cost is recognized in net profit when the amendment occurs. Actuarial gains and losses will be booked in other comprehensive income and instantly transferred to retained earnings.

2. Classification Change: Equity Instruments

Treatment of valuation profit/loss for equity instruments

- U.S. GAAP: Recognized in net profit
- IFRS: For each equity instrument, it is possible to determine how to recognize the change in fair value under IFRS. TDK has chosen to recognize the change in fair value under other comprehensive income (not net profit).

Changes to Cash Flow in the comparable prior year (Fiscal year ending March 2021)

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Unit: 100 million yen

	U.S. GAAP	Main impacts of adopting IFRS		IFRS
		1 Lease	Others	
CF from Operating Activities	2,228	81	-1	2,308
CF from Investing Activities	-2,315		1	-2,314
CF from Financing Activities	292	-81		211
Effect of exchange rate changes on cash and cash equivalents	272			272
Net increase in cash and cash equivalents	477			477

*Audit has not been completed for the numbers above

Main impacts of adopting IFRS

1. Lease

Lease payments pertaining to operating lease transactions

- U.S. GAAP: CF from operating activities
- IFRS: CF from financing activities

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