

June 6, 2016

To Shareholders

**INTERNET DISCLOSURE ITEMS FOR NOTICE OF  
CONVOCAION OF THE 120TH ORDINARY GENERAL  
MEETING OF SHAREHOLDERS**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

[120th Fiscal Year (From April 1, 2015 to March 31, 2016)]

**TDK Corporation  
Tokyo, Japan**

Disclosure documents audited by the Accounting Auditors and Audit & Supervisory Board Members are provided to shareholders on website of TDK Corporation (<http://www.tdk.co.jp>) pursuant to relevant laws and regulations and Article 16 of the Articles of Incorporation of TDK Corporation.

- 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 is no English translation of the Notes to Non-Consolidated Financial Statements.

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### **[Important Matters for Preparation of Consolidated Financial Statements]**

#### **1. Matters Concerning Scope of Consolidation**

Number of consolidated subsidiaries:	129
Name of major consolidated subsidiaries:	TDK-Lambda Corporation TDK-MCC Corporation SAE Magnetics (Hong Kong) Limited TDK U.S.A. Corporation TDK Europe S.A. EPCOS AG Amperex Technology Limited

#### **2. Matters Concerning Equity-Method**

Number of Equity-method affiliates:	7
Name of a principal Equity-method affiliate:	

Semiconductor Energy Laboratory Co., Ltd.

#### **3. Significant Accounting Policies**

##### **(1) Standards for preparation of consolidated financial statements:**

TDK Corporation(the “Company”)’s consolidated financial statements are prepared based on accounting standards generally accepted in the United States (“US GAAP”), pursuant to the provisions of Article 120-3, Paragraph 1 of the Ordinance of Companies Accounting of Japan. However, some accounting description and notes required by US GAAP have been omitted herein in conformity with the second sentence of Article 120, Paragraph 1 of the same Ordinance, which is applied mutatis mutandis pursuant to Article 120-3-3 of the same Ordinance.

##### **(2) Valuation standards and methods for inventories:**

Products and works in process are valued at the lower of cost or market mainly using a periodic average method, and raw materials and supplies are valued at the lower of cost or market mainly using a moving-average cost method.

##### **(3) Valuation standards and methods for securities:**

The Accounting Standards Codification (“ASC”) 320, “Investments-Debt and Equity Securities” issued by the U.S. Financial Accounting Standards Board (“FASB”) is used.

Available-for-sale securities:	Carried at fair value based on stock market prices as of the balance sheet date. Unrealized holding gains or losses, net of the related tax effect, are included directly in equity. The cost of securities sold is primarily calculated by the moving-average method.
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##### **(4) Method for depreciating net property, plant and equipment:**

Depreciations of property, plants and equipment are computed by the straight-line method.

**(5) Goodwill and other intangible assets:**

Goodwill is not amortized, but instead is tested for impairment at least annually, except for a case in which it is not more likely than not that the fair value of a reporting unit is less than its carrying amount. The test is conducted more frequently if certain indicators arise.

Intangible assets determined to have indefinite useful lives are not amortized, but instead are tested for impairment annually except for a case in which it is not more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount. The test is conducted more frequently if certain indicators arise, until the useful life is determined to no longer be indefinite. Intangible assets with finite useful lives are amortized over their respective estimated useful lives. The amortization is computed by the straight-line method.

**(6) Accounting basis of principal allowances:**

Allowance for doubtful receivables:

TDK group("TDK") recognizes an allowance for doubtful receivable that is based on an uncollectible amount estimated in consideration of the historical bad debt ratio of receivable in general and in consideration of individual possibility of collection with respect to specific doubtful receivables.

Retirement and severance benefits:

For the future payment of retirement and severance benefits to employees, TDK recognizes an amount based on projected benefit obligations and the fair value of plan assets as of March 31, 2016, in accordance with ASC 715, "Compensation-Retirement Benefits."

Prior service costs of employees are amortized using the straight-line method over the average remaining service period of employees.

With respect to actuarial net losses, the part exceeding the amount equivalent to 10% of projected benefit obligations or the fair value of plan assets as of the beginning of the fiscal year concerned, whichever is larger, is amortized using the straight-line method over the average remaining service period of employees.

**(7) Accounting method of consumption tax, etc.:**

Consumption taxes are accounted using tax exclusion method.

**(8) Taxes:**

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards.

The financial statement impact of tax positions are recognized when it is more likely than not that the tax positions will be sustained upon examination by the tax authorities. Benefits from tax positions are measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement with the taxing authorities.

## [Notes to Consolidated Balance Sheet]

1. Allowance for doubtful receivables: ¥1,755 million
2. Accumulated depreciation of property, plants and equipment: ¥747,813 million
3. Accumulated other comprehensive income (loss) includes foreign currency translation adjustments, pension liability adjustments and net unrealized gains (losses) on securities.
4. Assets pledged as collateral:  
TDK has pledged net property, plants and equipment amounting to ¥1,969 million as collateral for lease obligations amounting to ¥3,372 million.
5. Guarantees:  
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.  
The maximum amount of undiscounted payments TDK would have to make in the event of default as of March 31, 2016 is ¥1,213 million.

## [Note to Per-Share Data]

Net income attributable to TDK:

Basic:	¥64,828 million
Diluted:	¥63,784 million

Weighted average common shares outstanding – Basic:	126,068 thousand shares
Incremental shares arising from the exercise of stock option:	322 thousand shares
Weighted average common shares outstanding – Diluted:	126,390 thousand shares

Net income attributable to TDK per share:

Basic:	¥514.23
Diluted:	¥504.66

TDK stockholders' equity per share:	¥5,354.79
Total number of issued common shares outstanding:	129,590 thousand shares
Number of common shares of treasury stock:	3,467 thousand shares
Issued number of common shares that are used in calculating TDK stockholders' equity per share:	126,123 thousand shares

Notes: The decline of net income attributable to TDK was caused by presuming the exercise of stock options issued by a consolidated subsidiary of the Company.

## [Notes regarding Financial Instruments]

TDK recognizes cash, etc. (cash, deposits with banks, short-term investments and marketable securities) as liquid funds, and basically invests them on a short-term basis in safe investments.

Furthermore, TDK works to maintain liquidity at a level of at least 2 months of consolidated net sales, and procures funds through short and long-term borrowings from financial institutions and the issuance of straight bonds, depending on the use of the funds.

TDK borrows funds on floating or fixed interest rates and interest payments reflect economic conditions.

Customer credit risk related to trade receivables is properly assessed based on the credit management standards of TDK.

Many of the investments in securities are publicly listed shares, and their fair value is revaluated every quarter.

The following methods and assumptions were used to estimate the fair value of financial instruments in cases for which it is practicable.

(1) Cash and cash equivalents, short-term investments, trade receivables, other current assets, short-term debt, trade payables, accrued expenses, income tax payables and other current liabilities

Except for derivative financial instruments, the carrying amount approximates fair value because of the short maturity of these instruments.

(2) Marketable securities and investments in securities, 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 long-term loan, which is included in other assets, is estimated based on the amount of future cash flows associated with the instrument discounted using the current lending rate for a similar loan of comparable maturity, or based on the quoted market prices for the same or similar issues.

(3) 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 a similar debt of comparable maturity, or based on the quoted market prices for the same or similar issues.

The carrying amounts and estimated fair values of TDK's financial instruments as of March 31, 2016 were as follows.

	(¥ in millions)	
	<u>Carrying amount</u>	<u>Estimated fair value</u>
Assets:		
Investments in securities and other assets	23,547	23,547
Liability:		
Long-term debt, including current portion (excluding lease obligations)	(165,298)	(166,609)

(4) Derivative financial instruments

TDK uses forward foreign exchange contracts, non-deliverable forward contracts, currency swap contracts, currency option contracts, and commodity forward contracts in order to control foreign currency risk related mainly to foreign currency-denominated assets and liabilities and planned transactions, and the risk of changes in raw material prices.

Amounts of derivative financial instruments as of March 31, 2016, are as follows.

	(¥ in millions)		
	<u>Contract amount</u>	<u>Carrying amount</u>	<u>Fair value</u>
Forward foreign exchange contracts	104,623	464	464
Non-deliverable forward contracts	4,345	(34)	(34)
Currency swap contracts	39,182	(450)	(450)
Currency option contracts	544	15	15
Commodity forward contracts	1,173	(60)	(60)