

(5) Note Relating to the Going Concern Assumption

Nothing to report.

(6) Summary of Significant Accounting Policies

- 1) The consolidated financial statements are prepared in conformity with the U.S. GAAP.
Inventories are valued at the lower of cost or market as in the past, with cost mainly determined by the periodic average method.
- 2) As of March 31, 2018, TDK Corporation had 142 subsidiaries (15 in Japan and 127 overseas).
TDK Corporation also had 8 affiliates (3 in Japan and 5 overseas) whose financial statements are accounted for by the equity method.
TDK acquired InvenSense, Inc. and its subsidiaries. As a result, these 12 entities were newly included in the scope of consolidation of TDK in the year ended March 31, 2018.
- 3) In July 2015, Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2015-11 “Simplifying the Measurement of Inventory”.
This ASU applies to all inventory except for which is measured using last-in, first-out (LIFO) or the retail inventory method, and requires an entity to measure inventory at the lower of cost and net realizable value. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. TDK adopted this ASU prospectively from April 1, 2017.
The adoption of this ASU did not have a material impact on TDK’s results of operations and financial position.
- 4) In January 2017, FASB issued ASU 2017-04 “Simplifying the Test for Goodwill Impairment”. This ASU eliminates Step 2 of the goodwill impairment test, instead requires an entity to recognize an impairment charge for the amount by which the carrying amount of a reporting unit exceeds its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. TDK early adopted this ASU prospectively from April 1, 2017.
The adoption of this ASU did not have an impact on TDK’s results of operations and financial position for FY2018.
- 5) The following items have been omitted from this earnings release because they are not deemed to be that necessary for disclosure.

Notes Concerning Consolidated Financial Statements

- Lease transactions
- Related-party transactions
- Tax-effect accounting
- Financial instruments
- Retirement benefits
- Stock options, etc.
- Business combinations, etc.
- Real estate for leasing
- Asset retirement obligations
- Hedge accounting

(7) Segment Information

TDK has four reporting segments: Passive Components, Sensor Application Products, Magnetic Application Products and Film Application Products, as well as Other, which includes products not included in these four reporting segments.

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

Furthermore, in accordance with the reorganization in 1Q of FY2018, certain products of Other were reclassified into Passive Components and certain products of Magnetic Application Products were reclassified into Other.

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

New Classification	Constituent Main Business
Passive Components	Ceramic Capacitors, Aluminum Electrolytic Capacitors, Film Capacitors, Inductive Devices (Coils/Ferrite Cores/Transformers), High-Frequency Devices, Piezoelectric Material Products, Circuit Protection Components
Sensor Application Products	Temperature and Pressure Sensors, Magnetic Sensors, MEMS Sensors
Magnetic Application Products	HDD Heads, HDD Suspension Assemblies, Power Supplies, Magnets
Film Application Products	Energy Devices (Rechargeable Batteries)
Other	Mechatronics (Production Equipment), Others

Previous Classification	Constituent Main Business
Passive Components	Ceramic Capacitors, Aluminum Electrolytic Capacitors, Film Capacitors, Inductive Devices (Coils / Ferrite Cores / Transformers), High-Frequency Devices, Piezoelectric Material Products, Circuit Protection Components, Sensors
Magnetic Application Products	HDD Heads, HDD Suspension Assemblies, Magnetic Sensors, Power Supplies, Magnets
Film Application Products	Energy Devices (Rechargeable Batteries)
Other	Mechatronics (Production Equipment), Others

Sales by industry segment

		FY2017 (April 1, 2016 - March 31, 2017)		FY2018 (April 1, 2017 - March 31, 2018)			Change	
		(Yen millions)	%	(Yen millions)	%	(U.S.\$ thousands)	(Yen millions)	Change(%)
Passive Components	External customers	528,225	44.8	437,639	34.4	4,128,670	(90,586)	-17.1
	Intersegment	3,424		3,851		36,330	427	12.5
	Total	531,649		441,490		4,165,000	(90,159)	-17.0
Sensor Application Products	External customers	42,850	3.7	77,578	6.1	731,868	34,728	81.0
	Intersegment	48		167		1,575	119	247.9
	Total	42,898		77,745		733,443	34,847	81.2
Magnetic Application Products	External customers	329,850	28.0	333,235	26.2	3,143,726	3,385	1.0
	Intersegment	134		170		1,604	36	26.9
	Total	329,984		333,405		3,145,330	3,421	1.0
Film Application Products	External customers	247,693	21.0	370,953	29.2	3,499,557	123,260	49.8
	Intersegment	-		-		-	-	-
	Total	247,693		370,953		3,499,557	123,260	49.8
Other	External customers	29,639	2.5	52,342	4.1	493,792	22,703	76.6
	Intersegment	26,393		32,804		309,472	6,411	24.3
	Total	56,032		85,146		803,264	29,114	52.0
Intersegment eliminations		(29,999)		(36,992)		(348,981)	(6,993)	
Total		1,178,257	100.0	1,271,747	100.0	11,997,613	93,490	7.9

Note:

U.S.\$1=Yen 106, for convenience only.

Segment profit (loss) by industry segment

		FY2017 (April 1, 2016 - March 31, 2017)		FY2018 (April 1, 2017 - March 31, 2018)			Change	
		(Yen millions)	%	(Yen millions)	%	(U.S.\$ thousands)	(Yen millions)	Change(%)
Passive Components		200,320	37.9	46,278	10.6	436,585	(154,042)	-76.9
Sensor Application Products		(6,478)	-15.1	(19,381)	-25.0	(182,840)	(12,903)	-
Magnetic Application Products		9,706	2.9	20,877	6.3	196,953	11,171	115.1
Film Application Products		41,217	16.6	70,384	19.0	664,000	29,167	70.8
Other		(7,324)	-24.7	(2,381)	-4.5	(22,462)	4,943	-
Sub total		237,441	20.2	115,777	9.1	1,092,236	(121,664)	-51.2
Corporate and Eliminations		(28,781)		(30,144)		(284,378)	(1,363)	
Operating income		208,660	17.7	85,633	6.7	807,858	(123,027)	-59.0

Notes:

1. U.S.\$1=Yen 106, for convenience only.
2. % to sales of each corresponding segment