

(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, 2019, TDK Corporation had 139 subsidiaries (13 in Japan and 126 overseas).
TDK Corporation also had 7 affiliates (3 in Japan and 4 overseas) whose financial statements are accounted for by the equity method.
- 3) In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09 “Revenue from Contracts with Customers” as amended.
This ASU requires an entity to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. TDK adopted this ASU from April 1, 2018 by the modified retrospective method to all contracts to recognize cumulative-effect adjustments to retained earnings.
The adoption of this ASU did not have a material impact on the cumulative-effects to retained earnings as of April 1, 2018 and TDK’s results of operations and financial position.
- 4) In January 2016, FASB issued ASU 2016-01 “Recognition and Measurement of Financial Assets and Financial Liabilities”. This ASU requires that equity investments that do not result in consolidation and are not accounted for under the equity method be measured at fair value with changes in fair value recognized in net income. TDK adopted this ASU from April 1, 2018 by the modified retrospective method to recognize a cumulative-effect adjustment to retained earnings.
According to the adoption of this ASU, TDK recognized a cumulative-effect adjustment to retained earnings of ¥3,083 million as of April 1, 2018 for the after-tax unrealized gains of equity investments classified as available-for-sale securities previously recognized in accumulated other comprehensive income.
- 5) In October 2016, FASB issued ASU 2016-16 “Intra-Entity Transfers of Assets Other than Inventory”.
This ASU eliminates the exception to defer the income tax consequence of intra-entity transfers of assets other than inventory until the assets are ultimately sold to an outside party and requires the recognition of tax consequence when those transfers occur. TDK adopted this ASU from April 1, 2018 by the modified retrospective method to recognize a cumulative-effect adjustment to retained earnings.
According to the adoption of this ASU, TDK recognized a cumulative-effect adjustment to retained earnings of ¥6,374 million as a reduction as of April 1, 2018.
- 6) In March 2017, FASB issued ASU 2017-07 “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postrequirement Benefit Cost”. This ASU requires an entity to disaggregate the service cost component from the other components of net benefit cost and report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component, such as in other income (deductions). The amendments also allow only the service cost component to be eligible for capitalization (for example, as

a cost of internally manufactured inventory). The amendments in this guidance should be applied retrospectively for the presentation of the service cost component and the other components of net benefit cost, and prospectively for the capitalization of the service cost component of net benefit cost. TDK adopted this ASU from April 1, 2018.

According to the adoption of this ASU which requires to disaggregate the service cost component from the other components of net benefit cost, ¥1,991 million from cost of sales, ¥2,068 million from selling, general and administrative expenses and ¥816 million from research and development expenses included in selling, general and administrative expenses were reclassified to other income (deductions) for FY2018. The adoption of this ASU which allows only the service cost component to be eligible for capitalization did not have a material impact on TDK's results of operations and financial position.

- 7) 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
- Fair value of securities

(7) Segment Information

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

In addition, TDK newly established Energy Solutions Business Company on April 1, 2018, and established Energy Application Products segment from the quarter ended June 30, 2018 in accordance with the change of control segment of certain businesses. Energy Devices (Rechargeable Batteries) of Film Application Products, Power Supplies of Magnetic Application Products and certain products of Other were reclassified into newly established reporting segment of Energy Application Products from the quarter ended June 30, 2018.

Furthermore, in accordance with the reorganization in 1Q of FY2018, certain products of Passive Components were reclassified into Other, certain products of Other were reclassified into Passive Components and certain products of Sensor 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, Magnets
Energy Application Products	Energy Devices (Rechargeable Batteries) , Power Supplies
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
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

Sales by industry segment

		FY2018		FY2019			Change	
		(April 1, 2017 - March 31, 2018)		(April 1, 2018 - March 31, 2019)				
		(Yen millions)	%	(Yen millions)	%	(U.S.\$ thousands)	(Yen millions)	Change(%)
Passive Components	External customers	417,757	32.9	433,406	31.4	3,904,559	15,649	3.7
	Intersegment	4,017		3,617		32,585	(400)	-10.0
	Total	421,774		437,023		3,937,144	15,249	3.6
Sensor Application Products	External customers	77,355	6.1	76,467	5.5	688,892	(888)	-1.1
	Intersegment	158		126		1,135	(32)	-20.3
	Total	77,513		76,593		690,027	(920)	-1.2
Magnetic Application Products	External customers	277,548	21.8	272,807	19.7	2,457,721	(4,741)	-1.7
	Intersegment	168		1,838		16,558	1,670	994.0
	Total	277,716		274,645		2,474,279	(3,071)	-1.1
Energy Application Products	External customers	442,822	34.8	537,502	38.9	4,842,360	94,680	21.4
	Intersegment	2		10		91	8	400.0
	Total	442,824		537,512		4,842,451	94,688	21.4
Other	External customers	56,265	4.4	61,624	4.5	555,171	5,359	9.5
	Intersegment	32,395		28,435		256,172	(3,960)	-12.2
	Total	88,660		90,059		811,343	1,399	1.6
Intersegment eliminations		(36,740)		(34,026)		(306,541)	2,714	
Total		1,271,747	100.0	1,381,806	100.0	12,448,703	110,059	8.7

Note:

U.S.\$1=Yen 111, for convenience only.

Segment profit (loss) by industry segment

		FY2018		FY2019			Change	
		(April 1, 2017 - March 31, 2018)		(April 1, 2018 - March 31, 2019)				
		(Yen millions)	%	(Yen millions)	%	(U.S.\$ thousands)	(Yen millions)	Change(%)
Passive Components		50,246	12.0	58,438	13.5	526,469	8,192	16.3
Sensor Application Products		(18,595)	-24.0	(22,125)	-28.9	(199,324)	(3,530)	-
Magnetic Application Products		16,128	5.8	17,022	6.2	153,351	894	5.5
Energy Application Products		72,351	16.3	91,036	16.9	820,144	18,685	25.8
Other		(701)	-1.2	(6,727)	-10.9	(60,604)	(6,026)	-
Sub total		119,429	9.4	137,644	10.0	1,240,036	18,215	15.3
Corporate and Eliminations		(29,737)		(29,821)		(268,658)	(84)	
Operating income		89,692	7.1	107,823	7.8	971,378	18,131	20.2

Notes:

1. U.S.\$1=Yen 111, for convenience only.
2. The prior year's results are reclassified due to adaption of Accounting Standards Update("ASU") 2017-07 "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost". As a result of this reclassification, operating income increased by ¥4,059 million. Please refer to page 21 and page 22 for more detailed information.