



Consolidated Financial Statements
for the three-month ended and as of September 30, 2016 (in English)

On November 11, 2016, the Japanese version of this report was filed with the Director-General of the Kanto Local Finance Bureau of the Ministry of Finance pursuant to Japan's Financial Instruments and Exchange Act.

[This is an English translation prepared for the convenience of non-resident shareholders. Should there be any inconsistency between the translation and the official Japanese text, the latter shall prevail.]

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1) Consolidated balance sheets (Unaudited)

ASSETS	Yen (Millions)	
	March 31, 2016	September 30, 2016
Current assets:		
Cash and cash equivalents	¥ 285,468	¥ 284,720
Short-term investments	21,964	19,786
Net trade receivables	226,218	262,158
Inventories (Note 3)	157,129	152,573
Other current assets	50,215	56,024
Total current assets	740,994	775,261
Investments in securities (Note 2)	35,335	35,194
Net property, plant and equipment	487,639	507,394
Goodwill and other intangible assets (Note 9)	118,836	105,198
Other assets	67,760	60,487
Total assets	¥ 1,450,564	¥ 1,483,534

See accompanying notes to consolidated financial statements.

LIABILITIES AND EQUITY	Yen (Millions)	
	March 31, 2016	September 30, 2016
Current liabilities:		
Short-term debt	¥ 158,683	¥ 227,641
Current installments of long-term debt	36,228	22,894
Trade payables	112,664	155,967
Accrued expenses	123,892	132,842
Other current liabilities	19,767	20,216
Total current liabilities	451,234	559,560
Long-term debt, excluding current installments	140,826	152,782
Retirement and severance benefits	147,136	138,831
Other noncurrent liabilities	26,735	23,579
Total liabilities	765,931	874,752
TDK stockholders' equity:		
Common stock		
Authorized 480,000,000 shares; issued 129,590,659 shares at March 31, 2016 and September 30, 2016 outstanding 126,122,814 shares at March 31, 2016 and 126,161,121 shares at September 30, 2016	32,641	32,641
Additional paid-in capital	21,083	15,222
Legal reserve	34,221	34,866
Retained earnings	707,508	731,970
Accumulated other comprehensive income (loss) (Notes 10 and 11)	(102,285)	(195,448)
Treasury stock at cost; 3,467,845 shares at March 31, 2016 and 3,429,538 shares at September 30, 2016	(17,807)	(17,610)
Total TDK stockholders' equity	675,361	601,641
Noncontrolling interests (Notes 10 and 11)	9,272	7,141
Total equity	684,633	608,782
Total liabilities and equity	¥ 1,450,564	¥ 1,483,534

2) Consolidated statements of income

and Consolidated statements of comprehensive income (loss) (Unaudited)

For the Six-month ended September 30, 2015 and 2016

Consolidated statements of income

	Yen (Millions)	
	Six-month ended September 30, 2015	Six-month ended September 30, 2016
Net sales	¥ 587,614	¥ 579,181
Cost of sales	429,384	420,244
Gross profit	158,230	158,937
Selling, general and administrative expenses	112,655	114,624
Operating income	45,575	44,313
Other income (deductions):		
Interest and dividend income	2,117	1,886
Interest expense	(1,511)	(1,583)
Foreign exchange gain (loss)	(942)	(1,381)
Other - net	(1,157)	1,091
Total other income (deductions)	(1,493)	13
Income before income taxes	44,082	44,326
Income taxes	11,368	11,277
Net income	32,714	33,049
Less: Net income attributable to noncontrolling interests	1,245	375
Net income attributable to TDK	¥ 31,469	¥ 32,674

Amounts per share:

	Yen	
	Six-month ended September 30, 2015	Six-month ended September 30, 2016
Net income attributable to TDK per share (Note 12):		
Basic	¥ 249.69	¥ 259.01
Diluted	239.43	254.26
Cash dividends paid during the period	¥ 50.00	¥ 60.00

Consolidated statements of comprehensive income (loss)

	Yen (Millions)	
	Six-month ended September 30, 2015	Six-month ended September 30, 2016
Net income	¥ 32,714	¥ 33,049
Other comprehensive income (loss), net of taxes (Note 11):		
Foreign currencies translation adjustments	(9,231)	(95,260)
Pension liability adjustments	1,198	2,016
Net unrealized gains (losses) on securities	(4,761)	(826)
Total other comprehensive income (loss)	(12,794)	(94,070)
Comprehensive income (loss) (Note 10)	19,920	(61,021)
Comprehensive income (loss) attributable to noncontrolling interests	1,307	(557)
Comprehensive income (loss) attributable to TDK	¥ 18,613	¥ (60,464)

See accompanying notes to consolidated financial statements.

For the three-month ended September 30, 2015 and 2016
Consolidated statements of income

	Yen (Millions)	
	Three-month ended September 30, 2015	Three-month ended September 30, 2016
Net sales	¥ 308,058	¥ 300,412
Cost of sales	222,512	215,973
Gross profit	85,546	84,439
Selling, general and administrative expenses	58,111	56,628
Operating income	27,435	27,811
Other income (deductions):		
Interest and dividend income	1,033	933
Interest expense	(706)	(770)
Foreign exchange gain (loss)	(962)	(168)
Other - net	(1,653)	138
Total other income (deductions)	(2,288)	133
Income before income taxes	25,147	27,944
Income taxes	6,222	7,482
Net income	18,925	20,462
Less: Net income attributable to noncontrolling interests	555	189
Net income attributable to TDK	¥ 18,370	¥ 20,273

Amounts per share:

	Yen	
	Three-month ended September 30, 2015	Three-month ended September 30, 2016
Net income attributable to TDK per share (Note 12):		
Basic	¥ 145.72	¥ 160.71
Diluted	138.98	157.61
Cash dividends paid during the period	¥ -	¥ -

Consolidated statements of comprehensive income (loss)

	Yen (Millions)	
	Three-month ended September 30, 2015	Three-month ended September 30, 2016
Net income	¥ 18,925	¥ 20,462
Other comprehensive income (loss), net of taxes (Note 11):		
Foreign currencies translation adjustments	(27,915)	(14,009)
Pension liability adjustments	553	1,081
Net unrealized gains (losses) on securities	(3,727)	649
Total other comprehensive income (loss)	(31,089)	(12,279)
Comprehensive income (loss) (Note 10)	(12,164)	8,183
Comprehensive income attributable to noncontrolling interests	314	91
Comprehensive income (loss) attributable to TDK	¥ (12,478)	¥ 8,092

See accompanying notes to consolidated financial statements.

3) Consolidated statements of cash flows (Unaudited)

	Yen (Millions)	
	Six-month ended September 30, 2015	Six-month ended September 30, 2016
Cash flows from operating activities:		
Net income	¥ 32,714	¥ 33,049
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	41,550	41,376
Changes in assets and liabilities:		
Decrease (increase) in trade receivables	(20,396)	(66,594)
Decrease (increase) in inventories	(11,865)	(9,834)
Increase (decrease) in trade payables	19,275	64,450
Increase (decrease) in accrued expenses	(336)	2,746
Decrease (increase) in other assets and liabilities, net	(2,830)	(12,812)
Other - net	2,798	2,219
Net cash provided by operating activities	<u>60,910</u>	<u>54,600</u>
Cash flows from investing activities:		
Capital expenditures	(72,482)	(87,839)
Proceeds from sales of tangible and intangible assets	475	6,776
Proceeds from sale and maturity of short-term investments	17,461	19,393
Payment for purchase of short-term investments	(13,486)	(19,630)
Proceeds from sale and maturity of securities	3,457	86
Payment for purchase of securities	(490)	(450)
Investments in affiliates	(2,313)	(599)
Payment for escrow deposit for purchase of shares of subsidiaries	-	(5,569)
Other - net	(9)	290
Net cash used in investing activities	<u>(67,387)</u>	<u>(87,542)</u>
Cash flows from financing activities:		
Proceeds from long-term debt	13,474	41,228
Repayment of long-term debt	(251)	(35,293)
Increase (decrease) in short-term debt, net	18,212	71,412
Dividends paid	(6,298)	(7,563)
Acquisition of noncontrolling interests	(28,504)	(7,496)
Other - net	(28)	46
Net cash provided by (used in) financing activities	<u>(3,395)</u>	<u>62,334</u>
Effect of exchange rate changes on cash and cash equivalents	(2,239)	(30,140)
Net decrease in cash and cash equivalents	<u>(12,111)</u>	<u>(748)</u>
Cash and cash equivalents at beginning of period	265,104	285,468
Cash and cash equivalents at end of period	<u>¥ 252,993</u>	<u>¥ 284,720</u>

See accompanying notes to consolidated financial statements.

4) Notes to Consolidated Financial Statements (Unaudited)

1. Summary of Significant Accounting Policies

(a) Basis of Presentation

TDK Corporation and most of its domestic subsidiaries maintain their books of account in conformity with the generally accepted accounting principles in Japan, and its foreign subsidiaries' books of accounts are mainly in conformity with those of the countries of their domicile.

The consolidated financial statements presented herein reflect certain adjustments, not recorded in the primary books of TDK Corporation and its subsidiaries, to present the financial position, results of operations and cash flows in conformity with U.S. generally accepted accounting principles ("U.S. GAAP").

(b) Consolidation Policy

The consolidated financial statements include the accounts of TDK Corporation, its subsidiaries and those variable interest entities where TDK is the primary beneficiary under U.S. GAAP. All significant intercompany balances and transactions have been eliminated in consolidation.

The investments in affiliates where TDK exercises significant influence over their operating and financial policies are accounted for using the equity method of accounting. All significant intercompany profits from transactions with these affiliates have been eliminated.

(c) Adoption of New Accounting Standards

Simplifying the Presentation of Debt Issuance Costs

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-03 "Simplifying the Presentation of Debt Issuance Costs".

The amendments in this Update require debt issuance costs to be presented as a deduction from the related debt liability. TDK adopted this Update on April 1, 2016. As a result, the bond issuance cost that used to be a part of Other assets is presented as a deduction from Long-term debt in the prior year's consolidated financial statements.

The adoption of this Update did not have a material impact on TDK's results of operations and financial position.

Simplifying the Accounting for Measurement – Period Adjustments

In September 2015, the FASB issued ASU 2015-16 "Simplifying the Accounting for Measurement – Period Adjustments".

The amendments in this Update require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. This Update is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. TDK adopted this Update prospectively for adjustments to provisional amounts that occur after the effective date of this Update.

The effect of adopting this Update on TDK's results of operations and financial position depends on the status of the business combinations with measurement periods ending on or after April 1, 2016.

(d) Subsequent Events

TDK has evaluated the subsequent events through November 10, 2016, the date on which the consolidated financial statements are available to be issued.

(e) Reclassifications

Certain reclassifications have been made to the prior year's consolidated financial statements and quarterly consolidated financial statements to conform to the presentation used for the six-month and the three-month ended September 30, 2016.

2. Marketable Securities and Investments in Securities

Marketable securities and investments in securities as of March 31, 2016 and September 30, 2016, are as follows:

	Yen (Millions)	
	March 31, 2016	September 30, 2016
Investments in securities:		
Long-term marketable securities	¥ 10,649	¥ 9,400
Nonmarketable securities	2,473	2,544
Investments in affiliates	22,213	23,250
Total	¥ 35,335	¥ 35,194

Marketable securities and investments in securities include available-for-sale securities. Information with respect to such securities as of March 31, 2016 and September 30, 2016, is as follows:

As of March 31, 2016	Yen (Millions)			Fair Value
	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	
Investments (Debt securities):				
Commercial papers	¥ 6	¥ 108	¥ -	¥ 114
Public-utility bonds	2	-	-	2
Investments (Equity securities):				
Manufacturing companies	2,701	5,045	47	7,699
Other	1,171	448	-	1,619
Investments (Mutual funds)	1,055	160	0	1,215
Total	¥ 4,935	¥ 5,761	¥ 47	¥ 10,649

As of September 30, 2016	Yen (Millions)			Fair Value
	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	
Investments (Debt securities):				
Commercial papers	¥ 19	¥ 83	¥ -	¥ 102
Public-utility bonds	2	-	-	2
Investments (Equity securities):				
Manufacturing companies	2,687	3,754	2	6,439
Other	1,147	460	-	1,607
Investments (Mutual funds)	1,073	177	-	1,250
Total	¥ 4,928	¥ 4,474	¥ 2	¥ 9,400

The proceeds from sale and maturity of available-for-sale securities and nonmarketable securities were ¥3,457 million and ¥2,161 million for the six-month and the three-month ended September 30, 2015, respectively. The proceeds from sale and maturity of available-for-sale securities and nonmarketable securities were ¥86 million and ¥19 million for the six-month and the three-month ended September 30, 2016, respectively. The gross realized gains on the sale and settlement of available-for-sale securities was ¥96 million for the six-month and the three-month ended September 30, 2015. The gross realized gains on the sale and settlement of available-for-sale securities were ¥31 million and ¥2 million for the six-month and the three-month ended September 30, 2016, respectively. The costs of available-for-sale securities sold were determined on average cost basis. TDK recorded an impairment of ¥1,567 million on certain available-for-sale securities representing other-than-temporary declines in the fair value for the six-month and the three-month ended September 30, 2015.

As of September 30, 2016, all of the available-for-sale securities with unrealized losses were in a continuous unrealized loss position for less than 12 months.

The aggregate cost of nonmarketable securities accounted for under the cost method as of March 31, 2016 and September 30, 2016 totaled ¥2,473 million and ¥2,544 million, respectively.

3. Inventories

Inventories as of March 31, 2016 and September 30, 2016, are summarized as follows:

	Yen (Millions)	
	March 31, 2016	September 30, 2016
Finished goods	¥ 68,731	¥ 63,149
Work in process	39,943	38,333
Raw materials	48,455	51,091
Total	¥ 157,129	¥ 152,573

4. Cost for Retirement and Severance Benefits

Net periodic benefit cost for TDK's employee retirement and severance defined benefit plans for the six-month ended September 30, 2015 and September 30, 2016 consist of the following components:

	Yen (Millions)	
	Six-month ended September 30, 2015	Six-month ended September 30, 2016
Service cost-benefits earned during the period	¥ 3,978	¥ 4,375
Interest cost on projected benefit obligation	2,171	1,800
Expected return on plan assets	(2,278)	(2,147)
Amortization of actuarial loss	2,656	3,337
Amortization of prior service cost (benefit)	(1,165)	(970)
Net periodic benefit cost	¥ 5,362	¥ 6,395

Net periodic benefit cost for TDK's employee retirement and severance defined benefit plans for the three-month ended September 30, 2015 and September 30, 2016 consist of the following components:

	Yen (Millions)	
	Three-month ended September 30, 2015	Three-month ended September 30, 2016
Service cost-benefits earned during the period	¥ 1,987	¥ 2,180
Interest cost on projected benefit obligation	1,084	888
Expected return on plan assets	(1,134)	(1,071)
Amortization of actuarial loss	1,326	1,657
Amortization of prior service cost (benefit)	(582)	(483)
Net periodic benefit cost	¥ 2,681	¥ 3,171

5. Contingent Liabilities

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. For each guarantee issued, in the event the employee defaults on payment, TDK would be required to make payments under its guarantee.

The maximum amount of undiscounted payments TDK would have to make in the event of default as of March 31, 2016 and September 30, 2016, are as follows:

	Yen (Millions)	
	March 31, 2016	September 30, 2016
Guarantees to third parties on bank loans of employees	¥ 1,213	¥ 1,072

As of September 30, 2016, the liability recognized for the estimated fair value of TDK's obligation under the guarantee arrangement is not material.

In July 2016, competition authorities started an investigation of TDK Corporation based on suspicion of a violation of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade in connection with the HDD suspension assembly business. At this stage, it is not possible to reasonably predict the outcome of the investigation and the impact on TDK's results of operations.

Several claims against TDK are pending. In the opinion of TDK management, based on discussions with legal counsel, any additional liability not currently provided for will not materially affect the consolidated financial position or result of operations of TDK.

6. Risk Management Activities and Derivative Financial Instruments

TDK operates internationally and is exposed to the risk of changes in foreign exchange rates as well as changes in raw material prices. TDK assesses these risks by continuously monitoring changes in the exchange rates and raw material prices and by evaluating hedging opportunities. Derivative financial instruments are utilized to reduce these risks. TDK does not hold or issue derivative financial instruments for trading purposes. TDK is exposed to credit related losses in the event of nonperformance by the counterparties to those derivative financial instruments, but does not expect any counterparties to fail to meet their obligations given their high credit ratings. The credit exposure of those financial instruments is represented by the fair values of the contracts. The fair values of the contracts are calculated based on the quotes presented by financial institutions.

TDK uses forward foreign exchange contracts, non-deliverable forward contracts (NDF), currency swap contracts and currency option contracts in order to offset foreign exchange gain (loss) mainly arising from foreign-currency denominated assets and liabilities and forecasted transactions. Also, TDK uses commodity forward contracts in order to control the fluctuation risks of raw material prices. Although these contracts are not designated as hedges, which is required to apply hedge accountings, TDK considers that these are effective as hedges from an economic viewpoint. The fair values of these undesignated contracts are recognized as income or expenses as earned or incurred.

Notional amounts of derivative financial instruments as of March 31, 2016 and September 30, 2016, are as follows:

	Yen (Millions)	
	March 31, 2016	September 30, 2016
Forward foreign exchange contracts	¥ 104,623	¥ 102,476
Non-deliverable forward contracts (NDF)	4,345	4,091
Currency swap contracts	39,182	47,049
Currency option contracts	544	100
Commodity forward contracts	1,173	969
Total	¥ 149,867	¥ 154,685

Fair value of derivative financial instruments as of March 31, 2016 and September 30, 2016 are as follows:

	Yen (Millions)	
	As of March 31, 2016	
	Account	Fair value
Assets:		
Forward foreign exchange contracts	Other current assets	¥ 981
Currency swap contracts	Other current assets	176
Currency swap contracts	Other assets	273
Currency option contracts	Other current assets	15
Commodity forward contracts	Other current assets	18
Assets total		¥ 1,463
Liabilities:		
Forward foreign exchange contracts	Other current liabilities	¥ 517
Non-deliverable forward contracts (NDF)	Other current liabilities	34
Currency swap contracts	Other current liabilities	889
Currency swap contracts	Other noncurrent liabilities	10
Commodity forward contracts	Other current liabilities	78
Liabilities total		¥ 1,528
Yen (Millions)		
As of September 30, 2016		
	Account	Fair value
Assets:		
Forward foreign exchange contracts	Other current assets	¥ 269
Currency swap contracts	Other current assets	208
Currency swap contracts	Other assets	131
Commodity forward contracts	Other current assets	93
Commodity forward contracts	Other assets	28
Assets total		¥ 729
Liabilities:		
Forward foreign exchange contracts	Other current liabilities	¥ 401
Non-deliverable forward contracts (NDF)	Other current liabilities	34
Currency swap contracts	Other current liabilities	83
Currency swap contracts	Other noncurrent liabilities	162
Commodity forward contracts	Other current liabilities	2
Liabilities total		¥ 682

The effect of derivative financial instruments on the consolidated statements of income for the six-month ended September 30, 2015 and September 30, 2016 are as follows:

	<u>Six-month ended September 30, 2015</u>	
	Account	Yen (Millions)
Forward foreign exchange contracts	Foreign exchange gain (loss)	¥ 513
Currency swap contracts	Foreign exchange gain (loss)	(930)
Commodity forward contracts	Cost of sales	(69)
Total		<u>¥ (486)</u>
	<u>Six-month ended September 30, 2016</u>	
	Account	Yen (Millions)
Forward foreign exchange contracts	Foreign exchange gain (loss)	¥ (2,323)
Non-deliverable forward contracts (NDF)	Foreign exchange gain (loss)	444
Currency swap contracts	Foreign exchange gain (loss)	298
Currency option contracts	Foreign exchange gain (loss)	29
Commodity forward contracts	Cost of sales	161
Total		<u>¥ (1,391)</u>

The effect of derivative financial instruments on the consolidated statements of income for the three-month ended September 30, 2015 and September 30, 2016 are as follows:

	<u>Three-month ended September 30, 2015</u>	
	Account	Yen (Millions)
Forward foreign exchange contracts	Foreign exchange gain (loss)	¥ (464)
Currency swap contracts	Foreign exchange gain (loss)	283
Commodity forward contracts	Cost of sales	(43)
Total		<u>¥ (224)</u>
	<u>Three-month ended September 30, 2016</u>	
	Account	Yen (Millions)
Forward foreign exchange contracts	Foreign exchange gain (loss)	¥ (223)
Non-deliverable forward contracts (NDF)	Foreign exchange gain (loss)	(29)
Currency swap contracts	Foreign exchange gain (loss)	171
Currency option contracts	Foreign exchange gain (loss)	(1)
Commodity forward contracts	Cost of sales	119
Total		<u>¥ 37</u>

7. Fair Value of Financial Instruments

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

(a) Cash and cash equivalents, Short-term investments, Trade receivables, Other current assets, Short-term debt, Trade payables, Accrued expenses and Other current liabilities

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

(b) Marketable securities, Investments in securities and 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 TDK's long-term loans receivable included in other assets are estimated based on the amount of future cash flows associated with the instrument discounted using the borrower's current borrowing rate for similar borrowing of comparable maturity, or based on the quoted market prices for the same or similar issues. The long-term loans receivable are classified as Level 2, one of the three levels of fair value hierarchy that is discussed in Note 8 of the Notes to Consolidated Financial Statements.

(c) 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 similar debt of comparable maturity, or based on the quoted market prices for the same or similar issues. The long-term debt is classified as Level 2, one of the three levels of fair value hierarchy that is discussed in Note 8 of the Notes to Consolidated Financial Statements.

The carrying amounts and estimated fair values of TDK's financial instruments as of March 31, 2016 and September 30, 2016, are summarized as follows:

As of March 31, 2016	Yen (Millions)	
	Carrying amount	Estimated fair value
Assets:		
Investments in securities and other assets	¥ 23,547	¥ 23,547
Liability:		
Long-term debt, including current portion (excluding lease obligation)	(165,277)	(166,609)
As of September 30, 2016	Yen (Millions)	
	Carrying amount	Estimated fair value
Assets:		
Investments in securities and other assets	¥ 22,111	¥ 22,111
Liability:		
Long-term debt, including current portion (excluding lease obligation)	(165,761)	(166,528)

Derivative financial instruments are presented in Note 6 of the Notes to Consolidated Financial Statements.

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective

in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

8. Fair Value Measurements

FASB Accounting Standards Codification (“ASC”) 820 “Fair Value Measurements and Disclosures” defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. FASB ASC 820 establishes a three level fair value hierarchy for material inputs used in measuring fair value as follows:

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

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

Level 3: Unobservable inputs for the asset or liability

Assets and liabilities that are measured at fair value on a recurring basis

Assets and liabilities that are measured at fair value on a recurring basis as of March 31, 2016 and September 30, 2016 are as follows:

As of March 31, 2016	Yen (Millions)			
	Level 1	Level 2	Level 3	Total
Assets:				
Derivative contracts:				
Forward foreign exchange contracts	¥ -	¥ 981	¥ -	¥ 981
Currency swap contracts	-	449	-	449
Currency option contracts	-	15	-	15
Commodity forward contracts	-	18	-	18
Investments (Debt securities):				
Commercial papers	-	114	-	114
Public-utility bonds	2	-	-	2
Investments (Equity securities):				
Manufacturing companies	7,699	-	-	7,699
Other	1,619	-	-	1,619
Investments (Mutual funds)	1,215	-	-	1,215
Rabbi trust investments	6,858	-	-	6,858
Total	¥ 17,393	¥ 1,577	¥ -	¥ 18,970
Liabilities:				
Derivative contracts:				
Forward foreign exchange contracts	¥ -	¥ 517	¥ -	¥ 517
Non-deliverable forward contracts (NDF)	-	34	-	34
Currency swap contracts	-	899	-	899
Commodity forward contracts	-	78	-	78
Total	¥ -	¥ 1,528	¥ -	¥ 1,528
As of September 30, 2016	Yen (Millions)			
	Level 1	Level 2	Level 3	Total
Assets:				
Derivative contracts:				
Forward foreign exchange contracts	¥ -	¥ 269	¥ -	¥ 269
Currency swap contracts	-	339	-	339
Commodity forward contracts	-	121	-	121
Investments (Debt securities):				
Commercial papers	-	102	-	102
Public-utility bonds	2	-	-	2
Investments (Equity securities):				
Manufacturing companies	6,439	-	-	6,439
Other	1,607	-	-	1,607
Investments (Mutual funds)	1,250	-	-	1,250
Rabbi trust investments	6,145	-	-	6,145
Total	¥ 15,443	¥ 831	¥ -	¥ 16,274
Liabilities:				
Derivative contracts:				
Forward foreign exchange contracts	¥ -	¥ 401	¥ -	¥ 401
Non-deliverable forward contracts (NDF)	-	34	-	34
Currency swap contracts	-	245	-	245
Commodity forward contracts	-	2	-	2
Total	¥ -	¥ 682	¥ -	¥ 682

Level 1 marketable securities and investments are valued using unadjusted quoted prices in active markets in which transactions occur with sufficient frequency and volume. Rabbi trusts investments included in other assets in which a part of the employees' salary is deposited and valued using unadjusted quoted prices in active markets.

Level 2 derivative contracts include forward foreign exchange contracts, Non-deliverable forward contracts (NDF), currency swap contracts, currency option contracts and commodity forward contracts that are valued based on quotes obtained from counterparties and are verified using observable market inputs, such as foreign currency exchange rates and raw material prices. Investments consist of commercial papers and the fair values thereof are based on third-party assessments using observable market data.

9. Goodwill and Other Intangible Assets

The components of acquired intangible assets excluding goodwill as of March 31, 2016 and September 30, 2016 are as follows:

As of March 31, 2016	Yen (Millions)		Net Amount
	Gross Carrying Amount	Accumulated Amortization	
Amortizable intangible assets:			
Patent	¥ 31,946	¥ 20,808	¥ 11,138
Customer relationships	23,376	19,173	4,203
Software	31,957	16,789	15,168
Unpatented technologies	24,517	22,182	2,335
Other	7,763	1,846	5,917
Total	¥ 119,559	¥ 80,798	¥ 38,761
Nonamortizable intangible assets:			
Trademark	¥ 6,820		¥ 6,820
Other	243		243
Total	¥ 7,063		¥ 7,063

As of September 30, 2016	Yen (Millions)		Net Amount
	Gross Carrying Amount	Accumulated Amortization	
Amortizable intangible assets:			
Patent	¥ 31,441	¥ 21,438	¥ 10,003
Customer relationships	22,049	18,247	3,802
Software	30,280	13,398	16,882
Unpatented technologies	26,248	20,721	5,527
Other	12,177	2,179	9,998
Total	¥ 122,195	¥ 75,983	¥ 46,212
Nonamortizable intangible assets:			
Trademark	¥ 3,198		¥ 3,198
Other	243		243
Total	¥ 3,441		¥ 3,441

Intangible assets subject to amortization are amortized using the straight-line method over their estimated useful lives to their estimated residual value of zero. Aggregate amortization expense for the six-month ended September 30, 2016 was ¥4,301 million.

No significant intangible assets other than goodwill were acquired in the six-month ended September 30, 2015.

The allocation of the acquisition cost for Micronas Semiconductor Holding AG (“Micronas”) and its subsidiaries was a tentative accounting treatment based on the available information as of the date on which the consolidated financial statements were issued and the allocation amount of goodwill for Magnetic Application Products segment was stated at ¥12,110 million as of March 31, 2016.

Based on the latest progress of the allocation of the acquisition cost for the six-month ended September 30, 2016, the carrying amount of goodwill was modified to ¥1,043 million and the new allocation amount of unpatented technologies was ¥4,542 million. The amounts were still provisional amounts since the allocation of the acquisition cost had not been completed yet as of September 30, 2016. The detail of the acquisition is presented in Note 13 of the Notes to Consolidated Financial Statements.

10. Equity

The changes in the carrying amount of stockholders' equity, noncontrolling interests and total equity for the three-month ended September 30, 2015 and September 30, 2016 are as follows:

	Yen (Millions)		
	Stockholders' equity	Noncontrolling Interests	Total equity
March 31, 2015	¥ 738,861	¥ 19,146	¥ 758,007
Equity transaction of consolidated subsidiaries and other	(15,454)	(12,431)	(27,885)
Comprehensive income:			
Net income	31,469	1,245	32,714
Other comprehensive income (loss), net of taxes:			
Foreign currency translation adjustments	(9,293)	62	(9,231)
Pension liability adjustments	1,198	-	1,198
Net unrealized gains (losses) on securities	(4,761)	-	(4,761)
Total other comprehensive income (loss)	(12,856)	62	(12,794)
Comprehensive income	18,613	1,307	19,920
Dividends	(6,299)	(177)	(6,476)
September 30, 2015	¥ 735,721	¥ 7,845	¥ 743,566

	Yen (Millions)		
	Stockholders' equity	Noncontrolling Interests	Total equity
March 31, 2016	¥ 675,361	¥ 9,272	¥ 684,633
Equity transaction of consolidated subsidiaries and other	(5,689)	(1,498)	(7,187)
Comprehensive income:			
Net income	32,674	375	33,049
Other comprehensive income (loss), net of taxes:			
Foreign currency translation adjustments	(94,328)	(932)	(95,260)
Pension liability adjustments	2,016	0	2,016
Net unrealized gains (losses) on securities	(826)	-	(826)
Total other comprehensive income (loss)	(93,138)	(932)	(94,070)
Comprehensive income (loss)	(60,464)	(557)	(61,021)
Dividends	(7,567)	(76)	(7,643)
September 30, 2016	¥ 601,641	¥ 7,141	¥ 608,782

Net income attributable to TDK and transfers (to) from noncontrolling interests for the six-month ended September 30, 2015 and September 30, 2016 are as follows:

	Yen (Millions)	
	Six-month ended	
	September 30,	
	2015	2016
Net income attributable to TDK	¥ 31,469	¥ 32,674
Decrease in TDK's additional paid-in capital for purchase of Amperex Technology Ltd.'s common shares from third parties	(18,959)	(5,805)
Decrease in TDK's additional paid-in capital for purchase of Micronas Semiconductor Holding AG's common shares from third parties	-	(173)
Net transfers to noncontrolling interests	(18,959)	(5,978)
Changes arising from net income attributable to TDK and transfers to noncontrolling interests	¥ 12,510	¥ 26,696

11. Other Comprehensive Income (Loss)

The changes in the carrying amount of accumulated other comprehensive income (loss) for the six-month ended September 30, 2015 and September 30, 2016 are as follows:

	Yen (Millions)			
	Foreign currency translation adjustments	Pension liability adjustments	Net unrealized gains (losses) on securities	Total
March 31, 2015	¥ 36,547	¥ (53,332)	¥ 10,903	¥ (5,882)
Equity transaction of consolidated subsidiaries and other	2,893	-	-	2,893
Other comprehensive income (loss) before reclassifications	(9,231)	79	(6,035)	(15,187)
Amounts reclassified from accumulated other comprehensive income (loss)	-	1,119	1,274	2,393
Other comprehensive income (loss)	(9,231)	1,198	(4,761)	(12,794)
Other comprehensive income (loss) attributable to noncontrolling interests	62	-	-	62
September 30, 2015	¥ 30,147	¥ (52,134)	¥ 6,142	¥ (15,845)

	Yen (Millions)			
	Foreign currency translation adjustments	Pension liability adjustments	Net unrealized gains (losses) on securities	Total
March 31, 2016	¥ (21,309)	¥ (84,885)	¥ 3,909	¥ (102,285)
Equity transaction of consolidated subsidiaries and other	(25)	-	-	(25)
Other comprehensive income (loss) before reclassifications	(94,509)	(149)	(795)	(95,453)
Amounts reclassified from accumulated other comprehensive income (loss)	(751)	2,165	(31)	1,383
Other comprehensive income (loss)	(95,260)	2,016	(826)	(94,070)
Other comprehensive income (loss) attributable to noncontrolling interests	(932)	0	-	(932)
September 30, 2016	¥ (115,662)	¥ (82,869)	¥ 3,083	¥ (195,448)

The reclassifications out of accumulated other comprehensive income (loss) for the six-month ended September 30, 2015 and September 30, 2016 are as follows:

For the six-month ended September 30,	Amount reclassified from accumulated other comprehensive income (loss) *1		Affected line items in consolidated statements of income
	2015	2016	
Foreign currencies translation adjustments:			
	-	751	Selling, general and administrative expenses
	-	-	Tax (expense) or benefit
	-	751	Net of tax
Pension liability adjustments:			
	(1,489)	(2,362)	*2
	370	197	Tax (expense) or benefit
	<u>(1,119)</u>	<u>(2,165)</u>	Net of tax
Net unrealized gains (losses) on securities:			
	(1,471)	31	Others
	197	-	Tax (expense) or benefit
	<u>(1,274)</u>	<u>31</u>	Net of tax
Total amount reclassified, net of tax	<u>¥ (2,393)</u>	<u>¥ (1,383)</u>	

*1 Amounts in parentheses indicate losses in consolidated statements of income.

*2 This accumulated other comprehensive income (loss) component is included in the computation of net periodic benefit cost for TDK's employee retirement and severance defined benefit plans that is presented in Note 4 of the Notes to Consolidated Financial Statements.

The reclassifications out of accumulated other comprehensive income (loss) for the three-month ended September 30, 2015 and September 30, 2016 are as follows:

For the three-month ended September 30,	Amount reclassified from accumulated other comprehensive income (loss) *1		Affected line items in consolidated statements of income
	2015	2016	
Foreign currencies translation adjustments:			
	-	751	Selling, general and administrative expenses
	-	-	Tax (expense) or benefit Net of tax
	-	751	
Pension liability adjustments:			
	(743)	(1,172)	*2
	185	91	Tax (expense) or benefit Net of tax
	(558)	(1,081)	
Net unrealized gains (losses) on securities:			
	(1,471)	2	Others
	197	-	Tax (expense) or benefit Net of tax
	(1,274)	2	
Total amount reclassified, net of tax	¥ (1,832)	¥ (328)	

*1 Amounts in parentheses indicate losses in consolidated statements of income.

*2 This accumulated other comprehensive income (loss) component is included in the computation of net periodic benefit cost for TDK's employee retirement and severance defined benefit plans that is presented in Note 4 of the Notes to Consolidated Financial Statements.

Tax effects allocated to each component of other comprehensive income (loss) and reclassification adjustments for the six-month ended September 30, 2015 and September 30, 2016 are as follows:

For the six-month ended September 30, 2015	Yen (Millions)		
	Before tax amount	Tax (expense) or benefit	Net-of-tax Amount
Foreign currency translation adjustments:			
Amount arising during the period from investments in foreign entities	¥ (9,488)	¥ 257	¥ (9,231)
Net foreign currency translation adjustments	(9,488)	257	(9,231)
Pension liability adjustments:			
Amount arising during the period	132	(53)	79
Reclassification adjustments for amortization	1,489	(370)	1,119
Net pension liability adjustments	1,621	(423)	1,198
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the period	(8,427)	2,392	(6,035)
Reclassification adjustment	1,471	(197)	1,274
Net unrealized gains (losses)	(6,956)	2,195	(4,761)
Other comprehensive income (loss)	¥ (14,823)	¥ 2,029	¥ (12,794)

For the six-month ended September 30, 2016	Yen (Millions)		
	Before tax Amount	Tax (expense) or benefit	Net-of-tax Amount
Foreign currency translation adjustments:			
Amount arising during the period from investments in foreign entities	¥ (94,600)	¥ 91	¥ (94,509)
Reclassification adjustments for the portion of gains and losses realized upon sale or liquidation of investments in foreign entities	(751)	-	(751)
Net foreign currency translation adjustments	(95,351)	91	(95,260)
Pension liability adjustments:			
Amount arising during the period	(152)	3	(149)
Reclassification adjustments for amortization	2,362	(197)	2,165
Net pension liability adjustments	2,210	(194)	2,016
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the period	(1,176)	381	(795)
Reclassification adjustment	(31)	-	(31)
Net unrealized gains (losses)	(1,207)	381	(826)
Other comprehensive income (loss)	¥ (94,348)	¥ 278	¥ (94,070)

Tax effects allocated to each component of other comprehensive income (loss) and reclassification adjustments for the three-month ended September 30, 2015 and September 30, 2016 are as follows:

For the three-month ended September 30, 2015	Yen (Millions)		
	Before tax Amount	Tax (expense) or benefit	Net-of-tax Amount
Foreign currency translation adjustments:			
Amount arising during the period from investments in foreign entities	¥ (28,196)	¥ 281	¥ (27,915)
Net foreign currency translation adjustments	(28,196)	281	(27,915)
Pension liability adjustments:			
Amount arising during the period	(6)	1	(5)
Reclassification adjustments for amortization	743	(185)	558
Net pension liability adjustments	737	(184)	553
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the period	(6,943)	1,942	(5,001)
Reclassification adjustment	1,471	(197)	1,274
Net unrealized gains (losses)	(5,472)	1,745	(3,727)
Other comprehensive income (loss)	¥ (32,931)	¥ 1,842	¥ (31,089)

For the three-month ended September 30, 2016	Yen (Millions)		
	Before tax Amount	Tax (expense) or benefit	Net-of-tax Amount
Foreign currency translation adjustments:			
Amount arising during the period from investments in foreign entities	¥ (13,301)	¥ 43	¥ (13,258)
Reclassification adjustments for the portion of gains and losses realized upon sale or liquidation of investments in foreign entities	(751)	-	(751)
Net foreign currency translation adjustments	(14,052)	43	(14,009)
Pension liability adjustments:			
Reclassification adjustments for amortization	1,172	(91)	1,081
Net pension liability adjustments	1,172	(91)	1,081
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the period	918	(267)	651
Reclassification adjustment	(2)	-	(2)
Net unrealized gains (losses)	916	(267)	649
Other comprehensive income (loss)	¥ (11,964)	¥ (315)	¥ (12,279)

12. Net Income Attributable to TDK per Share

A reconciliation of the numerators and denominators of the basic and diluted net income attributable to TDK per share calculations is as follows:

	Yen (Millions)			
	Six-month ended September 30, 2015		Six-month ended September 30, 2016	
	Basic	Diluted	Basic	Diluted
Net income attributable to TDK	¥ 31,469	¥ 30,258	¥ 32,674	¥ 32,146
	Number of shares (Thousands)			
Weighted average common shares outstanding	126,032	126,032	126,150	126,150
Incremental shares arising from the exercise of stock option	-	342	-	281
Weighted average common shares outstanding – Total	126,032	126,374	126,150	126,431
	Yen			
Per common share:				
Net income attributable to TDK	¥ 249.69	¥ 239.43	¥ 259.01	¥ 254.26
	Yen (Millions)			
	Three-month ended September 30, 2015		Three-month ended September 30, 2016	
	Basic	Diluted	Basic	Diluted
Net income attributable to TDK	¥ 18,370	¥ 17,564	¥ 20,273	¥ 19,928
	Number of shares (Thousands)			
Weighted average common shares outstanding	126,060	126,060	126,147	126,147
Incremental shares arising from the exercise of stock option	-	317	-	291
Weighted average common shares outstanding – Total	126,060	126,377	126,147	126,438
	Yen			
Per common share:				
Net income attributable to TDK	¥ 145.72	¥ 138.98	¥ 160.71	¥ 157.61

The decline of net income attributable to TDK for the six-month ended and the three-month ended September 30, 2015 and September 30, 2016 were caused by a diluted effect of stock options issued by a subsidiary of TDK Corporation.

For the six-month ended and the three-month ended September 30, 2015 and September 30, 2016, certain stock options issued by TDK Corporation were excluded from the diluted per share calculation of net income attributable to TDK as the effect would have been antidilutive. The stock options issued by TDK Corporation and a subsidiary that are vested when a certain performance condition is achieved were also excluded from the diluted per share calculation of net income attributable to TDK for the six-month ended and the three-month ended September 30, 2015 and September 30, 2016 as it was not probable that the performance condition would be achieved as of September 30, 2015 and September 30, 2016.

13. Acquisition

On March 8, 2016 (“acquisition date”), TDK acquired 26,154 thousand shares (93.33% of equity interest that excludes treasury shares) of Micronas at a cost of ¥22,440 million, which was paid in cash, through a public tender in accordance with a transaction agreement dated December 17, 2015. As a result, Micronas and its subsidiaries became consolidated subsidiaries of TDK Corporation.

Micronas is headquartered in Zurich, Switzerland, and its primary businesses are designing, manufacturing, and sales of magnetic sensors and IC systems for automobiles and industrial equipment.

TDK acquired Micronas, which excels in hall elements technology effective for magnetic sensors, integrated circuit design technology and packaging technology, to bolster its strength in magnetic sensors and grow the magnetic sensor business further. Capitalizing on the synergies between TDK’s magnetic sensor business and Micronas will enable TDK to further expand its magnetic sensor business in the global market.

The following table summarizes the provisional fair values of the assets acquired and liabilities assumed at the acquisition date. As of November 11, 2016, the date on which the consolidated financial statements were issued, the allocation of the acquisition cost had not been completed yet. The fair value of noncontrolling interests was measured based on the market price of the common shares of Micronas as of the acquisition date.

	<u>Yen (millions)</u>
	<u>Fair values</u>
Current assets	19,667
Net property, plant and equipment	16,257
Goodwill and other intangible assets	5,802
Investments in securities and Other assets	6,978
Total assets	<u>48,704</u>
Current liabilities	3,065
Noncurrent liabilities	21,682
Total liabilities	<u>24,747</u>
Noncontrolling interests	1,517
Net assets acquired	<u>22,440</u>

Other intangible assets acquired mainly include technologies of ¥4,542 million, which are subject to amortization. TDK had estimated the amortization period for technologies to be 10 years. Goodwill recognized of ¥1,043 million was attributable primarily to expected synergies from combining operations of Micronas and TDK.

After the acquisition date, TDK acquired 201 thousand shares (0.72% of equity interest that excludes treasury shares) of Micronas at a cost of ¥170 million, which was paid in cash.

Although TDK included the results of operations of Micronas and its subsidiaries subsequent to the acquisition date in its consolidated financial statements, the results were not material. The effect of the acquisition to net sales and net income attributable to TDK for the six-month ended September 30, 2015 as though the acquisition had occurred at the beginning of the year ended March 31, 2016 were not material either.

14. Segment Information

Business Segment Information

Operating segments are components of TDK for which discrete financial information is available and whose operating results are regularly reviewed by management to make decisions about resources to be allocated to the segment and assess its performance.

Multiple operating segments that have similarities, including type and nature of products, production process, market and so on, are aggregated into the Passive Components segment, the Magnetic Application Products segment and the Film Application Products segment. Operating segments which are not reportable segments are included in Other.

Principal businesses of each segment are as follows:

Segment	Principal businesses
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

Intersegment transactions in operating segments are based on arm's-length prices.

As a result of the reorganization in the three-month ended June 30, 2016, certain products of Other were reclassified into the Passive Components segment and certain products of Film Application Products segment were reclassified into Other. The figures for the six-month ended and the three-month ended September 30, 2015 are also reclassified to conform to the new segmentation.

The business segment information for the six-month ended September 30, 2015 and September 30, 2016 are as follows:

Net sales

	Yen (Millions)	
	Six-month ended September 30,	
	2015	2016
Passive Components:		
External customers	¥ 302,489	¥ 281,659
Intersegment	1,511	1,500
	<u>304,000</u>	<u>283,159</u>
Magnetic Application Products:		
External customers	164,624	166,324
Intersegment	110	78
	<u>164,734</u>	<u>166,402</u>
Film Application Products:		
External customers	106,218	116,978
Intersegment	-	-
	<u>106,218</u>	<u>116,978</u>
Other:		
External customers	14,283	14,220
Intersegment	11,948	11,860
	<u>26,231</u>	<u>26,080</u>
Intersegment eliminations	(13,569)	(13,438)
Total	<u>¥ 587,614</u>	<u>¥ 579,181</u>

Segment profit (loss)

	Yen (Millions)	
	Six-month ended September 30,	
	2015	2016
Passive Components	¥ 32,412	¥ 36,689
Magnetic Application Products	8,245	4,119
Film Application Products	16,864	20,083
Other	95	(3,313)
	<u>57,616</u>	<u>57,578</u>
Corporate and eliminations	(12,041)	(13,265)
Operating income	45,575	44,313
Other income (deductions), net	(1,493)	13
Income before income taxes	<u>¥ 44,082</u>	<u>¥ 44,326</u>

The business segment information for the three-month ended September 30, 2015 and September 30, 2016 are as follows:

Net sales

	Yen (Millions)	
	Three-month ended September 30,	
	2015	2016
Passive Components:		
External customers	¥ 152,209	¥ 143,998
Intersegment	746	735
	<u>152,955</u>	<u>144,733</u>
Magnetic Application Products:		
External customers	85,266	83,924
Intersegment	47	43
	<u>85,313</u>	<u>83,967</u>
Film Application Products:		
External customers	63,287	65,166
Intersegment	-	-
	<u>63,287</u>	<u>65,166</u>
Other:		
External customers	7,296	7,324
Intersegment	6,379	6,050
	<u>13,675</u>	<u>13,374</u>
Intersegment eliminations	(7,172)	(6,828)
Total	<u>¥ 308,058</u>	<u>¥ 300,412</u>

Segment profit (loss)

	Yen (Millions)	
	Three-month ended September 30,	
	2015	2016
Passive Components	¥ 17,382	¥ 20,701
Magnetic Application Products	4,458	2,377
Film Application Products	11,787	13,021
Other	67	(1,961)
	<u>33,694</u>	<u>34,138</u>
Corporate and eliminations	(6,259)	(6,327)
Operating income	27,435	27,811
Other income (deductions), net	(2,288)	133
Income before income taxes	<u>¥ 25,147</u>	<u>¥ 27,944</u>

Segment profit (loss) consists of net sales less cost of sales and selling, general and administrative expenses except for those attribute to Corporate.

Corporate mainly includes expenses associated with head office functions that are not allocated to operating segments.

Geographic Segment Information

The geographic segment information for the six-month ended September 30, 2015 and September 30, 2016 are as follows:

Net sales

	Yen (Millions)	
	Six-month ended September 30,	
	2015	2016
Japan	¥ 44,365	¥ 49,776
Americas	51,194	53,867
Europe	73,800	72,819
China	314,369	299,216
Asia and others	103,886	103,503
Total	¥ 587,614	¥ 579,181

The geographic segment information for the three-month ended September 30, 2015 and September 30, 2016 are as follows:

Net sales

	Yen (Millions)	
	Three-month ended September 30,	
	2015	2016
Japan	¥ 21,821	¥ 25,640
Americas	25,986	26,691
Europe	37,331	35,558
China	169,803	160,121
Asia and others	53,117	52,402
Total	¥ 308,058	¥ 300,412

Net sales are based on the location of the customers.

Major countries in each geographic area:

- (1) Americas United States of America
- (2) Europe Germany
- (3) Asia and others Thailand, Korea, Vietnam, Philippine