



**Consolidated Financial Statements**  
**for the three-month ended and as of December 31, 2016 (in English)**

On February 13, 2017, 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.]

**[Cover]**

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## 1) Consolidated balance sheets (Unaudited)

ASSETS	Yen (Millions)	
	March 31, 2016	December 31, 2016
<b>Current assets:</b>		
Cash and cash equivalents	¥ 285,468	¥ 293,911
Short-term investments	21,964	17,788
Net trade receivables	226,218	282,946
Inventories (Note 3)	157,129	148,725
Assets held for sale (Note 14)	144	180,582
Other current assets	50,071	50,196
Total current assets	740,994	974,148
<b>Investments in securities (Note 2)</b>	35,335	35,751
<b>Net property, plant and equipment</b>	487,639	476,170
<b>Goodwill and other intangible assets (Note 9)</b>	118,836	123,109
<b>Other assets</b>	67,760	67,611
Total assets	¥ 1,450,564	¥ 1,676,789

*See accompanying notes to consolidated financial statements.*

LIABILITIES AND EQUITY	Yen (Millions)	
	March 31, 2016	December 31, 2016
<b>Current liabilities:</b>		
Short-term debt	¥ 158,683	¥ 156,353
Current installments of long-term debt	36,228	25,664
Trade payables	112,664	185,844
Accrued expenses	123,892	123,819
Liabilities held for sale (Note 14)	-	40,977
Other current liabilities	19,767	22,717
Total current liabilities	451,234	555,374
<b>Long-term debt, excluding current installments</b>	140,826	234,358
<b>Retirement and severance benefits</b>	147,136	135,440
<b>Other noncurrent liabilities</b>	26,735	23,467
Total liabilities	765,931	948,639
<b>TDK stockholders' equity:</b>		
Common stock		
Authorized 480,000,000 shares;		
issued 129,590,659 shares at March 31, 2016 and December 31, 2016		
outstanding 126,122,814 shares at March 31, 2016 and		
126,175,416 shares at December 31, 2016	32,641	32,641
Additional paid-in capital	21,083	15,368
Legal reserve	34,221	37,598
Retained earnings	707,508	746,083
Accumulated other comprehensive income (loss) (Notes 10 and 11)	(102,285)	(94,262)
Treasury stock at cost;		
3,467,845 shares at March 31, 2016 and 3,415,243 shares		
at December 31, 2016	(17,807)	(17,541)
Total TDK stockholders' equity	675,361	719,887
<b>Noncontrolling interests (Notes 10 and 11)</b>	9,272	8,263
Total equity	684,633	728,150
Total liabilities and equity	¥ 1,450,564	¥ 1,676,789

## 2) Consolidated statements of income and Consolidated statements of comprehensive income (Unaudited)

For the Nine-month ended December 31, 2015 and 2016

### Consolidated statements of income

	Yen (Millions)	
	Nine-month ended December 31, 2015	Nine-month ended December 31, 2016
<b>Net sales</b>	¥ 889,342	¥ 903,953
<b>Cost of sales</b>	640,800	649,461
Gross profit	248,542	254,492
<b>Selling, general and administrative expenses</b>	172,670	177,665
Operating income	75,872	76,827
<b>Other income (deductions):</b>		
Interest and dividend income	3,373	2,842
Interest expense	(2,288)	(2,551)
Foreign exchange gain (loss)	(1,783)	(1,422)
Other - net	(1,238)	733
<b>Total other income (deductions)</b>	(1,936)	(398)
Income before income taxes	73,936	76,429
<b>Income taxes</b>	15,784	18,602
Net income	58,152	57,827
<b>Less: Net income attributable to noncontrolling interests</b>	1,738	738
Net income attributable to TDK	¥ 56,414	¥ 57,089

### Amounts per share:

	Yen	
Net income attributable to TDK per share (Note 12):		
Basic	¥ 447.54	¥ 452.53
Diluted	429.05	443.82
Cash dividends paid during the period	¥ 110.00	¥ 120.00

### Consolidated statements of comprehensive income

	Yen (Millions)	
	Nine-month ended December 31, 2015	Nine-month ended December 31, 2016
Net income	¥ 58,152	¥ 57,827
<b>Other comprehensive income (loss), net of taxes (Note 11):</b>		
Foreign currencies translation adjustments	(12,729)	5,873
Pension liability adjustments	1,744	3,098
Net unrealized gains (losses) on securities	(4,882)	(199)
Total other comprehensive income (loss)	(15,867)	8,772
Comprehensive income (Note 10)	42,285	66,599
Comprehensive income attributable to noncontrolling interests	1,723	1,344
Comprehensive income attributable to TDK	¥ 40,562	¥ 65,255

See accompanying notes to consolidated financial statements.

For the three-month ended December 31, 2015 and 2016  
Consolidated statements of income

	Yen (Millions)	
	Three-month ended December 31, 2015	Three-month ended December 31, 2016
<b>Net sales</b>	¥ 301,728	¥ 324,772
<b>Cost of sales</b>	211,416	229,217
Gross profit	90,312	95,555
<b>Selling, general and administrative expenses</b>	60,015	63,041
Operating income	30,297	32,514
<b>Other income (deductions):</b>		
Interest and dividend income	1,256	956
Interest expense	(777)	(968)
Foreign exchange gain (loss)	(841)	(41)
Other - net	(81)	(358)
<b>Total other income (deductions)</b>	(443)	(411)
Income before income taxes	29,854	32,103
<b>Income taxes</b>	4,416	7,325
Net income	25,438	24,778
<b>Less: Net income attributable to noncontrolling interests</b>	493	363
Net income attributable to TDK	¥ 24,945	¥ 24,415

**Amounts per share:**

	Yen	
Net income attributable to TDK per share (Note 12):		
Basic	¥ 197.83	¥ 193.52
Diluted	189.55	189.56
Cash dividends paid during the period	¥ 60.00	¥ 60.00

Consolidated statements of comprehensive income

	Yen (Millions)	
	Three-month ended December 31, 2015	Three-month ended December 31, 2016
Net income	¥ 25,438	¥ 24,778
Other comprehensive income (loss), net of taxes (Note 11):		
Foreign currencies translation adjustments	(3,498)	101,133
Pension liability adjustments	546	1,082
Net unrealized gains (losses) on securities	(121)	627
Total other comprehensive income (loss)	(3,073)	102,842
Comprehensive income (Note 10)	22,365	127,620
Comprehensive income attributable to noncontrolling interests	416	1,901
Comprehensive income attributable to TDK	¥ 21,949	¥ 125,719

See accompanying notes to consolidated financial statements.

### 3) Consolidated statements of cash flows (Unaudited)

	Yen (Millions)	
	Nine-month ended December 31, 2015	Nine-month ended December 31, 2016
<b>Cash flows from operating activities:</b>		
Net income	¥ 58,152	¥ 57,827
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	62,503	64,484
Changes in assets and liabilities:		
Decrease (increase) in trade receivables	(15,830)	(78,698)
Decrease (increase) in inventories	(12,513)	(13,620)
Increase (decrease) in trade payables	17,219	71,782
Increase (decrease) in accrued expenses	(2,400)	3,007
Decrease (increase) in other assets and liabilities, net	6,162	6,189
Other - net	4,235	4,393
Net cash provided by operating activities	117,528	115,364
<b>Cash flows from investing activities:</b>		
Capital expenditures	(114,799)	(134,504)
Proceeds from sales of tangible and intangible assets	2,635	7,516
Proceeds from sale and maturity of short-term investments	24,274	28,417
Payment for purchase of short-term investments	(20,749)	(24,296)
Proceeds from sale and maturity of securities	3,990	375
Payment for purchase of securities	(829)	(750)
Acquisition of subsidiaries, net of cash acquired	-	(14,357)
Investments in affiliates	(2,313)	(599)
Other - net	4,367	353
Net cash used in investing activities	(103,424)	(137,845)
<b>Cash flows from financing activities:</b>		
Proceeds from long-term debt	13,664	119,275
Repayment of long-term debt	(385)	(50,176)
Increase (decrease) in short-term debt, net	75,212	(2,179)
Dividends paid	(13,843)	(15,114)
Acquisition of noncontrolling interests	(28,504)	(8,812)
Other - net	24	71
Net cash provided by financing activities	46,168	43,065
Effect of exchange rate changes on cash and cash equivalents	(2,378)	4,606
Cash and cash equivalents included in assets held for sale (Note 14)	-	(16,747)
Net increase in cash and cash equivalents	57,894	8,443
Cash and cash equivalents at beginning of period	265,104	285,468
Cash and cash equivalents at end of period	¥ 322,998	¥ 293,911

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

#### **(d) Subsequent Events**

TDK has evaluated the subsequent events through February 10, 2017, 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 nine-month and the three-month ended December 31, 2016.

## 2. Marketable Securities and Investments in Securities

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

	Yen (Millions)	
	March 31, 2016	December 31, 2016
Investments in securities:		
Long-term marketable securities	¥ 10,649	¥ 10,251
Nonmarketable securities	2,473	2,685
Investments in affiliates	22,213	22,815
Total	¥ 35,335	¥ 35,751

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

As of March 31, 2016	Yen (Millions)			
	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
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 December 31, 2016	Yen (Millions)			
	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Investments (Debt securities):				
Commercial papers	¥ 32	¥ 87	¥ -	¥ 119
Public-utility bonds	2	-	-	2
Investments (Equity securities):				
Manufacturing companies	2,706	4,547	86	7,167
Other	1,147	753	-	1,900
Investments (Mutual funds)	945	126	8	1,063
Total	¥ 4,832	¥ 5,513	¥ 94	¥ 10,251

The proceeds from sale and maturity of available-for-sale securities and nonmarketable securities were ¥3,990 million and ¥533 million for the nine-month and the three-month ended December 31, 2015, respectively. The proceeds from sale and maturity of available-for-sale securities and nonmarketable securities were ¥375 million and ¥289 million for the nine-month and the three-month ended December 31, 2016, respectively. The gross realized gains on the sale and settlement of available-for-sale securities was ¥261 million and ¥165 million for the nine-month and the three-month ended December 31, 2015. The gross realized gains on the sale and settlement of available-for-sale securities were ¥74 million and ¥43 million for the nine-month and the three-month ended December 31, 2016, respectively. Gains on available-for-sale securities contributed to an employee retirement benefit trust were ¥1,213 million for both the nine-month and the three-month ended December 31, 2015. Losses on available-for-sale securities contributed to an employee retirement benefit trust were ¥18 million for both the nine-month and the three-month ended December 31, 2015. 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 nine-month and the three-month ended December 31, 2015.

As of December 31, 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 December 31, 2016 totaled ¥2,473 million and ¥2,685 million, respectively.

### 3. Inventories

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

	Yen (Millions)	
	March 31, 2016	December 31, 2016
Finished goods	¥ 68,731	¥ 61,036
Work in process	39,943	37,779
Raw materials	48,455	49,910
Total	¥ 157,129	¥ 148,725

#### 4. Cost for Retirement and Severance Benefits

Net periodic benefit cost for TDK's employee retirement and severance defined benefit plans for the nine-month ended December 31, 2015 and December 31, 2016 consist of the following components:

	Yen (Millions)	
	Nine-month ended December 31, 2015	<b>Nine-month ended December 31, 2016</b>
Service cost-benefits earned during the period	¥ 5,954	<b>¥ 6,552</b>
Interest cost on projected benefit obligation	3,249	<b>2,743</b>
Expected return on plan assets	(3,412)	<b>(3,239)</b>
Amortization of actuarial loss	3,972	<b>4,992</b>
Amortization of prior service cost (benefit)	(1,746)	<b>(1,450)</b>
Net periodic benefit cost	<b>¥ 8,017</b>	<b>¥ 9,598</b>

Net periodic benefit cost for TDK's employee retirement and severance defined benefit plans for the three-month ended December 31, 2015 and December 31, 2016 consist of the following components:

	Yen (Millions)	
	Three-month ended December 31, 2015	<b>Three-month ended December 31, 2016</b>
Service cost-benefits earned during the period	¥ 1,976	<b>¥ 2,177</b>
Interest cost on projected benefit obligation	1,078	<b>943</b>
Expected return on plan assets	(1,134)	<b>(1,092)</b>
Amortization of actuarial loss	1,316	<b>1,655</b>
Amortization of prior service cost (benefit)	(581)	<b>(480)</b>
Net periodic benefit cost	<b>¥ 2,655</b>	<b>¥ 3,203</b>

#### 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 December 31, 2016, are as follows:

	Yen (Millions)	
	March 31, 2016	<b>December 31, 2016</b>
Guarantees to third parties on bank loans of employees	<b>¥ 1,213</b>	<b>¥ 1,000</b>

As of December 31, 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 December 31, 2016, are as follows:

	Yen (Millions)	
	March 31, 2016	December 31, 2016
Forward foreign exchange contracts	¥ 104,623	¥ 88,216
Non-deliverable forward contracts (NDF)	4,345	4,531
Currency swap contracts	39,182	53,054
Currency option contracts	544	-
Commodity forward contracts	1,173	1,196
Total	¥ 149,867	¥ 146,997

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

Yen (Millions)		
As of March 31, 2016		
	Account	Fair value
<b>Assets:</b>		
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
<b>Liabilities:</b>		
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 December 31, 2016		
	Account	Fair value
<b>Assets:</b>		
Forward foreign exchange contracts	Other current assets	¥ 578
Non-deliverable forward contracts (NDF)	Other current assets	50
Currency swap contracts	Other current assets	1,677
Currency swap contracts	Other assets	1,898
Commodity forward contracts	Other current assets	118
Commodity forward contracts	Other assets	7
Assets total		¥ 4,328
<b>Liabilities:</b>		
Forward foreign exchange contracts	Other current liabilities	¥ 1,663
Currency swap contracts	Other current liabilities	5
Currency swap contracts	Other noncurrent liabilities	76
Commodity forward contracts	Other current liabilities	1
Liabilities total		¥ 1,745

The effect of derivative financial instruments on the consolidated statements of income for the six-month ended December 31, 2015 and December 31, 2016 are as follows:

Nine-month ended December 31, 2015		
	Account	Yen (Millions)
Forward foreign exchange contracts	Foreign exchange gain (loss)	¥ 1,050
Currency swap contracts	Foreign exchange gain (loss)	50
Currency option contracts	Foreign exchange gain (loss)	(35)
Commodity forward contracts	Cost of sales	(152)
Total		<u>¥ 913</u>

  

Nine-month ended December 31, 2016		
	Account	Yen (Millions)
Forward foreign exchange contracts	Foreign exchange gain (loss)	¥ (583)
Non-deliverable forward contracts (NDF)	Foreign exchange gain (loss)	(49)
Currency swap contracts	Foreign exchange gain (loss)	4,222
Currency option contracts	Foreign exchange gain (loss)	(227)
Commodity forward contracts	Cost of sales	191
Total		<u>¥ 3,554</u>

The effect of derivative financial instruments on the consolidated statements of income for the three-month ended December 31, 2015 and December 31, 2016 are as follows:

Three-month ended December 31, 2015		
	Account	Yen (Millions)
Forward foreign exchange contracts	Foreign exchange gain (loss)	¥ 537
Currency swap contracts	Foreign exchange gain (loss)	980
Currency option contracts	Foreign exchange gain (loss)	(35)
Commodity forward contracts	Cost of sales	(83)
Total		<u>¥ 1,399</u>

  

Three-month ended December 31, 2016		
	Account	Yen (Millions)
Forward foreign exchange contracts	Foreign exchange gain (loss)	¥ 1,740
Non-deliverable forward contracts (NDF)	Foreign exchange gain (loss)	(493)
Currency swap contracts	Foreign exchange gain (loss)	3,924
Currency option contracts	Foreign exchange gain (loss)	(256)
Commodity forward contracts	Cost of sales	30
Total		<u>¥ 4,945</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 December 31, 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 December 31, 2016	Yen (Millions)	
	Carrying amount	Estimated fair value
Assets:		
Investments in securities and other assets	¥ 24,562	¥ 24,562
Liability:		
Long-term debt, including current portion (excluding lease obligation)	(254,241)	(254,135)

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 December 31, 2016 are as follows:

As of March 31, 2016	Yen (Millions)			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
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
<b>Liabilities:</b>				
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 December 31, 2016	Yen (Millions)			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Derivative contracts:				
Forward foreign exchange contracts	¥ -	¥ 578	¥ -	¥ 578
Non-deliverable forward contracts (NDF)	-	50	-	50
Currency swap contracts	-	3,575	-	3,575
Commodity forward contracts	-	125	-	125
Investments (Debt securities):				
Commercial papers	-	119	-	119
Public-utility bonds	2	-	-	2
Investments (Equity securities):				
Manufacturing companies	7,167	-	-	7,167
Other	1,900	-	-	1,900
Investments (Mutual funds)	1,063	-	-	1,063
Rabbi trust investments	7,091	-	-	7,091
Total	¥ 17,223	¥ 4,447	¥ -	¥ 21,670
<b>Liabilities:</b>				
Derivative contracts:				
Forward foreign exchange contracts	¥ -	¥ 1,663	¥ -	¥ 1,663
Currency swap contracts	-	81	-	81
Commodity forward contracts	-	1	-	1
Total	¥ -	¥ 1,745	¥ -	¥ 1,745

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 December 31, 2016 are as follows:

As of March 31, 2016	Yen (Millions)		
	Gross Carrying Amount	Accumulated Amortization	Net Amount
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 December 31, 2016	Yen (Millions)		
	Gross Carrying Amount	Accumulated Amortization	Net Amount
Amortizable intangible assets:			
Patent	¥ 31,158	¥ 21,653	¥ 9,505
Customer relationships	22,218	17,482	4,736
Software	30,433	13,845	16,588
Unpatented technologies	24,399	17,826	6,573
Other	12,799	2,647	10,152
Total	¥ 121,007	¥ 73,453	¥ 47,554
Nonamortizable intangible assets:			
Trademark	¥ 3,164		¥ 3,164
Other	243		243
Total	¥ 3,407		¥ 3,407

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 nine-month ended December 31, 2016 was ¥6,420 million.

No significant intangible assets other than goodwill were acquired in the nine-month ended December 31, 2015.

The allocation of the acquisition cost for Micronas Semiconductor Holding AG 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.

As a result of the completion of the allocation of the acquisition cost for the nine-month ended December 31, 2016, the carrying amount of goodwill was modified to ¥1,032 million and the new allocation amount of unpatented technologies was ¥4,558 million.

The allocation of the acquisition cost for Hutchinson Technology Incorporated 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 ¥14,298 million as of December 31, 2016.

The allocation of the acquisition cost for Tronics Microsystems SA 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 Passive Components segment was stated at ¥2,258 million and the allocation amount was ¥1,062 million for customer relationships, ¥1,350 million for unpatented technologies and ¥232 million for other as of December 31, 2016.

The detail of the acquisitions is presented in Note 13 of the Notes to Consolidated Financial Statements.

Besides, ¥8,085 million of goodwill was transferred to assets held for sale as of December 31, 2016. The detail of the acquisitions is presented in Note 14 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 December 31, 2015 and December 31, 2016 are as follows:

	Yen (Millions)		
	Stockholders' equity	Noncontrolling Interests	Total equity
<b>March 31, 2015</b>	<b>¥ 738,861</b>	<b>¥ 19,146</b>	<b>¥ 758,007</b>
Equity transaction of consolidated subsidiaries and other	(15,256)	(12,525)	(27,781)
Comprehensive income:			
Net income	56,414	1,738	58,152
Other comprehensive income (loss), net of taxes:			
Foreign currency translation adjustments	(12,714)	(15)	(12,729)
Pension liability adjustments	1,744	-	1,744
Net unrealized gains (losses) on securities	(4,882)	-	(4,882)
Total other comprehensive income (loss)	(15,852)	(15)	(15,867)
Comprehensive income	40,562	1,723	42,285
Dividends	(13,864)	(177)	(14,041)
<b>December 31, 2015</b>	<b>¥ 750,303</b>	<b>¥ 8,167</b>	<b>¥ 758,470</b>

  

	Yen (Millions)		
	Stockholders' equity	Noncontrolling Interests	Total equity
<b>March 31, 2016</b>	<b>¥ 675,361</b>	<b>¥ 9,272</b>	<b>¥ 684,633</b>
Equity transaction of consolidated subsidiaries and other	(5,592)	(2,277)	(7,869)
Comprehensive income:			
Net income	57,089	738	57,827
Other comprehensive income (loss), net of taxes:			
Foreign currency translation adjustments	5,267	606	5,873
Pension liability adjustments	3,098	0	3,098
Net unrealized gains (losses) on securities	(199)	-	(199)
Total other comprehensive income (loss)	8,166	606	8,772
Comprehensive income	65,255	1,344	66,599
Dividends	(15,137)	(76)	(15,213)
<b>December 31, 2016</b>	<b>¥ 719,887</b>	<b>¥ 8,263</b>	<b>¥ 728,150</b>

Net income attributable to TDK and transfers (to) from noncontrolling interests for the nine-month ended December 31, 2015 and December 31, 2016 are as follows:

	Yen (Millions)	
	Nine-month ended	
	September 30,	
	2015	2016
Net income attributable to TDK	¥ 56,414	¥ 57,089
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	-	(53)
Decrease in TDK's additional paid-in capital for purchase of Tronics Microsystems SA's common shares from third parties	-	(0)
Decrease in TDK's additional paid-in capital for purchase of Magnecomp Precision Technology Public Co.,Ltd's common shares from third parties	-	(0)
Net transfers to noncontrolling interests	(18,959)	(5,858)
Changes arising from net income attributable to TDK and transfers to noncontrolling interests	¥ 37,455	¥ 51,231

## 11. Other Comprehensive Income (Loss)

The changes in the carrying amount of accumulated other comprehensive income (loss) for the nine-month ended December 31, 2015 and December 31, 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	(13,063)	79	(5,327)	(18,311)
Amounts reclassified from accumulated other comprehensive income (loss)	334	1,665	445	2,444
Other comprehensive income (loss)	(12,729)	1,744	(4,882)	(15,867)
Other comprehensive income (loss) attributable to noncontrolling interests	(15)	-	-	(15)
December 31, 2015	¥ 26,726	¥ (51,588)	¥ 6,021	¥ (18,841)

	Yen (Millions)			
	Foreign currency translation adjustments	Pension liability adjustments	Net unrealized gains (losses) on securities	Total
<b>March 31, 2016</b>	<b>¥ (21,309)</b>	<b>¥ (84,885)</b>	<b>¥ 3,909</b>	<b>¥ (102,285)</b>
Equity transaction of consolidated subsidiaries and other	(143)	-	-	(143)
Other comprehensive income (loss) before reclassifications	6,623	(149)	(125)	(6,349)
Amounts reclassified from accumulated other comprehensive income (loss)	(750)	3,247	(74)	2,423
Other comprehensive income (loss)	5,873	3,098	(199)	(8,772)
Other comprehensive income (loss) attributable to noncontrolling interests	606	0	-	606
<b>December 31, 2016</b>	<b>¥ (16,185)</b>	<b>¥ (81,787)</b>	<b>¥ 3,710</b>	<b>¥ (94,262)</b>



The reclassifications out of accumulated other comprehensive income (loss) for the nine-month ended December 31, 2015 and December 31, 2016 are as follows:

For the nine-month ended December 31,	Amount reclassified from accumulated other comprehensive income (loss) *1		Affected line items in consolidated statements of income
	2015	2016	
Foreign currencies translation adjustments:			
	(334)	<b>750</b>	Selling, general and administrative expenses
	-	-	Tax (expense) or benefit
	<u>(334)</u>	<u><b>750</b></u>	Net of tax
Pension liability adjustments:			
	(2,217)	<b>(3,535)</b>	*2
	552	<b>288</b>	Tax (expense) or benefit
	<u>(1,665)</u>	<u><b>(3,247)</b></u>	Net of tax
Net unrealized gains (losses) on securities:			
	(281)	<b>74</b>	Others
	(164)	-	Tax (expense) or benefit
	<u>(445)</u>	<u><b>74</b></u>	Net of tax
Total amount reclassified, net of tax	<u>¥ (2,444)</u>	<u><b>¥ (2,423)</b></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 December 31, 2015 and December 31, 2016 are as follows:

For the three-month ended December 31,	Amount reclassified from accumulated other comprehensive income (loss) *1		Affected line items in consolidated statements of income
	2015	2016	
Foreign currencies translation adjustments:			
	(334)	(1)	Selling, general and administrative expenses
	-	-	Tax (expense) or benefit
	(334)	(1)	Net of tax
Pension liability adjustments:			
	(728)	(1,173)	*2
	182	91	Tax (expense) or benefit
	(546)	(1,082)	Net of tax
Net unrealized gains (losses) on securities:			
	1,190	43	Others
	(361)	-	Tax (expense) or benefit
	829	43	Net of tax
Total amount reclassified, net of tax	¥ (51)	¥ (1,040)	

\*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 nine-month ended December 31, 2015 and December 31, 2016 are as follows:

For the nine-month ended December 31, 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	¥ (13,204)	¥ 141	¥ (13,063)
Reclassification adjustments for the portion of gains and losses realized upon sale or liquidation of investments in foreign entities	334	-	334
Net foreign currency translation adjustments	(12,870)	141	(12,729)
Pension liability adjustments:			
Amount arising during the period	133	(54)	79
Reclassification adjustments for amortization	2,217	(552)	1,665
Net pension liability adjustments	2,350	(606)	1,744
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the period	(7,427)	2,100	(5,327)
Reclassification adjustment	281	164	445
Net unrealized gains (losses)	(7,146)	2,264	(4,882)
Other comprehensive income (loss)	¥ (17,666)	¥ 1,799	¥ (15,867)

For the nine-month ended December 31, 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	¥ 6,694	¥ (71)	¥ 6,623
Reclassification adjustments for the portion of gains and losses realized upon sale or liquidation of investments in foreign entities	(750)	-	(750)
Net foreign currency translation adjustments	5,944	(71)	5,873
Pension liability adjustments:			
Amount arising during the period	(152)	3	(149)
Reclassification adjustments for amortization	3,535	(288)	3,247
Net pension liability adjustments	3,383	(285)	3,098
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the period	(187)	62	(125)
Reclassification adjustment	(74)	-	(74)
Net unrealized gains (losses)	(261)	62	(199)
Other comprehensive income (loss)	¥ 9,066	¥ (294)	¥ 8,772

Tax effects allocated to each component of other comprehensive income (loss) and reclassification adjustments for the three-month ended December 31, 2015 and December 31, 2016 are as follows:

For the three-month ended December 31, 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	¥ (3,716)	¥ (116)	¥ (3,832)
Reclassification adjustments for the portion of gains and losses realized upon sale or liquidation of investments in foreign entities	<b>334</b>	-	<b>334</b>
Net foreign currency translation adjustments	(3,382)	(116)	(3,498)
Pension liability adjustments:			
Amount arising during the period	1	(1)	0
Reclassification adjustments for amortization	728	(182)	546
Net pension liability adjustments	729	(183)	546
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the period	1,000	(292)	708
Reclassification adjustment	(1,190)	361	(829)
Net unrealized gains (losses)	(190)	69	(121)
Other comprehensive income (loss)	¥ (2,843)	¥ (230)	¥ (3,073)

For the three-month ended December 31, 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	¥ 101,294	¥ (162)	¥ 101,132
Reclassification adjustments for the portion of gains and losses realized upon sale or liquidation of investments in foreign entities	<b>1</b>	-	<b>1</b>
Net foreign currency translation adjustments	<b>101,295</b>	<b>(162)</b>	<b>101,133</b>
Pension liability adjustments:			
Reclassification adjustments for amortization	<b>1,173</b>	<b>(91)</b>	<b>1,082</b>
Net pension liability adjustments	<b>1,173</b>	<b>(91)</b>	<b>1,082</b>
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the period	<b>989</b>	<b>(319)</b>	<b>670</b>
Reclassification adjustment	<b>(43)</b>	-	<b>(43)</b>
Net unrealized gains (losses)	<b>946</b>	<b>(319)</b>	<b>627</b>
Other comprehensive income (loss)	¥ 103,414	¥ (572)	¥ 102,842

## 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)			
	Nine-month ended December 31, 2015		Nine-month ended December 31, 2016	
	Basic	Diluted	Basic	Diluted
Net income attributable to TDK	¥ 56,414	¥ 54,225	¥ 57,089	¥ 56,116
Number of shares (Thousands)				
Weighted average common shares outstanding	126,052	126,052	126,154	126,154
Incremental shares arising from the exercise of stock option	-	332	-	285
Weighted average common shares outstanding – Total	126,052	126,384	126,154	126,439
Yen				
Per common share:				
Net income attributable to TDK	¥ 447.54	¥ 429.05	¥ 452.53	¥ 443.82
Yen (Millions)				
	Three-month ended December 31, 2015		Three-month ended December 31, 2016	
	Basic	Diluted	Basic	Diluted
Net income attributable to TDK	¥ 24,945	¥ 23,965	¥ 24,415	¥ 23,971
Number of shares (Thousands)				
Weighted average common shares outstanding	126,092	126,092	126,165	126,165
Incremental shares arising from the exercise of stock option	-	336	-	289
Weighted average common shares outstanding – Total	126,092	126,428	126,165	126,454
Yen				
Per common share:				
Net income attributable to TDK	¥ 197.83	¥ 189.55	¥ 193.52	¥ 189.56

The decline of net income attributable to TDK for the nine-month ended and the three-month ended December 31, 2015 and December 31, 2016 were caused by a diluted effect of stock options issued by a subsidiary of TDK Corporation.

For the nine-month ended and the three-month ended December 31, 2015 and December 31, 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 nine-month ended and the three-month ended December 31, 2015 and December 31, 2016 as it was not probable that the performance condition would be achieved as of December 31, 2015 and December 31, 2016.

### 13. Acquisition

#### (1) Micronas Semiconductor Holding AG (“Micronas”)

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 February 13, 2016, the date on which the consolidated financial statements were issued, the allocation of the acquisition cost had been completed.

	Yen (millions)
	Fair values
Current assets	19,667
Net property, plant and equipment	16,257
Intangible assets	4,775
Investments in securities and Other assets	6,978
Total assets	47,677
Current liabilities	3,065
Noncurrent liabilities	21,687
Total liabilities	24,752
Noncontrolling interests	1,517
Net assets acquired	21,408
Goodwill	1,032
Total	22,440

Other intangible assets acquired mainly include technologies of ¥4,558 million, which are subject to amortization. TDK had estimated the amortization period for technologies to be 10 years. Goodwill recognized of ¥1,032 million was attributable primarily to expected synergies from combining operations of Micronas and TDK. The goodwill is not deductible for tax purpose.

After the acquisition date, TDK acquired 3,604 thousand shares of Micronas at a cost of ¥1,485 million, which was paid in cash. As a result of the acquisition, TDK held 100% of equity interest of Micronas.

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 nine-month ended December 31, 2015 as though the acquisition had occurred at the beginning of the year ended March 31, 2016 were not material either.

## **(2) Hutchinson Technology Incorporated (“HTI”)**

On October 5, 2016 (“acquisition date”), TDK acquired 33,942 thousand shares (100% of equity interest) of HTI at a cost of ¥14,262 million, which was paid in cash, through a public tender in accordance with an acquisition agreement dated November 1, 2015. As a result, HTI and its subsidiaries became consolidated subsidiaries of TDK Corporation.

The acquisition-related costs of ¥1,233 million were recognized as a part of selling, general and administrative expenses. As of February 13, 2017, the date on which the consolidated financial statements were issued, the allocation of the acquisition cost had not been completed yet.

HTI is headquartered in Minnesota, U.S.A, and its primary businesses are designing, manufacturing, and sales of HDD suspension and its components.

The purpose of acquisition is to strengthen TDK’s HDD suspension assemble business and HDD head business.

Although TDK included the results of operations of HTI 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 nine-month ended December 31, 2015 as though the acquisition had occurred at the beginning of the year ended March 31, 2016 were not material either.

## **(3) Tronics Microsystems SA (“Tronics”)**

On December 27, 2016 (“acquisition date”), TDK acquired 2,546 thousand shares (72.78% of equity interest) of Tronics at a cost of ¥4,107 million, which was paid in cash, through a public tender in accordance with a transaction agreement dated August 1, 2016. As a result, Tronics and its subsidiaries became consolidated subsidiaries of TDK Corporation.

The acquisition-related costs of ¥94 million were recognized as a part of selling, general and administrative expenses. The fair value of noncontrolling interests was measured based on the market price of the common shares of Tronics as of the acquisition date. As of February 13, 2017, the date on which the consolidated financial statements were issued, the allocation of the acquisition cost had not been completed yet.

Tronics is headquartered in Crolles, France, and its primary businesses are R&D, manufacturing, and sales of MEMS (Micro Electro Mechanical System) sensors.

Through the acquisition of Tronics, TDK broadens its portfolio of cutting-edge sensor technologies and strengthens its basis for faster growth in the strategic field of sensors.

As of December 31, 2016, TDK held 2,547 shares (72.8% of equity interest) of Tronics at a cost of ¥4,108 million, which was paid in cash.

Although TDK included the results of operations of Tronics 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 nine-month ended December 31, 2015 as though the acquisition had occurred at the beginning of the year ended March 31, 2016 were not material either.

#### 14. Held-for-Sale Classification

On January 13, 2016, TDK and Qualcomm Incorporated (“Qualcomm”) which develops communication technology for mobile communications and designs and develops semiconductor, concluded a business alliance agreement involving establishment of a joint venture.

On February 3, 2017, TDK transferred its business to the joint venture, and sold its 51% stake in RF360 Holdings Singapore PTE. Ltd. (“RF360”), which is a holding company that has subsidiaries that run a portion of TDK’s high-frequency components operations to Qualcomm Global Trading PTE. Ltd. (“QGT”), which is a 100% indirect ownership subsidiary of Qualcomm.

Based on the status of regulatory and customer approvals and other conditions for closing of this agreement, the assets and liabilities subject to business transfer were disclosed as single line items in the assets held for sales and the liabilities held for sale in consolidated financial statements as of December 31, 2016.

The following table summarizes the assets and liabilities held for sale as of December 31, 2016.

<b>As of December 31, 2016</b>	<b>Yen (millions)</b>
Current assets	80,390
Net property, plant and equipment	86,946
Goodwill and Intangible assets	11,536
Other assets	1,441
Assets held for sale	180,313
Current liabilities	23,711
Noncurrent liabilities	17,266
Liabilities held for sale	40,977

#### 15. Material Subsequent Events

On February 3, 2017, TDK transferred its business to the joint venture, and sold its 51% stake in RF360, which is a holding company that has subsidiaries that run a portion of TDK’s high-frequency components operations, to QGT, which is a 100% indirect ownership subsidiary of Qualcomm based on the business alliance agreement involving establishment of a joint venture concluded with Qualcomm on January 13, 2016.

TDK forecast to record a gain on transfer (rough estimated operating income of ¥149 billion) for the year ending March 31, 2017.



## 16. 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 nine-month ended and the three-month ended December 31, 2015 are also reclassified to conform to the new segmentation.

The business segment information for the nine-month ended December 31, 2015 and December 31, 2016 are as follows:

### Net sales

	Yen (Millions)	
	Nine-month ended December 31,	
	2015	2016
Passive Components:		
External customers	¥ 446,054	¥ 429,587
Intersegment	2,110	2,317
	<u>448,164</u>	<u>431,904</u>
Magnetic Application Products:		
External customers	246,417	258,681
Intersegment	275	117
	<u>246,692</u>	<u>258,798</u>
Film Application Products:		
External customers	173,842	193,342
Intersegment	-	-
	<u>173,842</u>	<u>193,342</u>
Other:		
External customers	23,029	22,343
Intersegment	18,415	18,707
	<u>41,444</u>	<u>41,050</u>
Intersegment eliminations	(20,800)	(21,141)
Total	<u>¥ 889,342</u>	<u>¥ 903,953</u>

### Segment profit (loss)

	Yen (Millions)	
	Nine-month ended December 31,	
	2015	2016
Passive Components	¥ 49,906	¥ 57,127
Magnetic Application Products	12,990	8,954
Film Application Products	31,454	36,254
Other	(23)	(4,932)
	<u>94,327</u>	<u>97,403</u>
Corporate and eliminations	(18,455)	(20,576)
Operating income	75,872	76,827
Other income (deductions), net	(1,936)	(398)
Income before income taxes	<u>¥ 73,936</u>	<u>¥ 76,429</u>

The business segment information for the three-month ended December 31, 2015 and December 31, 2016 are as follows:

### Net sales

	Yen (Millions)	
	Three-month ended December 31,	
	2015	2016
Passive Components:		
External customers	¥ 143,565	¥ 147,928
Intersegment	599	817
	<u>144,164</u>	<u>148,745</u>
Magnetic Application Products:		
External customers	81,793	92,357
Intersegment	165	39
	<u>81,958</u>	<u>92,396</u>
Film Application Products:		
External customers	67,624	76,364
Intersegment	-	-
	<u>67,624</u>	<u>76,364</u>
Other:		
External customers	8,746	8,123
Intersegment	6,467	6,847
	<u>15,213</u>	<u>14,970</u>
Intersegment eliminations	(7,231)	(7,703)
Total	<u>¥ 301,728</u>	<u>¥ 324,772</u>

### Segment profit (loss)

	Yen (Millions)	
	Three-month ended December 31,	
	2015	2016
Passive Components	¥ 17,494	¥ 20,438
Magnetic Application Products	4,745	4,835
Film Application Products	14,590	16,171
Other	(118)	(1,619)
	<u>36,711</u>	<u>39,825</u>
Corporate and eliminations	(6,414)	(7,311)
Operating income	30,297	32,514
Other income (deductions), net	(443)	(411)
Income before income taxes	<u>¥ 29,854</u>	<u>¥ 32,103</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 nine-month ended December 31, 2015 and December 31, 2016 are as follows:

### **Net sales**

	Yen (Millions)	
	Nine-month ended December 31,	
	2015	2016
Japan	¥ 67,117	¥ 76,968
Americas	76,630	80,418
Europe	109,040	106,859
China	482,205	474,972
Asia and others	154,350	164,736
Total	¥ 889,342	¥ 903,953

The geographic segment information for the three-month ended December 31, 2015 and December 31, 2016 are as follows:

### **Net sales**

	Yen (Millions)	
	Three-month ended December 31,	
	2015	2016
Japan	¥ 22,752	¥ 27,192
Americas	25,436	26,551
Europe	35,240	34,040
China	167,836	175,756
Asia and others	50,464	61,233
Total	¥ 301,728	¥ 324,772

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, Philippines