**[Cover]**

| | |
|---|---|
| Document to be filed: | Annual Securities Report |
| Provision to base upon: | Article 24, paragraph 1 of the Financial Instruments and Exchange Act |
| Filing to: | Director-General of the Kanto Local Finance Bureau |
| Date of filing: | June 29, 2017 |
| Fiscal year: | 121st term (from April 1, 2016 to March 31, 2017) |
| Company name (Japanese): | TDK *Kabushiki-Kaisha* |
| Company name (English): | TDK CORPORATION |
| Title and name of representative: | Shigenao Ishiguro, President and Representative Director |
| Location of head office: | 3-9-1, Shibaura, Minato-ku, Tokyo, Japan |
| Telephone number: | +81-3-6852-7116 |
| Contact person: | Tetsuji Yamanishi, Senior Vice President and Director |
| Place of contact: | 3-9-1, Shibaura, Minato-ku, Tokyo, Japan |
| Telephone number: | +81-3-6852-7116 |
| Contact person: | Tetsuji Yamanishi, Senior Vice President and Director |
| Place where the document to be filed is available for public inspection | Tokyo Stock Exchange, Inc.<br>(2-1, Nihonbashi-kabutocho, Chuo-ku, Tokyo, Japan) |

# A. COMPANY INFORMATION

## I. Overview of the Company

### 1. Trends in principal management benchmarks

#### (1) Management benchmarks (consolidated)

| Term | 117th term | 118th term | 119th term | 120th term | 121st term |
|---|---|---|---|---|---|
| Accounting period | From April 1, 2012 to March 31, 2013 | From April 1, 2013 to March 31, 2014 | From April 1, 2014 to March 31, 2015 | From April 1, 2015 to March 31, 2016 | From April 1, 2016 to March 31, 2017 |
| Net sales (Millions of yen) | 841,847 | 984,525 | 1,082,560 | 1,152,255 | 1,178,257 |
| Income from continuing operations before income taxes (Millions of yen) | 19,765 | 39,772 | 74,517 | 91,839 | 211,717 |
| Net income attributable to TDK (Millions of yen) | 1,195 | 16,288 | 49,440 | 64,828 | 145,099 |
| Comprehensive income (loss) attributable to TDK (Millions of yen) | 73,028 | 87,439 | 129,761 | (34,469) | 138,952 |
| TDK stockholders’ equity (Millions of yen) | 561,169 | 635,327 | 738,861 | 675,361 | 793,614 |
| Net assets (Millions of yen) | 580,616 | 652,243 | 758,007 | 684,633 | 802,118 |
| Total assets (Millions of yen) | 1,169,575 | 1,239,553 | 1,404,253 | 1,450,564 | 1,664,333 |
| TDK stockholders’ equity per share (Yen) | 4,460.79 | 5,049.72 | 5,864.56 | 5,354.79 | 6,288.55 |
| Net income attributable to TDK per share (Yen) | 9.50 | 129.47 | 392.78 | 514.23 | 1,150.16 |
| Diluted net income attributable to TDK per share (Yen) | 5.36 | 120.97 | 377.98 | 504.66 | 1,147.57 |
| Stockholders’ equity ratio (%) | 48.0 | 51.3 | 52.6 | 46.6 | 47.7 |
| Return on stockholders’ equity (%) | 0.2 | 2.7 | 7.2 | 9.2 | 19.8 |
| Price earnings ratio (PER) (Times) | 344.2 | 33.3 | 21.7 | 12.2 | 6.1 |
| Net cash provided by operating activities (Millions of yen) | 108,942 | 127,308 | 142,850 | 151,563 | 160,136 |
| Net cash used in investing activities (Millions of yen) | (90,156) | (55,438) | (127,312) | (140,585) | (71,111) |
| Net cash provided by (used in) financing activities (Millions of yen) | 4,395 | (56,118) | (35,243) | 29,305 | (37,753) |
| Cash and cash equivalents at end of term (Millions of yen) | 213,687 | 250,848 | 265,104 | 285,468 | 330,388 |
| Number of employees (Person) | 79,863 | 83,581 | 88,076 | 91,648 | 99,693 |

Notes: 1. Net sales do not include consumption taxes, etc.

2. Net assets per share, equity ratio and return on equity have been replaced with stockholders’ equity per share, stockholders’ equity ratio and return on stockholders’ equity because TDK Corporation prepared consolidated financial statements based on U.S. GAAP.

3. In accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) No. 205-20, “Presentation of Financial Statements-Discontinued Operations”, the operating results relating to the data tape business and Blu-ray business are separately presented as discontinued

operations in the consolidated statement of income for the 118th term. Reclassifications are also made to the figures for the terms before the 118th term to conform to the presentation used for the 118th term.

4. TDK adopted Accounting Standards Update (“ASU”) 2015-03 “Simplifying the Presentation of Debt Issuance Costs” issued by the Financial Accounting Standards Board (“FASB”) after the year ended March 31, 2017. As a result, the bond issuance cost that used to be a part of Total assets is presented as a deduction from Total assets in the prior years.

**(2) Filing company’s management benchmarks (non-consolidated)**

| Term | 117th term | 118th term | 119th term | 120th term | 121st term |
|---|---|---|---|---|---|
| Accounting period | From April 1, 2012 to March 31, 2013 | From April 1, 2013 to March 31, 2014 | From April 1, 2014 to March 31, 2015 | From April 1, 2015 to March 31, 2016 | From April 1, 2016 to March 31, 2017 |
| Net sales (Millions of yen) | 115,674 | 92,621 | 99,005 | 264,304 | 244,361 |
| Current income (loss) (Millions of yen) | (11,658) | (12,064) | (8,379) | (14,376) | 78,686 |
| Net income (loss) (Millions of yen) | 2,074 | 19,603 | (5,045) | (26,447) | 72,377 |
| Capital stock (Millions of yen) | 32,641 | 32,641 | 32,641 | 32,641 | 32,641 |
| Total number of issued shares (Thousands of shares) | 129,591 | 129,591 | 129,591 | 129,591 | 129,591 |
| Net assets (Millions of yen) | 320,124 | 336,543 | 331,036 | 284,544 | 342,249 |
| Total assets (Millions of yen) | 711,749 | 742,758 | 767,313 | 751,913 | 774,572 |
| Net assets per share (Yen) | 2,534.28 | 2,664.93 | 2,617.73 | 2,246.11 | 2,701.20 |
| Cash dividends per share (Yen)<br>[Interim dividends per share] (Yen) | 70.00<br>[40.00] | 70.00<br>[30.00] | 90.00<br>[40.00] | 120.00<br>[60.00] | 120.00<br>[60.00] |
| Net income (loss) per share (Yen) | 16.49 | 155.82 | (40.08) | (209.79) | 573.72 |
| Diluted net income per share (Yen) | 16.46 | 155.56 | — | — | 572.43 |
| Equity ratio [%] | 44.8 | 45.1 | 43.0 | 37.7 | 44.0 |
| Return on equity [ROE] [%] | 0.6 | 6.0 | (1.5) | (8.6) | 23.2 |
| Price earnings ratio [PER] [Times] | 198.3 | 27.7 | — | — | 12.3 |
| Dividend payout ratio [%] | 424.6 | 44.9 | — | — | 20.9 |
| Number of employees [Person] | 3,600 | 3,652 | 3,763 | 4,542 | 4,644 |

Notes:

1. Net sales do not include consumption taxes, etc.
2. Diluted net income per share in the 119th and 120th terms are not presented because, although there were potentially dilutive shares, net losses per share were reported.

## 2. Description of business operations

TDK Corporation prepares its consolidated financial statements according to U.S. generally accepted accounting principles (U.S. GAAP). It discloses information based on these consolidated financial statements pertaining to its subsidiaries and affiliates based on the definitions of U.S. GAAP. The same applies to “II. Review of operations” and “III. Facilities.”

As of March 31, 2017, the TDK Group (“TDK”) is comprised of TDK Corporation (the “Company”), 138 consolidated subsidiaries and 9 equity-method affiliates. Segment categories are manufacturing and sales of “Passive Components,” “Magnetic Application Products,” “Film Application Products” and “Other” (not included in the other three segments).

The following table presents a description of business operations and the respective placement of the Company and subsidiaries and affiliates with respect to these business operations.

| Category | Main products | Major companies |
|---|---|---|
| Passive Components | Ceramic capacitors, Aluminum electrolytic capacitors, Film capacitors, Inductive devices (Coils/Ferrite cores/Transformers), High-frequency components, Piezoelectric materials and circuit protection components, and Sensors | The Company<br>TDK Europe GmbH<br>TDK Hong Kong Co., Ltd.<br>EPCOS AG<br>TDK-MCC Corporation<br>55 other companies (Domestic: 3, Overseas:52)<br>(Total: 60 companies) |
| Magnetic Application Products | HDD Heads, HDD suspension assemblies, Magnetic Sensors, Power supplies, Magnets | The Company<br>SAE Magnetics (H.K.) Ltd.<br>Magnecomp Precision Technology Public Co., Ltd.<br>Headway Technologies, Inc.<br>TDK-Lambda Corporation<br>48 other companies (Domestic: 2, Overseas: 46)<br>(Total: 53 companies) |
| Film Application Products | Energy devices (Rechargeable batteries) | The Company<br>Amperex Technology Ltd.<br>13 other companies (Domestic:-, Overseas: 13)<br>(Total: 15 companies) |
| Other | Mechatronics (production equipment), other | The Company<br>TDK Corporation of America<br>37 other companies (Domestic: 13, Overseas: 24)<br>(Total: 39 companies) |

## 3. Status of subsidiaries and affiliates

| Name | Location | Capital | Principal business | Holding rate of voting rights (%) | Business relationship |
|---|---|---|---|---|---|
| (Consolidated subsidiaries – Overseas)<br>SAE Magnetics (H.K.) Ltd. *1, *2 | Hong Kong, China | HK$ 50,000 | Magnetic Application Products | 100 (100) | Manufacturing and sales of TDK products<br>Interlocking directorate: Yes |
| Ningde Amperex Technology Ltd. *1 | Ningde, China | RMB 839,909,052 | Film Application Products | 100 (100) | Manufacturing and sales of TDK products<br>Interlocking directorate: No |
| Amperex Technology Ltd.*1 | Hong Kong, China | US$ 277,588,100 | Film Application Products | 98.4 (57.5) | Manufacturing and sales of TDK products<br>Interlocking directorate: Yes |
| EPCOS Ltd. | Hong Kong, China | HK$ 2,000,000 | Passive Components | 100 (100) | Sales of TDK products<br>Interlocking directorate: Yes |
| TDK Hong Kong Co., Ltd.*1 | Hong Kong, China | HK$ 25,500,000 | Passive Components and Magnetic Application Products | 100 | Manufacturing and sales of TDK products<br>Interlocking directorate: No |
| Dongguan Amperex Technology Ltd. *1 | Dongguan, China | RMB 485,509,727 | Film Application Products | 100 (100) | Manufacturing and sales of TDK products<br>Interlocking directorate: No |
| TDK Xiamen Co., Ltd. *1 | Xiamen, China | RMB 681,074,000 | Passive Components | 100 (100) | Manufacturing and sales of TDK products<br>Interlocking directorate: Yes |
| TDK (Shanghai) International Trading Co., Ltd. | Shanghai, China | RMB 1,659,160 | Passive Components | 100 (100) | Sales of TDK products<br>Interlocking directorate: Yes |
| Navitasys Technology Ltd. *1 | Hong Kong, China | US$ 86,160,571 | Film Application Products | 100 (100) | Manufacturing and sales of TDK products<br>Interlocking directorate: No |
| EPCOS (Zhuhai FTZ) Co., Ltd. | Zhuhai, China | RMB 29,390,675 | Passive Components | 100 (100) | Manufacturing and sales of TDK products<br>Interlocking directorate: No |
| EPCOS (Zhuhai) Co., Ltd. | Zhuhai, China | RMB 127,150,185 | Passive Components | 100 (100) | Manufacturing and sales of TDK products<br>Interlocking directorate: No |
| SAE Magnetics (Dongguan) Ltd *1 | Dongguan, China | RMB 341,480,000 | Magnetic Application Products | 100 (100) | Manufacturing of TDK products<br>Interlocking directorate: Yes |
| TDK China Co., Ltd. *1 | Shanghai, China | RMB 260,973,200 | Investment in and financing to subsidiaries and affiliates and their management | 100 | ――――<br>Interlocking directorate: Yes |
| Magnecomp Precision Technology Public Co., Ltd. *1 | Ayutthaya, Thailand | US$ 96,333,296 | Magnetic Application Products | 99.8 | Manufacturing and sales of TDK products<br>Interlocking directorate: Yes |
| TDK Taiwan Corporation | Taipei, Taiwan | NT$ 424,125,200 | Passive Components | 95.4 (95.4) | Manufacturing and sales of TDK products<br>Interlocking directorate: Yes |
| TDK Philippines Corporation *1 | Laguna, Philippines | US$ 65,313,150 | Magnetic Application Products | 100 | Manufacturing and sales of TDK products<br>Interlocking directorate: No |
| TDK (Thailand) Co., Ltd. | Ayutthaya, Thailand | BAHT 699,000,000 | Passive Components and Magnetic Application Products | 100 | Manufacturing and sales of TDK products<br>Interlocking directorate: No |
| TDK Singapore (Pte) Ltd. | Singapore | US$ 126,050 | Passive Components | 100 (100) | Sales of TDK products<br>Interlocking directorate: No |
| TDK Corporation of America | Illinois, U.S.A. | US$ 3,800,000 | Passive Components | 100 (100) | Sales of TDK products<br>Interlocking directorate: Yes |
| EPCOS Inc. | New Jersey, U.S.A | US$ 1,000 | Passive Components | 100 (100) | Sales of TDK products<br>Interlocking directorate: No |
| Headway Technologies, Inc. *1 | California, U.S.A. | US$ 163,161,945 | Magnetic Application Products | 100 | Manufacturing and sales of TDK products<br>Interlocking directorate: No |
| TDK U.S.A. Corporation | New York, U.S.A. | US$ 850 | Investment in and financing to subsidiaries and affiliates and their management | 100 | ――――<br>Interlocking directorate: Yes |

| Name | Location | Capital | Principal business | Holding rate of voting rights (%) | Business relationship |
|---|---|---|---|---|---|
| Lambda Holdings Inc. *1 | New York, U.S.A. | US$ 529,046,247 | Investment in and financing to subsidiaries and affiliates and their management | 100 (100) | ——— Interlocking directorate: Yes |
| EPCOS AG *1 | Munich, Germany | EUR 66,682,270 | Passive Components | 100 (100) | Manufacturing and sales of TDK products Interlocking directorate: Yes |
| TDK Europe GmbH *1, *3 | Munich, Germany | EUR 46,545,000 | Passive Components | 100 (100) | Sales of TDK products Interlocking directorate: No |
| EPCOS OHG | Deutschlandsberg, Austria | EUR 14,500,000 | Passive Components | 100 (100) | Manufacturing and sales of TDK products Interlocking directorate: No |
| EPCOS Electronic Parts Ltd. | Szombathely, Hungary | EUR 9,670,320 | Passive Components | 100 (100) | Manufacturing and sales of TDK products Interlocking directorate: No |
| TDK-Micronas GmbH | Freiburg, Germany | EUR 500,000 | Magnetic Application Products | 100 (94.9) | Manufacturing and sales of TDK products Interlocking directorate: No |
| TDK Europe S.A. *1 | Windhof, Luxembourg | EUR 352,113,042 | Investment in and financing to subsidiaries and affiliates and their management | 100 | ——— Interlocking directorate: Yes |
| TDK Germany GmbH | Dusseldorf, Germany | EUR 25,000 | Investment in and financing to subsidiaries and affiliates and their management | 100 (100) | ——— Interlocking directorate: Yes |
| (Consolidated subsidiaries – Domestic) TDK-MCC Corporation | Nikaho City, Akita Prefecture | (Millions of yen) 1,000 | Passive Components | 100 (100) | Manufacturing of TDK products Interlocking directorate: No |
| TDK Shonai Corporation | Tsuruoka City, Yamagata Prefecture | 110 | Passive Components | 100 (100) | Manufacturing of TDK products Interlocking directorate: Yes |
| TDK-Lambda Corporation | Minato-ku, Tokyo | 2,976 | Magnetic Application Products | 100 (46.9) | Manufacturing and sales of TDK products Interlocking directorate: Yes |
| TDK Ugo Corporation | Yurihonjo City, Akita Prefecture | 106 | Passive Components | 100 (100) | Manufacturing of TDK products Interlocking directorate: No |
| TDK Service Corporation | Ichikawa City, Chiba Prefecture | 34 | Insurance and real estate agency | 100 | Consignment of insurance agency and property management for TDK Interlocking directorate: Yes |
| TDK-EPC Corporation | Minato-ku, Tokyo | 100 | Investment in and financing to subsidiaries and affiliates and their management | 100 | ——— Interlocking directorate: Yes |
| 102 other companies | | | | | |
| (Equity-method affiliates) RF360 Holdings Singapore PTE. LTD | Singapore | US$ 2,634,455,244.14 | Holding company with subsidiaries of operation of High-frequency components business | 49 (49) | ——— Interlocking directorate: Yes |
| Semiconductor Energy Laboratory Co., Ltd. | Atsugi City, Kanagawa Prefecture | Millions of yen 4,348 | Research and development of semiconductor products | 31.7 | Consignment of research and development Interlocking directorate: No |
| 7 other companies | | | | | |

Notes: 1. Descriptions in the “Principal business” column are names of business segments or other specific business activities.
2. Figures in parentheses in the “Holding rate of voting rights” column indicate indirect holding rates included in the figures outside the parentheses.
3. Descriptions of “Interlocking directorate” include corporate officers of the Company.
4. *1:Applies to specific subsidiaries.
5. *2:Net sales of SAE Magnetics (H.K.) Ltd. exceeded 10% of net sales of TDK.
The major items of income are as follows:
i. Net sales ¥215,738 million
ii. Income before income taxes ¥14,094 million
iii. Net income ¥13,038 million
iv. Net assets ¥ 120,138 million
v. Total assets ¥158,646 million
6. *3:Net sales of TDK Europe GmbH exceeded 10% of net sales of TDK.

The major items of income are as follows:

| | | |
|---|---|---|
| i. | Net sales | ¥126,983 million |
| ii. | Income before income taxes | ¥1,692 million |
| iii. | Net Income | ¥1,523 million |
| iv. | Net assets | ¥6,274 million |
| v. | Total assets | ¥53,193 million |

## 4. Status of employees

### (1) Status of consolidated companies

(As of March 31, 2017)

| Name of business segment | Number of employees (Person) |
|---|---|
| Passive Components | 42,854 |
| Magnetic Application Products | 21,994 |
| Film Application Products | 29,624 |
| Other | 3,372 |
| Corporate (Common) | 1,849 |
| Total | 99,693 |

### (2) Status of filing company (the Company)

(As of March 31, 2017)

| Number of employees (Person) | Average age (Years old) | Average years of service (Years) | Average annual salary (Yen) |
|---|---|---|---|
| 4,644 | 43.5 | 20.4 | 8,040,070 |

| Name of business segment | Number of employees (Person) |
|---|---|
| Passive Components | 849 |
| Magnetic Application Products | 1,056 |
| Film Application Products | 9 |
| Other | 981 |
| Corporate (Common) | 1,749 |
| Total | 4,644 |

Notes:
1. The number of employees indicates the number of working employees.
2. Average annual salary includes bonuses and surplus wages.
3. The number of employees shown as Corporate (Common) is the number of employees who belong to the administrative departments.

### (3) Status of labor union

The filing company and some of its subsidiaries have labor unions.

## II. Review of operations

### 1. Overview of operating results

### (1) Operating results

In the year ended March 31, 2017 (“fiscal 2017”), the global economy maintained a gradual pace of growth. The emerging economies of China, India and other countries continued to experience higher rates of growth than developed countries. The U.S. and European economies expanded moderately as corporate business conditions, employment levels and personal consumption held firm.

The electronics market, which has a large bearing on the consolidated performance of TDK, saw production levels differ by finished product. Production of smartphones increased from the previous fiscal year, driven by sustained growth in demand in the Chinese market. Production in the automobile market was slightly higher than the previous fiscal year, driven mainly by solid automobile sales in Europe and the U.S. Meanwhile, production of PCs declined compared to the previous fiscal year. Production of hard disk drives (HDDs) declined compared to the previous fiscal year due to the decreased demand for PCs and the continued replacement of the HDDs inside PCs by solid state drives (SSDs).

Under these market conditions, TDK recorded net sales of ¥1,178,257 million, up 2.3% from ¥1,152,255 million in fiscal 2016. TDK recorded operating income of ¥208,660 million, up 123.4% from ¥93,414 million in fiscal 2016. TDK also recorded income before income taxes of ¥211,717 million, up 130.5% from ¥91,839 million in fiscal 2016. Furthermore, TDK recorded net income attributable to TDK of ¥145,099 million, up 123.8% from ¥64,828 million in fiscal 2016. Basic net income attributable to TDK per common share was ¥1,150.16, compared with ¥514.23 in fiscal 2016.

Average exchange rates for the U.S. dollar and euro during fiscal 2017, were ¥108.46 and ¥118.92, respectively, as the yen appreciated 9.7% against the U.S. dollar and 10.4% against the euro year on year. This decreased net sales by approximately ¥129.1 billion and operating income by approximately ¥26.7 billion. Besides, operating income for fiscal 2017 included gain on sale of business according to forming a joint venture with Qualcomm Incorporated.

TDK’s business segments are aggregated into three reportable segments, “Passive Components,” “Magnetic Application Products” and “Film Application Products,” and businesses not belonging to either of these segments are classified under “Other.” In accordance with the reorganization in 1Q of fiscal 2017, certain products of Other were reclassified into Inductive Devices and Other Passive Components and certain products of Film Application Products were reclassified into Other. The prior year's sales are also reclassified to conform to the new segmentation.

The Passive Components segment is made up of: (1) Capacitors; (2) Inductive devices; and (3) Other passive components. Segment net sales were ¥548,730 million, down 6.0% year on year from ¥583,474 million. The segment reported profit of ¥204,681 million, up 208.2% year on year from ¥66,404 million in fiscal 2016.

An overview of net sales results by business for this segment is provided below.

Capacitors is made up of Ceramic capacitors, Aluminum electrolytic capacitors, and Film capacitors. Net sales in Capacitors were ¥136,790 million, down 9.1% year on year from ¥150,402 million. Net sales of Ceramic capacitors increased to the automotive market, while decreased to the ICT (Information and Communications Technology) and the industrial equipment markets. Net sales of Aluminum electrolytic capacitors and Film capacitors decreased mainly to the industrial equipment market.

Net sales of Inductive devices decreased 6.3% year on year from ¥155,121 million to ¥145,334 million. Net sales increased to the automotive market, while decreased to the ICT market.

Other passive components include High-frequency devices, Piezoelectric material products, Circuit protection components, and Sensors. Net sales of Other passive components decreased by 4.1% year on year from ¥277,951 million to ¥266,606 million.
Net sales of High-frequency devices increased to the ICT market, their major market.Net sales of Piezoelectric material products and Circuit protection components increased to the industrial equipment market, while decreased to the automotive and the ICT markets. Net sales of Sensors decreased mainly to the industrial equipment market.

The Magnetic Application Products segment is made up of: (1) Recording devices; and (2) Other magnetic application products. Segment net sales increased 10.9% year on year from ¥315,322 million to ¥349,698 million. The segment reported a loss of ¥1,802 million turned from a profit of ¥13,194 million in fiscal 2016.

An overview of net sales results by business for this segment is provided below.

Recording devices is comprised mainly of HDD heads, HDD suspension assemblies and Magnetic sensors. It recorded net sales of ¥262,135 million, up 19.2% year on year from ¥219,836 million. Net sales of HDD heads increased despite the slump in the HDD market. Net sales of Magnetic sensors made by Micronas Semiconductor Holding AG, which was acquired in March 2016, and the HDD suspension assemblies of Hutchinson Technology Incorporated, which was acquired in October 2016, were included within net sales of Recording devices in fiscal 2017.

Other magnetic application products include Power supplies and Magnets. Net sales decreased by 8.3% year on year from ¥95,486 million to ¥87,563 million. Net sales of Power supplies decreased mainly to the industrial equipment market. Also, net sales of Magnets decreased mainly to the ICT market for use in HDDs.

The Film Application Products segment includes Energy devices (rechargeable batteries). Segment net sales increased by 12.6% year on year from ¥219,893 million to ¥247,693 million. Segment profit increased 11.3% from ¥37,038 million in fiscal 2016 to ¥41,217 million. Net sales of Energy devices increased significantly to the ICT market.

The Other segment, businesses which do not belong to any of the three reportable segments, is comprised of Mechatronics (production equipment), among others. Net sales for the Other segment decreased 4.3% from ¥33,566 million recorded in fiscal 2016 to ¥32,136 million, and the segment reported a loss of ¥6,655 million turned from a profit of ¥1,199 million in fiscal 2017.

An overview of net sales results by region is provided below.

In the Japan region, net sales increased 15.6% year on year from ¥91,052 million to ¥105,233 million. Net sales for the Magnetic Application Products segment increased.

In the Americas region, net sales increased 2.9% year on year from ¥101,974 million to ¥104,910 million. Net sales for the Magnetic Application Products segment increased, while the Passive Components segment decreased.

In the Europe region, net sales increased 0.6% year on year from ¥145,336 million to ¥146,201 million. Net sales for the Magnetic Application Products segment increased, while the Passive Components segment decreased.

In the China region, net sales decreased 1.2% year on year from ¥606,045 million to ¥598,959 million. Net sales for the Magnetic Application Products segment decreased, while the Film Application Products segment increased.

In the Asia and others region, net sales increased 7.3% year on year from ¥207,848 million to ¥222,954 million. Net sales for the Magnetic Application Products segment increased, while the Passive Components segment decreased.

As a result, overseas net sales increased 1.1% year on year from ¥1,061,203 million to ¥1,073,024 million. Overseas net sales accounted for 91.1% of net sales, a 1.0 percentage point decrease from 92.1% in fiscal 2016.

**(2) Cash flows**

An overview of cash flows is provided below.

**Cash flows from operating activities**

Operating activities provided net cash of ¥160,136 million, an increase of ¥8,573 million year on year. There was an increase in trade payables.

**Cash flows from investing activities**

Investing activities used net cash of ¥71,111 million, a decrease of ¥69,474 million year on year. There was a decrease in proceeds from sale of business.

**Cash flows from financing activities**

Financing activities used net cash of ¥37,753 million, changed by ¥67,058 million year on year. There was a change in short-term debt.

As a result of adding in the effects of currency fluctuations, cash and cash equivalents as of March 31, 2017 was ¥330,388 million, ¥44,920 million larger than as of March 31, 2016.

## 2. Status of production, orders received and sales

### (1) Production results

A breakdown of production results by business segment for fiscal 2017 is given below.

(Millions of yen)

| Name of business segment | Production Results | YoY Increase/ Decrease (%) |
|---|---|---|
| Passive Components | 528,849 | (8.4) |
| Magnetic Application Products | 351,771 | 13.4 |
| Film Application Products | 251,617 | 9.8 |
| Other | 33,038 | (18.8) |
| Total | 1,165,275 | 0.7 |

Notes: 1. Amounts are calculated by the sales price.
2. Consumption taxes, etc. are not included in the above figures.

### (2) Status of orders received

A breakdown of orders received by business segment for fiscal 2017 is given below.

(Millions of yen)

| Name of business segment | Amount of orders received (Millions of yen) | YoY Increase/ Decrease (%) | Balance of orders received (Millions of yen) | YoY Increase/ Decrease (%) |
|---|---|---|---|---|
| Passive Components | 580,131 | (1.0) | 127,102 | 3.1 |
| Magnetic Application Products | 356,212 | 16.8 | 37,796 | 39.3 |
| Film Application Products | 336,289 | 6.2 | 69,756 | 32.3 |
| Other | 31,398 | 2.8 | 6,265 | 164.6 |
| Total | 1,304,030 | 5.3 | 240,919 | 17.2 |

Note: Amounts are calculated by the sales price.

### (3) Sales results

A breakdown of sales results by business segment for fiscal 2017 is given below.

(Millions of yen)

| Name of business segment | Sales Results | YoY Increase/ Decrease (%) |
|---|---|---|
| Passive Components | 548,730 | (6.0) |
| Magnetic Application Products | 349,698 | 10.9 |
| Film Application Products | 247,693 | 12.6 |
| Other | 32,136 | (4.3) |
| Total | 1,178,257 | 2.3 |

Note: Consumption taxes, etc. are not included in the above figures.

## 3. Pressing issues

### (1) Fundamental Management Policy

TDK was established in 1935 as the world's first company to industrialize a magnetic material called ferrite. In the ensuing years, TDK has developed and commercialized passive components, magnetic application products and film application products, among other products. This drive has been based on the company's founding spirit: "Contribute to culture and industry through creativity."

To preserve its identity as a dynamic company, TDK believes that it must remain an organization that constantly provides even higher corporate value to all stakeholders, including shareholders, customers, suppliers, employees and society, by drawing on innovative thinking and a willingness to tackle new challenges.

### (2) Medium- and Long-Term Management Strategy

TDK has formulated a three-year medium-term management plan with the fiscal year ended March 31, 2016 as the inaugural year, with the aim of further increasing corporate value by sustained growth. TDK's basic policy is to evolve inter-Group links to achieve further growth. On this basis, TDK is pursuing a zero-defect quality strategy based on advanced technological capabilities, along with working to truly globalize its operations by speedy management.

Turning to TDK's businesses, TDK is accelerating sales expansion by strengthening the Sensor business, which offers significant prospects for market growth, as well as through the three segments of Passive Components, Magnetic Application Products, and Film Application Products, thereby boosting profitability. In addition to investing in these core businesses, TDK aims to enhance the Group's overall profitability and capital efficiency, while efficiently investing in new product development and new businesses. At the same time, as regards shareholder returns, the Company's policy is to continue paying stable dividends by leveraging the impact of these investments by growing earnings per share.

In line with the Corporate Governance Code that was applied to listed companies in June 2015 with the aim of achieving sustained growth and improving medium- and long-term corporate value, TDK will endeavor to implement appropriate information disclosure and ensure transparency to further activate its constructive engagement with shareholders and investors and fulfill the role and obligations of the Board of Directors at the same time.

The Company celebrated the 80th anniversary of its founding in December 2015. Looking ahead now to its 100th anniversary, TDK asks every individual employee in TDK to hearken back to its founding spirit, namely, its resolve to "contribute to culture and industry through creativity" (Corporate Motto), while at the same time TDK is working to foster a corporate culture that continues to strive for growth.

### (3) Pressing Issues of TDK

TDK is working to expand business with a focus on ICT, automotive, and industrial equipment and energy as its priority markets. In the ICT market, the Chinese market, the largest in this sector, continues to grow, primarily driven by smartphones. In parallel, this wave of growth is spreading to India and other emerging countries. Moreover, the number of components used in smartphones is also increasing with the development of even more sophisticated smartphones. In the automotive market, the U.S. and European markets are trending firmly. Demand is growing for various electronic components such as Sensors, driven by the emergence of full-scale demand for xEVs (EVs, hybrid and plug-in hybrid vehicles, etc.) and the further development and spread of Advanced Driving Assistance Systems (ADAS) and automated driving. In the industrial equipment and energy market, although the market for large motors contracted from the previous fiscal year, the renewable energy market, including wind and solar power generation, is expected to grow. In these and other ways, demand for electronic components is projected to continue growing, primarily in the core markets targeted by TDK.

In fiscal 2017, the second fiscal year of the three-year Medium-Term Plan, TDK and Qualcomm Incorporated ("Qualcomm") of the U.S. formed a joint venture under the name of RF360 Holdings Singapore PTE. Ltd. in the high-frequency components business, which has been experiencing sustained, high growth. In fiscal 2018, the final fiscal year of the Medium-Term Plan, TDK will accelerate new product development by further advancing TDK's materials and component technologies in growth markets such as IoT, leveraging technical cooperation with Qualcomm pertaining to a wide range of cutting-edge technologies, including passive components, rechargeable batteries, wireless power transfer, and sensors. Concurrently, TDK will appropriately address growing needs for the modularization of components.

In the Sensor business, which is expected to see significant market expansion, in addition to Micronas Semiconductor Holding AG of Switzerland, in fiscal 2017 the Company acquired sensor-related companies such as Tronics Microsystems SA of France and ICsense NV of Belgium, as well as InvensSense Inc. of the U.S. in May 2017. In addition to TDK's existing sensor businesses, TDK will integrate the acquired sensor-related companies at the organizational level, thereby establishing cross-organizational marketing and R&D structures. By doing so, TDK will propose high-performance, high value-added sensing solutions.

In the energy business, the business expertise established by the rechargeable battery business in the smartphone market will be put to good use in developing new applications. TDK will also provide solutions as systems by integrating TDK's superior materials technology and components technologies such as DC-DC converters and wireless power transfer. Moreover, TDK will work on the crucial priority of ensuring the long-term profitability of the HDD Head-related business, one of TDK's core businesses.

In reinforcing its businesses, TDK will supply products that meet customer demands and that respond to social concerns such as energy conservation, legal and regulatory compliance, and safety. TDK will take further steps to reduce the environmental impact of its business activities by cutting CO2 emissions and other measures, and to contribute to environmental protection. TDK will also take steps to realize the sustainable growth and medium- to long-term corporate value increase of the TDK by seeking to strengthen its corporate governance further.

In July 2016, TDK underwent an on-site inspection by the Japan Fair Trade Commission based on the Act on Prohibition of Private Monopolization and Maintenance of Free Trade (Anti-Monopoly Act) in connection with the HDD Suspension Assemblies business. TDK is offering its fullest cooperation with the inspection by the Japan Fair Trade Commission. In addition, TDK takes this situation very seriously and is responding with the utmost integrity, working to further strengthen its compliance system.

## 4. Business risks

Listed below are items that, among those relating to the review of operations and accounting, etc. stated in the Annual Securities Report, may significantly influence investor decisions. The following includes forward-looking statements based on judgments current as of the filing date of the Annual Securities Report on June 29, 2017.

### (1) Risks concerning changes in economic trends

The electronics industry, TDK's field of operations, is highly susceptible to economic trends in the U.S., Europe, Asia, particularly China and Japan, which are the main markets for end products. In addition, markets in these countries and regions are constantly exposed to various risk factors such as international issues and economic fluctuations. TDK monitors world economic trends and takes timely measures in response to them. However, if changes beyond our expectations occur in such business environments, such changes could significantly affect business results.

### (2) Risks concerning fluctuations in currency exchange

TDK conducts business activities globally. Indeed, more than 90% of net sales are accounted for by overseas sales, and many transactions are conducted in currencies other than the yen, such as the U.S. dollar or euro. A sudden appreciation of the yen against these currencies could affect earnings such as by reducing net sales and operating income. In order to mitigate these risks, TDK is working to purchase more raw materials in foreign currencies and increase the local procurement of supplies consumed overseas. Foreign currency fluctuations also give rise to conversion differences with respect to our investments in overseas assets and liabilities, which are converted into Japanese yen in our consolidated financial statements. Measures are taken against fluctuations in foreign currency exchange rates, including procuring foreign currency-denominated funds and concluding forward foreign exchange contracts; however, significant fluctuations in foreign currency exchange rates beyond our expectations could have a significant adverse effect on TDK's financial position and business results.

### (3) Risks concerning overseas operations

TDK conducts operations globally and selects the most suitable locations in terms of market, product lineup, logistics and other standpoints. Overseas sales account for more than 90% of total sales on a consolidated basis.

In many of our target markets and emerging countries that are expected to see economic development going forward, TDK may be exposed to international political risks such as war, terrorism or other events, economic risks such as fluctuations in currency exchange or trade imbalance, and social risks including labor problems stemming from differences in cultures and customs, and diseases. Such risks may give rise to changes of a far greater magnitude than we anticipate. There may be unknown risks in building relationships with trading partners due to differences in commercial and business customs. If these risks materialize, they could reduce or halt manufacturing activities, force the stagnation of sales activities and in turn have a significant adverse effect on business results.

In particular, TDK has many manufacturing bases in China, which is a country in the midst of strong economic growth, and has established a system for supplying both customers and local companies that have been setting up operations in China. If unexpected events occur in China due to political factors (such as changes in laws and regulations), economic factors (such as the continuity of high growth and status of infrastructure development such as electric power supply) or social environment, there could be a significant effect on business results.

### (4) Risks concerning price competition

TDK supplies electronic components in a broad range of fields in an electronics industry where competition is intensifying. These fields include ICT represented by smartphones, the automobiles field, where use of onboard electronics is increasing, and energy related fields such as solar and wind power generation. Price is one of the main competitive factors differentiating us from other companies in the industry in which leading Japanese companies and Asian companies in South Korea, Taiwan and China have fueled intense price competition.

TDK is working to promote ongoing cost-cutting initiatives and increase profitability to counter this market competition. However, as downward pressure from the market on prices continues to intensify, in the event that the fall in prices far exceeds our expectations or becomes protracted, there could be a significant effect on business results.

### (5) Risks concerning technological innovation and new product development

In TDK, the launch of new products imbuing value on a timely basis helps boost our profitability. We also believe ongoing new product development is key to our survival. The Group believes that our ability to increase sales by developing appealing, innovative products has an important role to play in our growth. We are therefore engaged in new product development as an important element of our management strategies. However, it is extremely difficult to predict future demand in the rapidly changing electronics industry. TDK may fail to continue to develop and supply in a timely manner attractive, new products with innovative technologies for this industry and our markets. As one strategy to avoid these risks, research and development divisions in TDK continuously reshape the framework based on analysis of market trends, along with conducting development management to promote the prioritization of development themes. Nevertheless, there is a risk that a loss of sales opportunities could result in the loss of future markets, as well as existing markets. This may have a significant adverse effect on business results and growth prospects.

**(6) Risks concerning product quality**

TDK conducts quality control of various products at domestic and overseas manufacturing bases in accordance with ISO (International Organization for Standardization) quality management standards (ISO 9001) and the strict standards required by customers in the remarkably technologically innovative electronics industry. Furthermore, TDK utilizes proprietary quality technologies and past data concerning quality issues to create a quality assurance system for building in quality from the earliest development stage, so as to ensure that reliability and safety stand up to normal product use. This is achieved through design inspections, internal quality audits, supplier surveys and guidance, process management and in other ways at each product stage including planning, design, prototyping and manufacturing.

However, TDK cannot be fully certain that defects in quality (including cases where products contained restricted substances) and recalls due to those defects will not occur. Should a recall or a product liability claim against us occur, it could result in recall costs or damage claims and lower sales. Furthermore, it is assumed that a defect in quality in one of TDK's name-bearing products would have a negative impact on our reputation and brand, and endanger the continued existence of the company. In such a way, a major quality problem could have a significant effect on business results.

**(7) Risks concerning intellectual property**

TDK is working hard to strengthen and use its patent portfolio by managing and acquiring patents, licenses and other intellectual property rights covering TDK's products' functions, designs and so forth (hereinafter "intellectual property rights"), as a strategic intellectual property activity that contributes to business earnings.

However, there are cases where our intellectual property rights cannot be fully protected in a particular region for reasons unique to that region. We may suffer damages resulting from the manufacture by a third party of similar products to our own with the unauthorized use of our intellectual property rights.

There may be cases where it is alleged that our products infringe on the intellectual property rights of third parties that may sue for damages as a result of such alleged infringement. This would require either legal processes or settlement negotiations. If our defenses against such claims are not accepted in such disputes, we may have to pay damages and royalties and suffer losses such as the loss of markets.

Significant disputes over intellectual property rights could have a significant effect on business development and business results.

**(8) Risks concerning securing personnel and training personnel**

TDK generates a high percentage of total sales overseas and overseas production also accounts for a high proportion of production. Furthermore, in recent years, we have accelerated the overseas relocation of design and production bases, and at the same time increased the number of employees globally as TDK Group companies have increased rapidly. In order to continuously develop business in the fast-changing electronics industry, we believe that we must continuously promote efforts to secure and develop personnel who possess various advanced technical skills, and personnel with excellent management capabilities, such as those necessary for formulating strategy and managing organizations.

TDK therefore actively hires university graduates and employs experienced people throughout the year in order to continuously develop its businesses. Moreover, we are working to retain and develop employees by putting in place frameworks for increasing their motivation. This includes enhancing fair evaluation and remuneration systems based on a target-based management system, improving and extending various training programs for developing employees that can act independently and globally, and passing on the "DNA" of our manufacturing.

However, competition to continuously recruit the necessary employees is intense. Moreover, in Japan, the employment environment is changing rapidly because of the falling birthrate, the aging population, and the declining workforce. A similar change is occurring at our overseas bases in China and other countries. The inability to recruit and train personnel as planned could have a significant effect on business development, business results and growth prospects from a long-term perspective.

**(9) Risks concerning raw material procurement**

TDK's manufacturing system is premised on securing raw materials and other supplies in adequate quality and quantity in a timely manner from multiple external suppliers. However, for major raw materials, we may rely on a limited number of difficult-to-replace suppliers. Because of this, there may be cases where supplies of raw materials and other products to us are interrupted by a disaster, an accident or some other event at a supplier, supply is suspended due to quality or other issues, or there is a shortage of supply due to a rapid increase in demand for finished products. Moreover, there may be cases where local procurement necessitated by increased overseas production is affected by overseas circumstances. If any of these situations becomes protracted, it could have a significant, adverse effect on production and prevent us from fulfilling our responsibilities to supply products to our customers. If the supply-demand balance in the market is disrupted, it may considerably increase costs of manufacturing through steep run-ups in the prices we pay for raw materials and rises in fuel prices, including oil. We are implementing various measures to counter these risks, such as reviewing our suppliers on a timely basis. However, in cases where the situation is beyond our expectations, there could be a significant effect on business results.

**(10) Risks concerning government regulations**

TDK is subject to and required to comply with various regulations in Japan and other countries where we conduct business. These include approval for conducting business and making investments, the safety of electric and electronic products, national security between nations, and export/import-related, as well as commercial, antitrust, patent, product liability, environmental, consumer and taxation laws and regulations.

In the event that laws and regulations become more stringent in the future and our business development is significantly affected, we may incur various additional operating costs, and if we are unable to respond appropriately to these laws and regulations, we may be forced to partially withdraw from certain businesses or take other actions.

In this way, the strengthening of government laws and regulations in their various forms could have a significant adverse effect on business results.

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.

**(11) Risks concerning interest rate fluctuation**

TDK has financial assets, such as cash deposits and government bonds, and financial liabilities such as loans from banks, corporate bonds, and lease obligations. Fluctuations in interest rates beyond our expectations could affect the interest income, and interest expense, and the value of financial assets and liabilities, which could have a significant effect on TDK’s financial position and business results.

**(12) Risks concerning business-to-business transactions**

TDK is developing business-to-business transactions on a global scale, whereby we supply electronic components to customers in the electronics and automotive markets.

We work to reduce risk by conducting transactions with a variety of customers and take measures such as setting transactions terms and conditions based on our evaluation of a customer’s credit risk. However, our business may be significantly affected by various factors that are beyond our control, such as changes in each customer’s business results and management strategies. In addition, a decline in purchasing demand due to a customer`s poor business results, increase discounting pressure from customers due to changes in their purchasing policies and policies, the unexpected termination of contracts or other occurrences could result in excess inventory or a reduction in profit margins.

In the event that our customers go through reorganizations caused by mergers and acquisitions effected by enterprises of different business types or by competitors domestically or abroad, this situation could have a significant effect on TDK’s sales, including a marked decline in orders or the cancellation of all business transactions.

**(13) Risks concerning natural disasters, electricity supply and pandemics**

TDK has many production factories and research and development facilities in Japan and overseas. These facilities and plants have taken disaster-protection and infection-control measures and purchased their own power generation facilities to cope with electricity shortages in preparation for unexpected natural disasters and infection outbreaks. However, significant damage could be incurred at these facilities and plants due to an event beyond business continuity planning (BCP) assumptions, such as a large earthquake, tsunami, typhoon, flood or volcanic eruption; a large-scale blackout or electricity shortages caused by them; or an outbreak of an unknown infectious disease such as a new strain of influenza. In the event of interruption to manufacturing, disruption of transportation routes, damage to or disconnection of information and communications infrastructure, impairment of central functions, or significant damage to our customers themselves due to the impact of such occurrences, orders and supply could be affected for a long period of time. This situation could have a significant effect on business results.

**(14) Risks concerning environmental regulations**

With respect to specified hazardous chemical substances used in products, TDK is subject to various environmental laws and regulations with respect to industrial waste and emissions into the atmosphere and water from our production processes in Japan and overseas. Furthermore, from the perspective of global environmental conservation, as environmental regulations become more stringent in the future, our cost of compliance with such regulations could increase.

TDK has complied with environmental regulations prescribed by law and is engaged in a wide range of environmental conservation activities. If a situation occurs where we are forced to withdraw from certain business activities when the adoption of such laws and regulations exceeds our ability to respond or social trust in TDK is lost due to our delay in responding to such adoption, it could have a significant effect on business results.

**(15) Risks concerning M&A**

TDK basically believes that the necessary technologies and other elements for continuously increasing corporate value in the increasingly competitive electronics field should be cultivated internally. However, we conduct M&As as necessary if it is an effective means to accelerate business growth or major synergies can be expected in terms of establishing a competitive edge in the market in a short space of time.

When conducting M&As, we take sufficiently into account market trends, customer needs, the business results, financial position, technological advantage and market competitiveness of the target company, TDK's business portfolio and other factors.

However, if there are tumultuous changes in the market and competitive environment, the acquired business fails to develop as planned, the investment cannot be recovered or additional expenses are incurred, TDK's business results, growth prospects and business development among others could be significantly affected.

**(16) Risks concerning information security**

As part of its business operations, TDK holds confidential information and personal information relating to customers and trading partners as well as confidential information of the Group and personal information. We have constructed a group-wide control system to prevent this information from being leaked to outside parties, falsified or otherwise manipulated. Moreover, we execute measures to ensure thorough management and IT security, improved facility security and employee training. However, there is still a risk that such information could be leaked or falsified through hacking, negligence, theft or other causes.

In such an event, TDK could suffer a lowering of credibility and be liable for huge costs relating to the compensation payment to the parties suffering damage. It could also have a significant effect on business results.

## 5. Important operational contracts, etc.

(1) Conclusion of tender offer agreement with Tronics Microsystems SA ("Tronics")

EPCOS AG ("EPCOS"), wholly owned by the Company, entered into a tender offer agreement with Tronics, the primary businesses of which are R&D, manufacturing, and sales in the field of MEMS (Micro Electro Mechanical System) sensors, on August 1, 2016. EPCOS acquired 72.38% of Tronics's shares on December 14, 2016, and then Tronics became a consolidated subsidiary of the Company.

i. Purpose of acquisition

Through the acquisition of Tronics, TDK would be able to further broaden its portfolio of cutting-edge sensor technologies and provide customers with a wide range of sensor solutions.

ii. Overview of Tronics

Company : Tronics Microsystems SA

Headquarters : Crolles, France

Representative : Pascal Langlois (CEO)

Main business : R&D, manufacturing, and sales of MEMS sensors

(2) Conclusion of acquisition agreement with InvenSense, Inc. ("InvenSense")

The Company entered into a definitive agreement to acquire InvenSense, the primary businesses of which are R&D and sales of inertial sensors, on December 21, 2016. The Company acquired 100% of InvenSense's shares on May 18, 2017.

i. Purpose of acquisition

Through the acquisition of the global inertial sensor company InvenSense, TDK would be able to strengthen its product line ups and technologies, which is expected to enable the combined company to become a stronger player in broad based sensor solutions for IoT, automotive and ICT by accelerating the sensor product roadmap to offer innovative next generation products and platforms. In addition, sensor fusion, the combination of various sensor technologies and software, creates products with enhanced value solutions for customers across multiple fields.

ii. Overview of InvenSense

Company : InvenSense, Inc.

Headquarters : San Jose, California, U.S.A.

Representative : Behrooz Abdi (President and CEO)

Main business : Development, fabless-manufacture and sales of inertial sensors, acceleration sensors, angular velocity sensors, magnetic compasses, voice sensors etc. and control software

(3) Conclusion of share purchase agreement with ICsense NV ("ICsense")

TDK-Micronas GmbH ("TDK-Micronas"), wholly owned by the Company, entered into a share purchase agreement with ICsense, the primary businesses of which are R&D, manufacturing and sales in the field of ASICs and design of custom IC on March 6,2017. TDK-Micronas acquired 100% of ICsense's outstanding shares on March 22, 2017.

i. Purpose of acquisition

   TDK would be able to broaden its portfolio of cutting-edge sensor technologies and expand its sensor business.

ii. Overview of ICsense

   Company : ICsense NV

   Headquarters : Leuven, Belgium

   Representative : Dr. Bram De Muer (CEO)

   Main business : Development and supply of ASICs, as well as the design of custom ICs

## 6. Research and development activities

In its R&D activities, TDK is working to continuously strengthen and expand the development of new products that respond to diversification in the electronics field. In particular, TDK is concentrating on the ICT field, the automotive field, and the industrial equipment and energy field. By product development taking full advantage of its strengths in terms of manufacturing capabilities, TDK is contiributing to upgrade the functionality, drive the miniaturization, and raise the energy efficiency of electronic devices. Based on the technology strategy capturing the market change in these 3 fields, TDK sets sensors and actuators, energy units and next-generation electric components as strategic growth products, of that future demand increase is promising. TDK puts more effort into capturing business opportunities in the IoT market. For sensors and actuators, TDK is aiming to provide customers with a wide range of sensor solutions by connecting MEMS (Micro Electro Mechanical System) and software. For energy unit, TDK is focusing on the development of energy unit using TDK's batteries, power supplies and wireless power transfer, and also focusing on magnet, of that demand is increasing for motor use. For next-generation electric components, TDK promotes to develop the high-value added products that respond to diversifying market needs by the fusion of SESUB(Semiconductor Embedded SUBstrate) technology, thin-film technology and materials technology.

Looking at Head Office research and development functions, TDK flexibly reshapes the research and development framework to ensure that its highly specialized engineers in their respective market sectors are able to conduct research and development based on creative ideas. While honing the fundamental technologies shared by the entire Company, TDK is focused on development activities aimed at commercializing products over the medium and long terms. Guided by the slogan, "Link Technology to customers, Prepare technology for the future," TDK is pushing ahead with development activities that will benefit customers in preparation for tomorrow's society. In doing so, we aim to put our technologies at the service for customers.

In the Passive Components field, TDK is developing next-generation multilayer ceramic chip capacitors, inductors and EMC components with miniaturization and high performance. Moreover, TDK is strengthening its hand in modules, where high-frequency applications are becoming prevalent.

In the Magnetic Application Products field, TDK is strengthening the development of high performance rare earth magnets, next-generation ferrite magnets and high recording density next-generation heads, and devices for hybrid and electric vehicles. TDK aims to develop highly efficient power supplies appropriate to the societal trend towards low energy consumption. TDK allocates development resources to the reduction of the amount of rare earth elements and the development of magnets that do not contain rare earth elements. Through these efforts, TDK aims to avoid sales price rises caused by soaring prices of raw materials for rare earth elements.

In the Film Application Products field, TDK is developing materials for next-generation lithium batteries.

For these R&D activities, based on a technology strategy of grasping market change, TDK is focusing on developing strategic growth products (Sensors and Actuators, Energy Units, and Next-Generation Electronic Components) in the core markets above, where future growth is promising, and also has built a four-base system for global R&D (Japan, America, Europe, Asia), and is developing products in collaboration with R&D organizations and leading companies around the world based on a first-to-market mindset.

Especially with Sensors, which are a vital device for the IoT era, TDK aims to offer innovative next generation products and platforms by sensor fusion, the combination of sensor technologies and software taking into consideration for collaboration with the companies holding technology assets necessary for the realization.

Furthermore, in its R&D activities, TDK is pushing ahead to recruit and train outstanding talent and introduce cutting-edge theoretical research. Under this policy, TDK is proactively forming industry-government-academic alliances with public institutions, universities and research institutions around the world regarding source technologies that TDK does not possess. Notably, TDK has concluded an organizational alliance agreement with the Tokyo Institute of Technology that includes advanced joint research based on magnetic and magnet technology. Under this agreement, the joint research is being advanced with the aim of achieving highly original development results.

R&D expenses in fiscal 2017 increased 7.5% year on year to ¥91,254 million, 7.7% of net sales.

## 7. Analysis of financial position, operating results and cash flow position

The forward looking statements in this report are based on judgment current as of March 31, 2017.

### (1) Significant accounting policies

Significant accounting policies are those that require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

The following is not intended to be a comprehensive list of all of TDK's accounting policies. TDK's significant accounting policies are more fully described in Note 1 of the Notes to Consolidated Financial Statements. In many cases, the accounting treatment of a particular transaction is specifically dictated by U.S. generally accepted accounting principles, with no need for management's judgment in their application. There are also areas in which management's judgment in selecting an available alternative would not produce a materially different result.

TDK has identified the following as critical accounting policies: impairment of long-lived assets, valuation of inventories, accounting for business combinations, goodwill and other intangible assets, pension benefit costs, and deferred tax assets.

Impairment of long-lived assets

As of March 31, 2016 and 2017, the aggregate of TDK's property, plant and equipment and amortized intangible assets was ¥526,400 million and ¥513,166 million, which accounted for 36.3% and 30.8% of total assets, respectively. TDK believes that impairment of long-lived assets is critical to TDK's financial statements because the recoverability of the amounts or lack thereof, could significantly affect its results of operations.

TDK's long-lived assets and certain identifiable intangibles with certain amortization periods are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. This review is performed using estimates of future cash flows. If the carrying amount of the asset is considered to be impaired, an impairment charge is recorded for the amount by which the carrying value of an asset exceeds its fair value. Management judges that the estimates of future cash flows and fair values are reasonable; however, changes in estimates resulting in lower future cash flows and fair value due to unforeseen changes in business assumptions could negatively affect the valuation of those long-lived assets and significantly affect TDK's financial position and results of operations. TDK makes investments with due prudence, taking sufficiently into consideration the future profitability of products and the recoverability of investments.

Valuation of inventories

Inventories are stated at the lower of cost or market. The carrying value of inventory is reduced for estimated obsolescence by the difference between its cost and the estimated market value based upon assumptions about future demand. TDK evaluates the inventory carrying value for potential excess and obsolete inventory exposures by analyzing historical and anticipated demand. In addition, known and anticipated engineering change orders are evaluated against on-hand quantities for their potential obsolescence affects. As fluctuations in estimates, which become a standard in recognizing adjustments in the carrying values of inventory for expected obsolescence, are influential to business results of TDK, we conclude it as a significant accounting policy. If actual demand were to be substantially lower than estimated, additional inventory adjustments for excess or obsolete inventory may be required, which could have a material adverse effect on TDK's business, financial condition and results of operations.

Regarding the appropriateness of estimates in the past, TDK does not use a method based on various scenarios, but a method to reconsider every quarter by comparing estimate and actual results. For example, in the operational management of product sectors with rapid development in technological innovation such as the recording devices sector, TDK revises the estimates of valuation of obsolete inventories arising from the timely response to customers' demands for high-efficiency products on a quarterly basis.

Business combination

We account for acquired businesses by using the acquisition method of accounting which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. The judgments made in determining the estimated fair value assigned to each class of assets acquired, as well as asset lives, can materially impact net income of the periods subsequent to the acquisition through depreciation and amortization, and in certain instances by impairment charges, if the asset becomes impaired in the future.

In determining the estimated fair value for intangible assets, we typically utilize the income approach, which employs discounting of the projected future net cash flow using an appropriate discount rate that reflects the risk factors associated with the cash flow streams.

Determining the useful life of an intangible asset also requires judgment as different types of intangible assets will have different useful lives and certain assets may even be considered to have indefinite useful lives. Intangible assets determined to have an indefinite useful life have been reassessed periodically based on the factors prescribed in FASB Accounting Standards Codification 350 including, but not limited to, the expected use of the asset by us, legal or contractual provisions that may affect the useful life or renewal or extension of the asset's contractual life without substantial cost, and the effects of demand, competition and other economic factors.

Goodwill and other intangible assets

Goodwill and other intangible assets that are determined to have an indefinite life are not amortized but are tested for impairment on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of these assets below their carrying amount. Fair value for these assets is determined using a discounted cash flow analysis, which is based on an authorized business plan. Management believes that the estimates of future cash flows and fair value are reasonable; however, changes in estimates resulting in lower future cash flows and fair value due to unforeseen changes in business assumptions could negatively affect the valuations.

Pension benefit costs

Employee pension benefit costs and obligations are dependent on assumptions used by actuaries in calculating such amounts. These assumptions include discount rates, retirement rates and mortality rates which are based upon current statistical data, as well as salary growth, long-term return on plan assets and other factors. Actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect TDK's recognized expense and recorded obligation in future periods. While TDK believes that its assumptions used are appropriate, differences in actual experience or changes in assumptions may affect TDK's benefit obligations and future expense.

In preparing its consolidated financial statements for fiscal 2017, TDK established discount rates of 0.8% and 2.5% for domestic and overseas pension plans, respectively, and expected long-term rates of return of 2.3% and 6.4% on domestic and overseas plan assets, respectively. In estimating the discount rate, TDK uses available information about rates of return on long-term corporate bonds currently available and expected to be available during the period to the maturity of the pension benefits. TDK established the expected long-term rate of return on plan assets based on management's expectations in respect of the long-term returns of the various plan asset categories in which it invests. Management developed expectations with respect to each plan asset category based on actual historical returns and its current expectations for future returns.

A decrease in the discount rate leads to an increase in actuarial pension benefit obligations that could lead to an increase in net periodic pension cost through amortization of unrecognized actuarial gain or losses.

An increase in the expected return on plan assets may decrease net periodic pension cost. However, the difference between the expected return and the actual return on those assets could negatively affect net income in future years.

Deferred tax assets

TDK has significant deferred tax assets, which are subject to realizability assessment. In assessing the realizability of deferred tax assets, TDK considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. TDK considers the planned reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, TDK believes that it is more likely than not that all of the deferred tax assets less valuation allowance, will be realized. However, in the event future projections for income are not realized or are realized in lesser amounts, or in cases where TDK revises the assessment of the potential for realization of deferred tax assets based on other factors, deferred tax assets may be determined not to be realizable, which then would require TDK to increase a valuation allowance against the deferred tax assets resulting in additional income tax expenses.

## (2) Analysis of business results for the fiscal year

Overview of consolidated operating results

In fiscal 2017, TDK posted consolidated net sales of ¥1,178,257 million, up 2.3% from fiscal 2016. TDK recorded operating income of ¥208,660 million, an increase of 123.4% year on year. TDK recorded net income attributable to TDK of ¥145,099 million, an increase of 123.8% compared to fiscal 2016.

The electronics market, which has a large bearing on the consolidated performance of TDK, saw production levels differ by finished product. Production of smartphones in ICT markets, which accounts for little less than 60% of consolidated net sales of TDK, increased from fiscal 2016, driven by growth in demand in the Chinese market which is the largest market. Production in the automobile market was slightly higher than fiscal 2016, driven mainly by solid automobile sales in the U.S. Meanwhile, production of hard disk drives (HDDs) drastically declined and shifted compared to fiscal 2016 due to the decreased demand for PCs and the continued replacement of the HDDs inside PCs by solid state drives (SSDs).

Under these conditions, sales in HDD heads and HDD suspension assemblies increased despite the slump in the HDD market. Orders increased for the ICT markets, mainly smartphones, and for the automotive market. Despite the stronger yen against the U.S. dollar and the euro, the amount of TDK's net sales increased year on year. On the other hand, the amount of TDK's net sales in the Industrial Equipment / Energy fields decreased due to the delay in economic recovery and the slump in the investment in infrastructure.

Effect of foreign exchange fluctuations

In fiscal 2017, overseas sales accounted for 91.1% of consolidated net sales, a decrease of 1.0 percentage points compared to fiscal 2016. During fiscal 2017, the yen's value appreciated 9.7% against the U.S. dollar, and appreciated 10.4% against the euro, based on average exchange rates in markets. Overall, exchange rate fluctuations had the effect of decreasing net sales by approximately ¥129.1 billion and operating income by approximately ¥26.7 billion in fiscal 2017.

By geographic area based on the location of customers, foreign exchange fluctuations decreased sales in Japan by approximately ¥16.7 billion, in Asia (excluding Japan) and Oceania by approximately ¥113.6 billion, in the Americas by approximately ¥10.4 billion, and in Europe by approximately ¥39.3 billion. The effect of foreign exchange fluctuations on consolidated net sales after the elimination of intersegment transactions among the Company and its consolidated subsidiaries was an approximate ¥129.1 billion decrease.

The Company and certain overseas consolidated subsidiaries have forward foreign exchange contracts and currency swap contracts to ease the fluctuation risk of foreign currency exchange rates. Foreign exchange risk arising from operating activities is hedged by using forward foreign exchange contracts. In principle, TDK's policy is to hedge up to 50% of expected foreign currency-denominated accounts receivable for the next six months to follow. In addition, TDK applies hedge accounting to some parts of a net investment from fiscal 2017. Due to the global nature of its operations, management realizes that currency fluctuations continue to have the potential to exert a material influence on consolidated performance.

Cost and net income

The cost of sales increased 3.0% to ¥855,948 million in fiscal 2017 from ¥831,123 million in fiscal 2016 due primarily to higher sales. The cost of sales ratio increased 0.5 percentage points from 72.1% to 72.6% of net sales. It's largely due to strong pressure for price discounts on products and the effect of the yen's value appreciation against the U.S. dollar and the euro, which are exceeding an increase in sales volumes, contributions from improvements in productivity and discounts on the cost of raw materials and lower costs due to the effect of structural reforms. As a result, the cost of sales ratio increased. However, according to the effect of sales increase, gross profit increased ¥1,177 million (0.4%) year on year in fiscal 2017. The gross profit ratio was 27.4%.

Selling, general and administrative expenses increased by ¥12,261 million from ¥227,185 million in fiscal 2016 to ¥239,446 million in fiscal 2017. Moreover, the ratio to net sales increased 0.6 percentage points from 19.7% to 20.3%. Research and development expenses included in selling, general and administrative expenses for fiscal 2017 climbed 7.5% from ¥84,920 million in fiscal 2016 to ¥91,254 million.

Excluding a decrease in expense by approximately ¥22.1 billion from the effect of foreign exchange according to the yen's value appreciation, selling, general and administrative expenses increased practically by approximately ¥34.4 billion. There were increases in selling expenses by approximately ¥21.6 billion due to an increase in expense of sales activity in main business and consolidation of acquired companies, such as Micronas Semiconductor Holding AG (Micronas), Hutchinson Technology Incorporated (HTI) and so on and in research and development expenses by approximately ¥12.8 billion due to increases in expenses regarding Monozukuri Revolution and new business development and consolidation of acquired companies, such as Micronas, HTI and so on.

The breakdown of other operating expense (income) of ¥(125,797) million in fiscal 2017 were ¥(145,208) million of the gain on business transfer according to an establishment of a joint venture concluded with Qualcomm Incorporated and ¥19,411 million of impairment of long-lived and goodwill.

Other income (deductions) improved by ¥4,632 million from fiscal 2016. According largely to foreign exchange loss by devaluation of Chinese Yuan in Chinese subsidiaries, foreign exchange gain (loss) improved by ¥2,762 million from fiscal 2016. In addition, loss on sale of marketable securities and investments in securities and impairment loss of investments in securities decreased by ¥1,839 million and ¥1,417 million from fiscal 2016, respectively.

Net income attributable to noncontrolling interests in fiscal 2017 was ¥461 million, a decrease of ¥1,334 million from ¥1,795 million in fiscal 2016. This decrease was due to changes in controlling interests ratio of subsidiaries and so on.

TDK posted net income attributable to TDK of ¥145,099 million, resulting in diluted net income attributable to TDK per common share of ¥1,147.57. Return on equity improved from 9.2% to 19.8%.

Cash dividends per share paid during fiscal 2017 was ¥120. This dividend was the sum of the year-end dividend of ¥60 paid out in June 2016 and the interim dividend of ¥60 paid out in December 2016. Shareholders recorded in the shareholders' registry as of March 31, 2017, will receive a cash dividend of ¥60 per share on June 30, 2017.

### (3) Financial position

Total assets amounted to ¥1,664,333 million as of March 31, 2017, a ¥213,769 million increase from ¥1,450,564 million as of March 31, 2016.

Liquidity increased by ¥79,086 million. Cash and cash equivalents increased by ¥44,920 million and short-term investments increased by ¥34,167 million. While property, plant and equipment decreased by ¥22,972 million, net trade receivables increased by ¥28,691 million.

Total liabilities increased by ¥96,284 million from ¥765,931 million as of March 31, 2016 to ¥862,215 million as of March 31, 2017.

While short-term debt decreased by ¥81,003 million, long-term debt, excluding current installments increased by ¥73,109 million and trade payables increased by ¥63,980 million, respectively.

Total TDK stockholders' equity in net assets increased by ¥118,253 million from ¥675,361 million as of March 31, 2016 to ¥793,614 million. Retained earnings increased by ¥126,376 million.

### (4) Liquidity and fund resources

Demand for operating funds

TDK's operating funds are primarily used for the purchase of raw materials and parts for use in the manufacture of its products, and this is recorded as manufacturing expenses. The payment of personnel costs and selling, general and administrative expenses such as marketing expenses and logistics costs for sales promotion are also significant disbursement of funds. Personnel expenses relating to R&D are also significant. The necessary funds for these disbursements are mainly provided from cash generated by operations.

Capital expenditures

For details of capital expenditures, please refer to "1. Outline of capital expenditures" under "III. Facilities."

Financing

TDK regards cash and deposits with banks, etc. (cash, deposits with banks, short-term investments and marketable securities) as liquid funds, and its policy has long been to maintain its liquidity level at 2.0 months or more of monthly net sales. The balance of liquid funds amounted to ¥386,519 million as of March 31, 2017, which was equal to approximately 3.9 months of average monthly net sales. TDK considers this level of liquidity sufficient for current needs.

Net cash of ¥71,111 million was used in investing activities of TDK in fiscal 2017. TDK held long-term debt of ¥152,298 million excluding straight bonds and lease obligations, straight bonds of ¥13,000 million and short-term debt of ¥158,683 million as of March 31, 2016. However, while short-term debt decreased by ¥81,003 million, long-term debt excluding straight bonds and lease obligations increased by ¥85,685 million primarily due to borrowing.

For details of the debt of the Group, please refer to Notes to Consolidated Financial Statements, Note 5 Short-Term and Long-Term Debt.

Fund management

As a general rule, operating funds or funds for capital expenditure are provided from cash generated by operations. In order to improve capital efficiency, TDK has introduced a cash management system (CMS) in Japan, U.S., Europe and China to centrally manage funds by its headquarters whenever it is possible to do so. When subsidiaries are unable to provide their operating funds or funds for capital expenditure, TDK utilizes funds from within the Group as much as possible. Moreover, TDK manages on-hand funds by placing priority on security and liquidity.

## III. Facilities

### 1. Outline of capital expenditures

In fiscal 2017, TDK spent ¥167,631 million on capital expenditures to accurately respond to the rapid technological innovation and the intensified sales competition in the electronics market to which TDK belongs.

Capital expenditures in the Passive Components segment totaled ¥68,605 million. These expenditures were mainly for the purpose of strengthening the business base and increasing the production capacity of inductive devices.

Capital expenditures in the Magnetic Application Products segment totaled ¥14,954 million, mainly for the development and production of high-density next-generation heads for HDDs.

Capital expenditures in the Film Application Products segment totaled ¥55,834 million, mainly to boost production of lithium-ion polymer batteries.

Capital expenditures in the Other totaled ¥7,246 million.

Capital expenditures for the R&D divisions at the headquarters totaled ¥20,992 million mainly for investments in building new plants and in internal IT infrastructure construction and fundamental development research.

### 2. Main facilities

Main facilities of TDK are as follows.

#### (1) Passive Components

a. Filing company (the Company)

| Name of facility (Location) | Description | Book value (Millions of yen) | | | | | | Number of employees (Person) |
|---|---|---|---|---|---|---|---|---|
| | | Buildings and structures | Machinery, equipment and vehicles | Land (thousand $m^2$) | Lease assets | Construction in progress | Total | |
| Nikaho Plant (Nikaho City, Akita Pref.) 3 other plants in the Pref. | Manufacturing passive components | 34,262 | 27,986 | 2,700 (464) | － | 2,110 | 67,059 | 610 |

Note: Tools, furniture and fixtures are included in the book value of "Machinery, equipment and vehicles."

b. Domestic subsidiaries

| Name of company (Location) | Description | Book value (Millions of yen) | | | | | Number of employees (Person) |
|---|---|---|---|---|---|---|---|
| | | Buildings | Machinery and equipment | Land (thousand $m^2$) | Construction in progress | Total | |
| TDK Shonai Corporation (Tsuruoka City, Yamagata Pref. and other locations) | Manufacturing passive components | 2,243 | 109 | 1,063 (83) | 1,975 | 5,390 | 999 |
| TDK-MCC Corporation (Nikaho City, Akita Pref. and other locations) | Manufacturing passive components | 2,427 | 35 | 514 (96) | 31 | 3,007 | 1,608 |

c. Overseas subsidiaries

| Name of company (Location) | Description | Book value (Millions of yen) | | | | | Number of employees (Person) |
|---|---|---|---|---|---|---|---|
| | | Buildings | Machinery and equipment | Land (thousand $m^2$) | Construction in progress | Total | |
| EPCOS OHG (Austria) | Manufacturing passive components | 5,251 | 10,339 | 541 (123) | 343 | 16,474 | 840 |
| TDK Xiamen Co., Ltd. (China) | Manufacturing passive components | 4,079 | 10,653 | — | 1,031 | 15,763 | 7,769 |
| EPCOS Electronic Parts Ltd. (Hungary) | Manufacturing passive components | 2,889 | 4,917 | 324 (32) | 1,801 | 9,931 | 2,153 |
| TDK Dalian Corporation (China) | Manufacturing passive components | 1,961 | 7,798 | — | 159 | 9,918 | 1,513 |
| EPCOS (Zhuhai FTZ) Co., Ltd. (China) | Manufacturing passive components | 1,510 | 5,005 | — | 294 | 6,809 | 3,253 |
| EPCOS (Zhuhai) Co., Ltd. (China) | Manufacturing passive components | 363 | 4,800 | — | 996 | 6,159 | 5,540 |
| EPCOS India Private Ltd. (India) | Manufacturing passive components | 1,217 | 2,876 | 136 (57) | 1,111 | 5,340 | 1,726 |

**(2) Magnetic Application Products**

a. Filing company (the Company)

| Name of facility (Location) | Description | Book value (Millions of yen) | | | | | | Number of employees (Person) |
|---|---|---|---|---|---|---|---|---|
| | | Buildings and structures | Machinery, equipment and vehicles | Land (thousand $m^2$) | Lease assets | Construction in progress | Total | |
| Narita Plant (Narita City, Chiba Pref.) 1 other plant in Shizuoka Pref. | Manufacturing magnetic application products | 1,689 | 905 | 3,289 (248) | — | 48 | 5,933 | 492 |
| Asama Techno Plant (Saku City, Nagano Pref.) | Manufacturing magnetic application products | 470 | 662 | 268 (95) | — | 115 | 1,516 | 527 |

Note: Tools, furniture and fixtures are included in the book value of “Machinery, equipment and vehicles.”

b. Domestic subsidiaries

| Name of company (Location) | Description | Book value (Millions of yen) | | | | | Number of employees (Person) |
|---|---|---|---|---|---|---|---|
| | | Buildings | Machinery and equipment | Land (thousand $m^2$) | Construction in progress | Total | |
| TDK-Lambda Corporation (Minato-ku, Tokyo and other locations) | Manufacturing magnetic application products | 981 | 378 | 363 (64) | 99 | 1,821 | 571 |

c. Overseas subsidiaries

| Name of company (Location) | Description | Book value (Millions of yen) | | | | | Number of employees (Person) |
|---|---|---|---|---|---|---|---|
| | | Buildings | Machinery and equipment | Land (thousand $m^2$) | Construction in progress | Total | |
| TDK-Micronas GmbH (Germany) | Manufacturing magnetic application products | 3,619 | 8,166 | 987 (51) | 711 | 13,483 | 715 |
| SAE Magnetics (H.K.) Ltd. (China (Hong Kong)) | Manufacturing magnetic application products | 1,024 | 9,037 | — | 747 | 10,808 | 519 |
| Magnecomp Precision Technology Public Co., Ltd. (Thailand) | Manufacturing magnetic application products | 2,264 | 5,834 | 596 (136) | 630 | 9,324 | 5,746 |
| Hutchinson Technology Incorporated (U.S.A) | Manufacturing magnetic application products | 3,902 | 1,569 | 312 (137) | 1,568 | 7,351 | 1,060 |

### (3) Film Application Products

a. Overseas subsidiaries

| Name of company (Location) | Description | Book value (Millions of yen) | | | | | Number of employees (Person) |
|---|---|---|---|---|---|---|---|
| | | Buildings | Machinery and equipment | Land (thousand $m^2$) | Construction in progress | Total | |
| Ningde Amperex Technology Ltd. (China) | Manufacturing film application products | 44,510 | 46,203 | — | 34,476 | 125,189 | 16,956 |
| Dongguan Amperex Technology Ltd. (China) | Manufacturing film application products | 3,879 | 8,746 | — | 1,571 | 14,196 | 7,303 |

### (4) Corporate (Common) and Other

a. Filing company (the Company)

| Name of facility (Location) | Description | Book value (Millions of yen) | | | | | | Number of employees (Person) |
|---|---|---|---|---|---|---|---|---|
| | | Buildings and structures | Machinery, equipment and vehicles | Land (thousand $m^2$) | Lease assets | Construction in progress | Total | |
| Technical Center (Ichikawa City, Chiba Pref.) 1 other plant in Yamanashi Pref. 1 other plant in Oita Pref. | Corporate (Common) and Other | 11,106 | 8,629 | 3,004 (273) | 208 | 4,103 | 27,052 | 2,107 |

Notes: 1. Tools, furniture and fixtures are included in the book value of "Machinery, equipment and vehicles."

2. Technical Center is mainly a corporate (common) facility, but it also includes business segments which are classified as Other. However, due to difficulties in drawing such distinctions, it is displayed under "Corporate (Common) and Other".

## 3. Plan for installation and retirement, etc. of facilities

TDK conducts a broad range of operations in Japan and overseas. As of March 31, 2017, plans of new constructions and expansions of facilities for these operations had not been decided for each individual project. For this reason, figures are disclosed by each business segment. Capital expenditure plans (new constructions and expansions) within the one year period following fiscal 2017 are ¥160,000 million and the breakdown by business segment is as follows.

| Name of business segment | Projected amount at the end of fiscal 2017 (Millions of yen) | Main contents and objectives of facilities, etc. | Capital resource |
|---|---|---|---|
| Passive Components | 50,000 | Production capacity increase and rationalization of ceramic capacitors, inductive devices and piezoelectric material products | – |
| Sensor Application Products | 8,000 | Production capacity increase of each sensor products | – |
| Magnetic Application Products | 32,000 | Developing and manufacturing facilities of high-density next-generation heads for HDD and production capacity increase of magnets | – |
| Film Application Products | 50,000 | Production capacity increase of lithium-ion polymer batteries and rationalization of facilities | – |
| Other | 8,000 | – | – |
| HQ/R&D divisions | 12,000 | Establishment of internal IT system and basic research and development | – |
| Total | 160,000 | – | Own capital and borrowing |

Notes: 1. Consumption taxes, etc. are not included.

2. There are no plans for retirement or sale of important facilities except for the regular retirement or sale related to updating facilities.

3. TDK’s business segments are aggregated into four reportable segments, “Passive Components,” “Sensor Application Products,” “Magnetic Application Products” and “Film Application Products,” and businesses not belonging to either of these segments are classified under “Other.” from April 1, 2017 and capital expenditure plans are planed based on the current business segments, and stated.

## IV. Filing company

## 1. Status of the Company's shares

### (1) Total number of shares authorized, etc.

a. Total number of shares authorized

| Class | Total number of shares authorized by the Company(Shares) |
|---|---|
| Common stock | 480,000,000 |
| Total | 480,000,000 |

b. Number of shares issued

| Class | Number of issued shares (As of March 31, 2017) | Number of issued shares (As of the date of filing: June 29, 2017) | Name of financial instruments exchange where the stock of the Company is traded or the name of authorized financial instruments firms association where the Company is registered | Details |
|---|---|---|---|---|
| Common stock | 129,590,659 | 129,590,659 | Tokyo Stock Exchange (First Section) | Share unit number<br>100 shares |
| Total | 129,590,659 | 129,590,659 | – | – |

Note: The number of shares issued by exercise of stock acquisition rights between June 1, 2017 and the date of filing of this Annual Securities Report, is not included in "Number of shares issued (as of the date of filing: June 29, 2017)".

### (2) Status of stock acquisition rights

**Stock Acquisition Rights, Etc., Granted to the Company's Directors and Audit & Supervisory Board Members as of the End of the Fiscal Year Under Review in Consideration for the Performance of Their Duties**

**a. Share-Based Compensation Type Stock Acquisition Rights**

| Issue | Issue Resolution date | Number of stock acquisition rights | Class and number of shares to be issued upon the exercise of stock acquisition rights | Amount to be paid for stock acquisition rights (issue price) | Exercise period of stock acquisition rights (both days inclusive) | Directors' and Audit & Supervisory Board Members' holdings | |
|---|---|---|---|---|---|---|---|
| | | | | | | Directors | Audit & Supervisory Board Members |
| 2005 | June 29, 2005 | 26 | 2,600 shares of common stock | Free of charge | From July 1, 2005 to June 30, 2025 | 1 person, 26 rights | — |
| 2008 | May 28, 2008 | 17 | 1,700 shares of common stock | ¥5,967 (fair value) | From July 6, 2008 to July 5, 2028 | 1 person, 17 rights | — |
| 2009 | May 27, 2009 | 144 | 14,400 shares of common stock | ¥4,021 (fair value) | From July 5, 2009 to July 4, 2029 | 1 person, 54 rights | — |
| 2010 | May 26, 2010 | 160 | 16,000 shares of common stock | ¥4,213 (fair value) | From July 4, 2010 to July 3, 2030 | 1 person, 53 rights | — |
| 2011 | May 25, 2011 | 282 | 28,200 shares of common stock | ¥3,925 (fair value) | From July 3, 2011 to July 2, 2031 | 1 person, 57 rights | 1 person 20 rights |
| 2012 | June 21, 2012 | 307 | 30,700 shares of common stock | ¥2,770 (fair value) | From July 8, 2012 to July 7, 2032 | 1 person, 73 rights | 1 person 19 rights |
| 2013 | June 19, 2013 | 291 | 29,100 shares of common stock | ¥3,112 (fair value) | From July 7, 2013 to July 6, 2033 | 1 person, 70 rights | 1 person 26 rights |
| 2014 | June 18, 2014 | 334 | 33,400 shares of common stock | ¥4,136 (fair value) | From July 6, 2014 to July 5, 2034 | 3 people, 107 rights | 1 person 26 rights |
| 2015 | July 31, 2015 | 937 | 93,700 shares of common stock | ¥6,806 (fair value) | From August 23, 2015 to August 22, 2035 | 4 people, 336 rights | — |
| 2016 | June 17, 2016 | 475 | 47,500 shares of common stock | ¥4,273 (fair value) | From July 10, 2016 to July 9, 2036 | 4 people, 236 rights | — |

**b. Stock Acquisition Rights**

| Issue | Issue resolution date | Number of stock acquisition rights | Class and number of shares to be issued upon the exercise of stock acquisition rights | Exercise price (per share) | Exercise period of stock acquisition rights (both days inclusive) | Directors' and Audit & Supervisory Board Members' holdings | |
|---|---|---|---|---|---|---|---|
| | | | | | | Directors | Audit & Supervisory Board Members |
| 10th | July 28, 2011 | 264 | 26,400 shares of common stock | ¥4,567 | From August 1, 2013 to July 31, 2017 | 2 people, 10 rights | — |
| 11th | July 31, 2012 | 378 | 37,800 shares of common stock | ¥3,550 | From August 1, 2014 to July 31, 2018 | — | — |
| 12th | July 31, 2013 | 556 | 55,600 shares of common stock | ¥3,836 | From August 1, 2015 to July 31, 2019 | — | — |

Notes: 1. The exercise price of share-based compensation type stock acquisition rights is ¥1 per share.
2. Stock acquisition rights are issued free of charge.
3. Stock acquisition rights have not been granted to Outside Directors and Audit & Supervisory Board Members.
4. Stock acquisition rights held by Directors include stock acquisition rights granted when they were Corporate Officers or employees of the Company.
5. Stock acquisition rights held by an Audit & Supervisory Board Member were granted during appointment as a Director.

(Reference) Stock acquisition rights, etc., held by Directors, Audit & Supervisory Board Members, Corporate Officers and employees, etc., of the Company and its subsidiaries as of March 31, 2017

| | Number of stock acquisition rights | Class and number of shares to be issued upon the exercise of stock acquisition rights | Percentage of the number of stock acquisition rights in the total number of the issued shares |
|---|---|---|---|
| Share-Based Compensation Type Stock Acquisition Rights | 2,973 | 297,300 shares of common stock | 0.23% |
| Stock Acquisition Rights | 1,198 | 119,800 shares of common stock | 0.09% |
| Total | 4,171 | 417,100 shares of common stock | 0.32% |

### (3) Status of exercise of moving strike convertible bonds (MSCB), etc.

No items to report

### (4) Details of rights plan

No items to report

### (5) Trends in total number of issued shares, capital stock, etc.

| Date | Fluctuation in the total number of issued shares (shares) | Balance of total number of issued shares (shares) | Fluctuation in capital stock (Millions of yen) | Balance of capital stock (Millions of yen) | Fluctuation in additional paid-in capital (Millions of yen) | Balance of additional paid-in capital (Millions of yen) |
|---|---|---|---|---|---|---|
| August 10, 2007 (Note) | (3,599,000) | 129,590,659 | – | 32,641 | – | 59,256 |

Note: Decrease due to cancellation of treasury stock.

### (6) Shareholder composition

(As of March 31, 2017)

| Category | Shareholder composition (Number of shares consisting one unit: 100) | | | | | | | | Shares less than one unit (Shares) |
|---|---|---|---|---|---|---|---|---|---|
| | Public sector | Financial institutions | Financial instruments business operators | Other corporations | Foreign investors | | Individuals, etc. | Total | |
| | | | | | Companies, etc. | Individuals | | | |
| Number of shareholders (Person) | – | 112 | 70 | 262 | 650 | 35 | 23,737 | 24,866 | — |
| Number of shares held (Share units) | – | 583,758 | 85,471 | 12,048 | 472,155 | 122 | 141,866 | 1,295,420 | 48,659 |
| Holding rate of shares (%) | – | 45.06 | 6.60 | 0.93 | 36.45 | 0.01 | 10.95 | 100.00 | — |

Notes: 1. In the “Other corporations” column, three share units in the name of Japan Securities Depository Center, Inc. are included.

2. 3,390,844 treasury shares of which 33,908 share units are included in “Individuals, etc.” and 44 shares are included in “Shares less than one unit.”

### (7) Status of major shareholders

(As of March 31, 2017)

| Name of shareholder | Address | Number of shares held (Thousands of shares) | Percentage of number of shares held in the total number of issued shares (%) |
|---|---|---|---|
| The Master Trust Bank of Japan, Ltd.(Trust account) | 2-11-3, Hamamatsucho, Minato-ku, Tokyo, Japan | 20,669 | 15.95 |
| Japan Trustee Services Bank, Ltd.(Trust account) | 1-8-11, Harumi, Chuo-ku, Tokyo, Japan | 12,880 | 9.94 |
| Trust & Custody Services Bank, Ltd.(Securities investment trust account) | 1-8-12, Harumi, Chuo-ku, Tokyo, Japan | 3,939 | 3.04 |
| JP MORGAN CHASE BANK 380055 | New York, USA (2-15-11, Konan, Minato-ku, Tokyo, Japan) | 2,938 | 2.27 |
| BNP Paribas Securities (Japan) Limited | 1-9-1, Marunouchi, Chiyoda-ku, Tokyo, Japan | 2,126 | 1.64 |
| Japan Trustee Services Bank, Ltd.(Trust account 5) | 1-8-11, Harumi, Chuo-ku, Tokyo, Japan | 2,070 | 1.60 |
| Goldman Sachs Japan Co., Ltd. | 6-10-1, Roppongi, Minato-ku, Tokyo, Japan | 1,914 | 1.48 |
| STATE STREET BANK WEST CLIENT - TREATY 505234 | Massachusetts, USA (2-15-11, Konan, Minato-ku, Tokyo, Japan) | 1,858 | 1.43 |
| Japan Trustee Services Bank, Ltd.(Trust account 7) | 1-8-11, Harumi, Chuo-ku, Tokyo, Japan | 1,693 | 1.31 |
| Nippon Life Insurance Company | 1-6-6, Marunouchi, Chiyoda-ku, Tokyo, Japan | 1,640 | 1.27 |
| Total | - | 51,727 | 39.92 |

Notes:
1. Other than the above, the Company holds 3,391 thousand shares of treasury stock.
2. As a copy of Change Report dated September 19, 2014, was sent from BlackRock Japan Co., Ltd. and its seven joint holders, the Company acknowledges it has received the report pertaining to the share possession by each shareholder as of September 15, 2014, as detailed below. However, as the Company cannot confirm the numbers of such shares substantially held as of March 31, 2017, the details were not included in the above "Status of major shareholders."

| Name of shareholder | Address | Number of share certificates, etc. held (Shares) | Percentage of shares certificates held (%) |
|---|---|---|---|
| BlackRock Japan Co., Ltd. | 1-8-3, Marunouchi, Chiyoda-ku, Tokyo, Japan | 1,735,600 | 1.34 |
| BlackRock Investment Management LLC | New Jersey, USA | 144,243 | 0.11 |
| BlackRock Life Limited | London, UK | 352,404 | 0.27 |
| BlackRock Asset Management Ireland Limited | Dublin, Ireland | 618,231 | 0.48 |
| BlackRock Advisors (UK) Limited | London, UK | 213,046 | 0.16 |
| BlackRock Fund Advisors | San Francisco, USA | 1,293,900 | 1.00 |
| BlackRock International Limited | London, UK | 471,100 | 0.36 |
| BlackRock Institutional Trust Company, N.A. | San Francisco, USA | 1,654,871 | 1.28 |
| Total | – | 6,483,395 | 5.00 |

3. In a Change Report that was disclosed to public on December 7, 2015, the share possessions by shareholders as of November 30, 2015, detailed below were described. However, as the Company cannot confirm the numbers of such shares substantially held as of March 31, 2017, the details were not included in the above "Status of major shareholders."

| Name of shareholder | Address | Number of share certificates, etc. held (Shares) | Percentage of shares certificates held (%) |
|---|---|---|---|
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | 2-7-1, Marunouchi, Chiyoda-ku, Tokyo, Japan | 540,372 | 0.42 |
| Mitsubishi UFJ Trust and Banking Corporation | 1-4-5, Marunouchi, Chiyoda-ku, Tokyo, Japan | 2,904,100 | 2.24 |
| Mitsubishi UFJ Kokusai Asset Management Co., Ltd. | 1-12-1,Yurakucho, Chiyoda-ku, Tokyo, Japan | 2,501,800 | 1.93 |
| Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. | 2-5-2, Marunouchi, Chiyoda-ku, Tokyo, Japan | 565,547 | 0.44 |
| Total | – | 6,511,819 | 5.02 |

4. In a Change Report that was disclosed to public on July 22, 2016, the share possessions by shareholders as of July 15, 2016, detailed below were described.. However, as the Company cannot confirm the numbers of such shares substantially held as of the end of March 31, 2017, the details were not included in the above "Status of major shareholders."

| Name of shareholder | Address | Number of share certificates, etc. held (Shares) | Percentage of shares certificates held (%) |
|---|---|---|---|
| Nomura Securities Co., Ltd. | 1-9-1, Nihonbashi, Chuo-ku, Tokyo, Japan | 259,565 | 0.20 |
| NOMURA INTERNATIONAL PLC | London, UK | 218,760 | 0.17 |
| Nomura Asset Management Co., Ltd. | 1-12-1 Nihonbashi, Chuo-ku, Tokyo, Japan | 12,085,900 | 9.33 |
| Total | – | 12,564,225 | 9.70 |

5. In a Change Report that was disclosed to public on February 6, 2017, the share possessions by shareholders as of January 31, 2017, detailed below were described. However, as the Company cannot confirm the numbers of such shares substantially held as of the end of March 31, 2017, the details were not included in the above "Status of major shareholders."

| Name of shareholder | Address | Number of share certificates, etc. held (Shares) | Percentage of share certificates held (%) |
|---|---|---|---|
| Sumitomo Mitsui Trust Bank, Limited | 1-4-1, Marunouchi, Chiyoda-ku, Tokyo, Japan | 4,236,100 | 3.27 |
| Sumitomo Mitsui Trust Asset Management Co., Ltd. | 3-33-1, Shiba, Minato-ku, Tokyo, Japan | 417,000 | 0.32 |
| Nikko Asset Management Co., Ltd. | 9-7-1 Akasaka, Minato-ku, Tokyo, Japan | 6,482,000 | 5.00 |
| Total | – | 11,135,100 | 8.59 |

6. In a Change Report that was disclosed to public on February 7, 2017, the share possessions by shareholders as of January 31, 2017, detailed below were described. However, as the Company cannot confirm the numbers of such shares substantially held as of the end of March 31, 2017, the details were not included in the above "Status of major shareholders."

| Name of shareholder | Address | Number of share certificates, etc. held (Shares) | Percentage of share certificates held (%) |
|---|---|---|---|
| Asset Management One Co., Ltd. | 1-8-2, Marunouchi, Chiyoda-ku, Tokyo, Japan | 8,583,666 | 6.62 |
| Mizuho Securities Co., Ltd. | 1-5-1, Otemachi, Chiyoda-ku, Tokyo, Japan | 160,400 | 0.12 |
| Asset Management One International Ltd. | London, UK | 180,600 | 0.14 |
| Total | – | 8,924,666 | 6.89 |

## (8) Status of voting rights

a. Issued shares

(As of March 31, 2017)

| Classification | Number of shares (Shares) | Number of voting rights (Units) | Content |
|---|---|---|---|
| Shares without voting rights | – | – | – |
| Shares with restricted voting rights (Treasury stock, etc.) | – | – | – |
| Shares with restricted voting rights (Other) | – | – | – |
| Shares with full voting rights (Treasury stock, etc.) | Common stock 3,390,800 | – | – |
| Shares with full voting rights (Other) | Common stock 126,151,200 | 1,261,512 | – |
| Shares less than one unit | Common stock 48,659 | – | – |
| Total number of issued shares | 129,590,659 | – | – |
| Total number of voting rights | – | 1,261,512 | – |

Note: The number of “Shares with full voting rights (Other)” includes 300 shares in the name of Japan Securities Depository Center, Inc. “Number of voting rights” includes three units of voting rights related to shares with full voting rights in its name.

b. Treasury stock, etc.

(As of March 31, 2017)

| Name of shareholder | Address | Number of shares held under own name (Shares) | Number of shares held under the name of others (Shares) | Total number of shares held (Shares) | Percentage of total number of shares held in the total number of issued shares (%) |
|---|---|---|---|---|---|
| TDK Corporation | 3-9-1, Shibaura, Minato-ku, Tokyo, Japan | 3,390,800 | − | 3,390,800 | 2.62 |
| Total | − | 3,390,800 | − | 3,390,800 | 2.62 |

## 2. Status of acquisition, etc. of treasury stock

[Class of shares] Acquisitions of common stock that fall under Article 155, item (VII) of the Companies Act

### (1) Acquisition by resolution of the General Meeting of Shareholders

No items to report

### (2) Acquisition by resolution of the Board of Directors

No items to report

### (3) Items not based on resolution of the General Meeting of Shareholders or Board of Directors

| Category | Number of shares (Shares) | Total value (Yen) |
|---|---|---|
| Treasury stock acquired during the fiscal year ended March 31, 2017 | 356 | 2,597,810 |
| Treasury stock acquired during the period under review | 102 | 707,340 |

Note: Shares acquired by the purchase of shares less than one unit between June 1, 2017 and the date of filing of this Annual Securities Report are not included in the "Treasury stock acquired during the period under review."

### (4) Status of disposal and ownership of acquired treasury stock

| Category | Fiscal 2017 | | Period under review | |
|---|---|---|---|---|
| | Number of shares (Shares) | Total disposal value (Yen) | Number of shares (Shares) | Total disposal value (Yen) |
| Treasury stock acquired, for which subscription was offered | – | – | – | – |
| Treasury stock acquired, which were disposed | – | – | – | – |
| Treasury stock acquired, which were transferred for merger, share exchange or company split | – | – | – | – |
| Other (Note 1) | 77,357 | 397,225,537 | 3,500 | 17,972,946 |
| Treasury stock held | 3,390,844 | – | 3,387,446 | – |

Notes:
1. "Fiscal 2017" consist of disposals due to exercises of stock acquisition rights (number of shares: 77,200 shares; total disposal value: ¥396,419,362) and sales due to requests to sell shares less than one unit (number of shares: 157 shares; total disposal value: ¥806,175). Also, "Period under review" consists of disposals due to exercises of stock acquisition rights.
2. Shares disposed of between June 1, 2017 and the date of filing of this Annual Securities Report are not included in treasury stock disposed of during the period under review.
3. Shares acquired or disposed of between June 1, 2017 and the date of filing of this Annual Securities Report are not included in "Treasury stock held" during the period under review.

## 3. Dividend policy

The Company recognizes that achieving growth in corporate value over the medium-and long term ultimately translates into higher shareholder value. In line with this recognition, the Company's fundamental policy is to work to consistently increase dividends through growth in earnings per share. By actively investing for growth, mainly in the development of new products and technologies in key fields so as to respond precisely to rapid technological innovation in the electronics industry, the Company is aiming to increase medium- and long-term corporate value. Accordingly, the Company actively reinvests its profits in business activities and sets its dividends taking into consideration comprehensive factors such as return on stockholders' equity and dividends on stockholders' equity on a consolidated basis, as well as changes in the business environment.

The Company's basic policy is to pay dividends from surplus twice a year, at end of year and midterm, with the former determined by the Ordinary General Meeting of Shareholders and the latter by the Board of Directors.

The Articles of Incorporation of the Company prescribe "By resolution of the Board of Directors, the Company may pay interim dividends on September 30 of each year as a record date."

Dividends from surplus for the 121st term are as follows.

| Resolution date | Total amount of dividends (Millions of yen) | Dividends per share (Yen) |
|---|---|---|
| Resolution of the Board of Directors held on October 31, 2016 | 7,570 | 60 |
| The General Meeting of Shareholders held on June 29, 2017 | 7,572 | 60 |

## 4. Trends in share price

### (1) Highest and lowest share prices for the most recent five years by term

| Term | 117th term | 118th term | 119th term | 120th term | 121st term |
|---|---|---|---|---|---|
| Accounting period | From April 1, 2012 to March 31, 2013 | From April 1, 2013 to March 31, 2014 | From April 1, 2014 to March 31, 2015 | From April 1, 2015 to March 31, 2016 | From April 1, 2016 to March 31, 2017 |
| Highest (Yen) | 4,840 | 5,360 | 9,260 | 10,450 | 8,470 |
| Lowest (Yen) | 2,719 | 3,095 | 4,045 | 5,230 | 5,170 |

Note: The above share prices were those recorded on the first section of the Tokyo Stock Exchange.

### (2) Monthly highest and lowest share prices for the most recent six months

| Month | October 2016 | November 2016 | December 2016 | January 2017 | February 2017 | March 2017 |
|---|---|---|---|---|---|---|
| Highest (Yen) | 7,360 | 7,840 | 8,470 | 8,290 | 8,390 | 7,750 |
| Lowest (Yen) | 6,710 | 6,460 | 7,730 | 7,680 | 7,430 | 6,980 |

Note: The above share prices were those recorded on the first section of the Tokyo Stock Exchange.

## 5. Status of Directors and Audit & Supervisory Board Members

**Men: 12 Women: － (Percentage of women among directors and audit & supervisory board members: －%**

| Title | Post | Name | Date of birth | Summary of career | | Term of office | Number of shares held (Hundreds of shares) |
|---|---|---|---|---|---|---|---|
| Representative Director | Chairman | Takehiro Kamigama | Jan. 12, 1958 | Apr. 1981:<br>Apr. 2001:<br><br><br>Oct. 2001:<br><br>Jun. 2002:<br>Jun. 2003:<br>Jun. 2004:<br><br>Jun. 2006:<br><br>Jun. 2012:<br><br><br>Apr. 2013:<br><br>Oct. 2014:<br><br>Jun. 2016:<br><br>Jun. 2017: | Entered the Company<br>General Manager in charge of strategic technology of Recording Device Business Group of the Company<br>General Manager of Head Business Group of the Company<br>Corporate Officer of the Company<br>Senior Vice President of the Company<br>Director & Executive Vice President of the Company<br>President & Representative Director of the Company<br>General Manager of Electronic Components Sales & Marketing Group of the Company<br>General Manager of Humidifier Countermeasures HQ of the Company<br>General Manager of Technology HQ of the Company<br>Chairman & Representative Director of the Company (present post)<br>Outside Director of OMRON Corporation (present post) | Note: 3 | 100 |
| Representative Director | President and CEO, and General Manager of Humidifier Countermeasures HQ | Shigenao Ishiguro | Oct. 30, 1957 | Jan. 1982:<br>Apr. 2002:<br><br><br><br>Jul. 2004:<br><br><br><br><br>Apr. 2007:<br><br><br><br>Apr. 2011:<br><br><br><br>Jun. 2012:<br><br><br>Jun. 2014:<br>Apr. 2015:<br><br>Jun. 2015:<br>Apr. 2016:<br><br><br><br>Jun. 2016: | Entered the Company<br>Senior Manager of Planning Group of Europe Sales Group of Recording Media & Solutions Business Group of the Company<br>Leader of Planning Group of Japan Operation of HDD Head Business Division of Data Storage & Thin Film Technology Components Business Group of the Company<br>Leader of Japan Operation of HDD Head Business Division of Data Storage & Thin Film Technology Components Business Group of the Company<br>Deputy General Manager of Data Storage & Thin Film Technology Components Business Group of the Company<br>General Manager of Data Storage & Thin Film Technology Components Business Group of the Company<br>Corporate Officer of the Company<br>CEO of Magnetic Heads and Sensors Business Company of the Company<br>Senior Vice President of the Company<br>General Manager of Magnetic Sensors Business Group of Magnetic Heads and Sensors Business Company of the Company<br>President & Representative Director of the Company (present post)<br>General Manager of Manufacturing HQ of the Company<br>General Manager of Humidifier Countermeasures HQ of the Company (present post) | Note: 3 | 18 |

| Title | Post | Name | Date of birth | Summary of career | Term of office | Number of shares held (Hundreds of shares) |
|---|---|---|---|---|---|---|
| Director | General Manager of Finance & Accounting HQ | Tetsuji Yamanishi | May. 29, 1960 | Apr. 1983: Entered the Company<br>Jan. 2005: Senior Manager of Managerial Accounting Department of Finance & Accounting Department of Administration Group of the Company<br>Jul. 2008: Head of Managerial Accounting Department of Finance & Accounting Department of Administration Group of the Company<br>Jun. 2013: General Manager of Finance & Accounting Department of the Company<br>Apr. 2015: General Manager of Finance & Accounting Group of the Company<br>Jun. 2015: Corporate Officer of the Company<br>Jun. 2016: Director of the Company (present post)<br>Apr. 2017: General Manager of Finance & Accounting HQ of the Company (present post)<br>Jun. 2017: Senior Vice President of the Company(present post) | Note: 3 | 15 |
| Director | General Manager of the Corporate Strategy HQ<br>In charge of Human Resources | Seiji Osaka | Oct.28 1958 | Apr. 1982: Entered the Company<br>Apr. 2003: Senior Manager if Corporate Planning Dept. of the Company<br>Jun. 2009: Corporate Officer of the Company<br>General Manager of Corporate Planning Dept. of Corporate Strategy Group of the Company<br>May. 2011: General Manager of Corporate Planning Group of the Company<br>General Manager of Corporate Planning Dept. of Corporate Planning Group of the Company<br>Jun. 2012: Senior Vice President of the Company<br>Senior Executive Vice President & COO of TDK-EPC Corporation<br>Apr. 2015: General Manager of the Electronic Components Sales & Marketing Group of the Company<br>General Manager of the ICT Group of the Electronic Components Sales & Marketing Group of the Company<br>Apr. 2017: General Manager of the Corporate Strategy HQ of the Company (present post)<br>In charge of Human Resources (present post)<br>Jun. 2017: Director & Executive Vice President of the Company (present post)<br>Outside Director of TABUCHI ELECTRIC CO.,LTD. (present post) | Note: 3 | 10 |

| Title | Post | Name | Date of birth | Summary of career | Term of office | Number of shares held (Hundreds of shares) |
|---|---|---|---|---|---|---|
| Director | | Makoto Sumita | Jan. 6, 1954 | Apr. 1980: Entered Nomura Research Institute, Ltd.<br>Jun. 1996: Director of INNOTECH CORPORATION<br>Apr. 2005: Executive Vice President & Representative Director of the said company<br>Jun. 2005: Director of IT Access Co., Ltd.<br>Apr. 2007: President & CEO of INNOTECH CORPORATION<br>Jun. 2011: Outside Audit & Supervisory Board Member of the Company<br>Apr. 2013: Chairman & CEO of INNOTECH CORPORATION (present post)<br>Jun. 2013 Resigned Outside Audit & Supervisory Board Member of the Company<br>Outside Director of the Company (present post)<br>Feb. 2015: Chairman & CEO of INNOTECH FRONTIER, Inc. (present post) | Note: 3 | — |
| Director | | Kazumasa Yoshida | Aug. 20, 1958 | Oct. 1984: Entered Intel Corporation<br>Oct. 1999: Manager of Technology/OEM Alliance Business Strategy of Enterprise Service Group of the said company<br>Mar. 2000: General Manager of Communication Product Group of Intel K.K.<br>May. 2002: General Manager of Intel Architecture Business of the said Company<br>Jun. 2003: Representative Director and President of the said company<br>Dec. 2004: Vice President of Sales and Marketing Group of Intel Corporation<br>Jun. 2012: Outside Director of Onkyo Corporation (present post)<br>Feb. 2013: Outside Director of Gibson Brands, Inc. (present post)<br>Jun. 2013: Outside Director of CYBERDYNE Inc. (present post)<br>Oct. 2013: Advisor of Intel K.K.<br>Jun. 2014: Outside Director of the Company (present post)<br>Jun. 2015: Outside Director of Mamezou Holdings Co., LTD (present post)<br>Jul. 2016: Outside Director of FreeBit Co., LTD (present post) | Note: 3 | — |
| Director | | Kazuhiko Ishimura | Sep.18, 1954 | Apr. 1979 Entered Asahi Glass Co., Ltd.<br>Jan. 2006 Executive Officer of the said company<br>Jan. 2007 Senior Executive Officer and GM of Electronics & Energy General Division of the said company<br>Mar. 2008 President & COO & Representative Director of the said company<br>Jan. 2010 President & CEO & Representative Director of the said company<br>Jan. 2015 Chairman & Representative Director of the said company (present post)<br>Jun. 2015 Outside Director of the Company (present post)<br>Jun. 2017 Outside Director of IHI Corporation (present post) | Note: 3 | — |

| Title | Post | Name | Date of birth | Summary of career | | Term of office | Number of shares held (Hundreds of shares) |
|---|---|---|---|---|---|---|---|
| Full-time Audit & Supervisory Board Member | | Junji Yoneyama | Mar. 16, 1955 | Mar. 1984:<br>Jan. 2002:<br>Jul. 2003:<br>Apr. 2005:<br>Oct. 2006:<br>Jun. 2008:<br>Jun. 2010:<br><br>Apr. 2013:<br>Jun. 2013:<br>Jun. 2014:<br>Apr. 2015:<br>Jun. 2015: | Entered the Company<br>President & CEO of TDK Philippines Corporation<br>General Manager of the General Affairs Department of Ichikawa Technical Center of the Administration Group of the Company<br>President of TDK Taiwan Corporation<br>General Manager of the Human Resources Department of the Administration Group of the Company<br>Corporate Officer of the Company<br>Director of the Company<br>General Manager of the Administration Group of the Company<br>General Manager of Administration HQ of the Company<br>Senior Vice President of the Company<br>In charge of Corporate Systems Reformation, Human Resources, General Affairs, Legal, CSR Promotion of the Company<br>In charge of Corporate Systems Reformation of the Company<br>Full-time Audit & Supervisory Board Member of the Company (present post) | Note: 4 | 20 |
| Full-time Audit & Supervisory Board Member | | Osamu Yotsui | Jan. 28, 1956 | Apr. 1979:<br>May. 1991:<br>Jul. 1999:<br>Apr. 2008:<br>Jun. 2011: | Entered the Company<br>Accounting Manager of TDK Recording Media Europe S.A<br>Manager of Managerial Analysis Division of Finance and Accounting Department of the Company<br>General Manager of Management Review & Support Department of the Company<br>Full-time Audit & Supervisory Board Member of the Company (present post) | Note: 4 | 30 |
| Audit & Supervisory Board Member | | Kazunori Yagi | Apr 1, 1949 | Apr. 1972:<br>Oct. 1999:<br>Apr. 2001:<br>Jun. 2001:<br>Jul. 2002:<br>Jul. 2005:<br>Jun. 2011:<br><br>Jun. 2012:<br>Jun. 2013:<br>Mar. 2014:<br>Jun. 2017: | Entered Yokogawa Electric Corporation<br>Vice President (Officer) and General Manager of Finance & Business Planning, in charge of Corporate Marketing of the said company<br>Senior Vice President and General Manager of Finance & Business Planning of the said company<br>Director, Senior Vice President and General Manager of Finance & Business Planning of the said company<br>Director, Executive Vice President and General Manager of Finance & Business Planning of the said company<br>Director, Executive Vice President and General Manager of Management Administration Headquarters of the said company<br>Advisor to the said company<br>Outside Company Auditor of Yokogawa Bridge Holdings Corporation<br>Outside Director of JSR Corporation<br>Outside Audit & Supervisory Board Member of the Company (present post)<br>Outside Director of OYO Corporation (present post)<br>Outside Director of Sojitz Corporation (present post) | Note: 4 | – |

| Title | Post | Name | Date of birth | Summary of career | | Term of office | Number of shares held (Hundreds of shares) |
|---|---|---|---|---|---|---|---|
| Audit & Supervisory Board Member | | Toru Ishiguro | Jun.19, 1954 | Apr. 1980:<br><br><br>Apr. 1984:<br><br>Jan. 1985:<br><br>Sep.1987:<br><br>Jun. 2000:<br><br>Dec.2002:<br><br>Jun. 2015:<br><br>Jul. 2015:<br><br>Jul. 2016:<br><br>Jun. 2017: | Registered as lawyer<br>Joined the law firm of Hamada & Matsumoto<br>Registered as lawyer in New York, the United States of America<br>Partner of the law firm of Hamada & Matsumoto<br>Resident Partner of the London office of the law firm of Hamada & Matsumoto<br>Outside Company Auditor of Monex Securities Ltd.<br>Partner of the law firm of Mori Hamada & Matsumoto (present post)<br>Outside Audit & Supervisory Board Member of the Company (present post)<br>Outside Director of Daiwa Asset Management Co. Ltd. (present post)<br>Director of Japan Investor Protection Fund (present post)<br>Director of Japan Exchange Regulation. (present post) | Note: 4 | – |
| Audit & Supervisory Board Member | | Kiyoshi Fujimura | Nov.3, 1949 | Apr.1972:<br>Feb.2002:<br><br><br><br>Jun. 2003<br><br>Jun. 2007:<br><br><br><br>Apr. 2008:<br><br><br>Jun. 2008:<br><br><br><br>Apr. 2009:<br><br><br><br><br>Apr. 2010:<br><br><br>Jun. 2012:<br><br><br>Jun. 2015: | Entered Mitsubishi Corporation<br>Member of the Board, President and CEO of Mitsubishi Corporation Financial & Management Services (Japan) Ltd.<br>Senior Corporate Auditor of Mitsubishi Corporation<br>Senior Vice President of the said company, CIO & CISO and Senior Assistant to person in charge of Work Restructuring & Internal Control System<br>Executive Vice President of the said company, CIO, Work Restructuring & Internal Control System<br>Member of the Board, Executive Vice President of the said company, CIO, Work Restructuring & Internal Control System<br>Member of the Board, Executive Vice President of the said company, Work Restructuring & Internal Control System, IT Service Business Development, CIO<br>Member of the Board, Executive Vice President of the said company, Audit & Internal Control System<br>Adviser of the said Company<br>Outside Corporate Auditor of AJINOMOTO CO., INC.<br>Outside Audit & Supervisory Board Member of the Company (present post) | Note: 4 | – |
| | | | | | | Total | 193 |

Notes:
1. Directors Mr. Makoto Sumita, Mr. Kazumasa Yoshida and Mr. Kazuhiko Ishimura are Outside Directors.
2. Audit & Supervisory Board Member Mr. Kazunori Yagi, Mr. Toru Ishiguro and Mr. Kiyoshi Fujimura are Outside Audit & Supervisory Board Member.
3. One year from the closing date of the Ordinary General Meeting of Shareholders held on June 29, 2017.
4. Four years from the closing date of the Ordinary General Meeting of Shareholders held on June 26, 2015.
5. The Company, aiming to boost execution of duties and improve management efficiency, has introduced a Corporate Officer System. the Company has 18 Corporate Officers.

## 6. Status of corporate governance, etc.

### (1) Status of corporate governance

Corporate governance system of TDK is as follows:

1. Systems for ensuring the execution of duties by Directors of the Company complies with laws and regulations and the Articles of Incorporation:

The Company was established in 1935 as the world’s first company to industrialize a magnetic material called ferrite. In the ensuing years, the Company has unremittingly pursued originality and increased corporate value through provisions of products and services which have created new value, based on the founding spirit “Contribute to culture and industry through creativity” as its Corporate Motto. In addition, TDK will continue to build satisfaction, trust, and support among all stakeholders (shareholders, customers, suppliers, employees, and communities, among others), continue to be helpful by resolving social issues and contribute to the development of a more sustainable society. TDK clearly declares as “TDK Charter of Corporate Behavior” that TDK will continue to respect human rights; comply with relevant laws, regulations, and international rules and the spirit thereof; and carry out its social responsibility with a strong sense of ethics, domestically and overseas. All members of TDK seek to behave in strict compliance with the “Corporate Standards of Business Conduct” prescribed by the “TDK Code of Conduct”

In addition, the Company aims to achieve its management targets and further improve corporate value through the creation of products by adhering to the Corporate Motto. At the same time, the Company strives to foster a sound corporate culture and sincerely conduct business activities, always aware of its place as a member of society. Moreover, the Company will be accountable to stakeholders through comprehensive, accurate, timely, and impartial disclosure of information.

As mentioned above, the Company sincerely and devotedly seeks to achieve its management philosophy, and to establish the following effective and orderly corporate governance systems to continue to ensure soundness, compliance, and transparency in its business operations.

① Adoption of the Audit & Supervisory Board Member System and Strengthening of the Supervisory Function:

The Company has adopted the Audit & Supervisory Board Member System pursuant to the Companies Act of Japan and has appointed independent Outside Audit & Supervisory Board Members who are disinterested in the Company to strengthen the supervision of the Company’s management.

② Strengthening the Function of the Board of Directors and Increasing the Accountability of Directors:

The Company has a small number of Directors to expedite the management decision-making process. At the same time, the Company has appointed disinterested, independent Outside Directors in order to enhance the supervision of the Company’s management. In addition, the Company’s basic policy is to elect independent Outside Directors which account for one-third or more of the Directors. Furthermore, the Directors’ terms of office are set at one year to give shareholders an opportunity to cast votes of confidence regarding Directors’ performance every fiscal year.

③ Adoption of a Corporate Officer System for Expeditious Business Execution:

The Company has adopted a Corporate Officer system that separates the management decision making and Director supervisory functions of the Board of Directors from the execution of business. This aims to accelerate decision-making by delegation of authority and to clarify the authority and responsibility of business execution. Corporate Officers are in charge of business execution and carrying out decisions made by the Board of Directors and thereby expeditiously execute business operations in accordance with management decisions.

④ Establishment of Advisory Bodies to the Board of Directors (Business Ethics & CSR Committee, Disclosure Advisory Committee, Compensation Advisory Committee, and Nomination Advisory Committee):

The aim of the Business Ethics & CSR Committee is to ensure compliance with the TDK Corporate Motto, understanding of corporate ethics, and improvement of awareness of corporate social responsibility (CSR). To achieve this aim, the Directors, Audit & Supervisory Board Members, Corporate Officers and all other members of TDK are made fully aware of the “TDK Code of Conduct”, which stipulates concrete standards of business conduct in compliance with the TDK’s management philosophy, including the TDK Corporate Motto, Corporate Principle, and social norms, including relevant laws, regulations, and international rules and the spirit thereof.

The Disclosure Advisory Committee reviews and examines important corporate information and disclosure materials of the Company that are required for investment decisions by shareholders and investors, to ensure that the Company discloses appropriate information in a comprehensive, accurate, timely, and impartial manner, in accordance with various laws and regulations regarding securities transactions and the rules and regulations of the stock exchange on which the Company’s shares are listed.

The Compensation Advisory Committee, which is chaired by an Outside Director of the Company, examines the remuneration system and the level of remuneration pertaining to Directors and Corporate Officers, as well as presidents and qualifying officers of the Company’s principal subsidiaries. It also reviews the transparency of the remuneration decision-making process and verifies whether such remuneration is reasonable in light of corporate business performance, individual performance, and general industry standards.

The Nomination Advisory Committee, which is chaired by an Outside Director of the Company, reviews the conditions expected for the post of Director, Audit & Supervisory Board Member, and Corporate Officer and makes nominations. In this way, the Nomination Advisory Committee ensures the appropriate election of Directors, Audit & Supervisory Board

Members, and Corporate Officers, and provides transparency in the decision-making process.

Under the foregoing corporate systems, the Audit & Supervisory Board Members in charge of supervising management, ensure soundness, compliance, and transparency in the Company's business operations by executing their duties pursuant to the Regulations of the Audit & Supervisory Board, the Code of Audit & Supervisory Board Members' Auditing Standards and Audit Practice Standards for Internal Control Systems, and by auditing whether the Directors' performance is appropriately and reasonably in compliance with relevant laws and regulations and the Articles of Incorporation.

Similarly, Directors in charge of management decision-making and supervision of business execution ensure soundness, compliance, and transparency in TDK's business operations by executing their duties pursuant to the Regulations of the Directors' Business and the Regulations of the Board of Directors established in accordance with relevant laws and regulations and the Articles of Incorporation. In addition, Corporate Officers in charge of business execution ensure soundness, compliance, and transparency in TDK's business operations by executing their duties pursuant to the Regulations of the Corporate Officers' Business.

The Company has established the following system to ensure compliance with all applicable securities and exchange laws and other similar laws and regulations of all relevant countries, as well as the rules and regulations of the stock exchange on which the Company's shares are listed (hereinafter collectively referred to as the "Securities Regulations").

(i) The Company will collect, record, analyze, process, summarize, and report all information required to be disclosed under the Securities Regulations. The Company has established an internal control system and other methods to warrant timely disclosures within the deadlines stipulated by the Securities Regulations.

(ii) The Company has established a system to ensure that the Company has procedures designed to obtain reasonable assurance that all the transactions that the Company conducts are properly authorized, that the Company's assets are protected from unauthorized or improper use, and that all trading activities are appropriately recorded and reported for the purpose of enabling the Company to prepare financial statements in accordance with applicable accounting standards.

(iii) The Company will ensure that the above-mentioned management system is in compliance with the requirements of the Securities Regulations with respect to corporate governance systems.

2. System under which information regarding the execution of business by Directors of the Company shall be preserved and controlled:

The President, who is responsible for the business execution of the Company, has established the Document Control Regulations, which are applicable to TDK and provide basic rules for the preservation and control of information.

3. Regulations and other systems for managing the risk of loss(es) of the Company and its subsidiaries:

To enhance the risk management system of TDK, the Company has established the three committees (which is chaired by a Corporate Officer appointed by the President) under the direct control of the Executive Committee.

(i) ERM* Committee

For the purpose of the company-wide treatment of factors that obstruct the achievement of the business targets and business operations of the Company, the Company has established the ERM Committee, and promotes enterprise risk management.

Corporate regulations, bylaws, guidelines, and departmental guidelines in each department provide for operating rules for specific risks, including legal, financial, and IT-related risks. These risks are managed by managers in charge of the particular areas of operation.

(ii) Crisis Management Committee

In order to prepare for unexpected situations such as natural disasters, the Company has established the Crisis Management Committee, which developed the Business Continuity Plan (BCP). Accordingly, if such an unexpected situation arises, the Company will assess the situation immediately and respond appropriately.

(iii) Information Security Committee

In order to appropriately manage important information assets including information provided by customers, the Company has established the Basic Policy on Information Security and the Information Security Committee, and appropriately takes risk-based security measures.

The Company has ensured that a structure for receiving advice in relation to operating business execution effectively is in place through regular confirmation by the Audit & Supervisory Board Members and the internal audit group of the management operations described above. In addition, the Company will seek advice from specialists, including outside legal counsel and other experts, regarding new factors that may hinder TDK as needed.

*ERM (Enterprise Risk Management)

4. System for ensuring Directors of the Company and Directors, etc. of the Company's subsidiaries execute their duties efficiently and system for reporting matters concerning the execution of duties of Directors, etc. of the Company's subsidiaries to the Company:

   The Company has a small number of Directors and has adopted the Corporate Officer system to facilitate the Directors' ability to make quick and efficient management decisions.

   At the same time, policies and measures with respect to business execution, such as development, manufacturing, marketing, and financing of TDK, are deliberated upon by the Executive Committee, which consists of Corporate Officers and General Managers designated by the President. All Corporate Officers perform their duties expeditiously pursuant to the decisions made by the Executive Committee. The Company ensures efficient management via proposals to the Board of Directors and regular reports from Corporate Officers to the Executive Committee.

   In addition, the Company establishes midterm management targets shared by all members of TDK and strives to inform them of such targets. The Company also establishes systems that enable it to understand the targets and implementation plans of each department as well as the progress of each department in relation to such targets. With respect to the business management of subsidiaries, the Company establishes systems that enable it to understand their business conditions through quarterly reports submitted by each subsidiary.

5. System for ensuring performance of duties by employees of the Company and Directors, etc. and employees of the Company's subsidiaries are in compliance with laws and regulations and the Articles of Incorporation:

   TDK strives to ensure that all Directors, Audit & Supervisory Board Members, Corporate Officers, and employees are fully familiar with TDK's management philosophy, "TDK Code of Conduct", and "TDK Charter of Corporate Behavior" in order to ensure improved soundness, compliance, and transparency of management, as well as compliance with laws, regulations, and the Articles of Incorporation throughout the Company's business operations.

   Furthermore, the Company has established a corporate ethics management system under the Business Ethics & CSR Committee, to regularly monitor the Company's compliance with corporate ethics, including the Company's subsidiaries worldwide. The Consultations and Help Lines also enable employees to directly report all relevant information and opinions concerning corporate ethics, etc. within TDK.

   In addition, the Company has established a compliance promotion department under the direct control of the President, and has appointed a Chief Compliance Officer, to strengthen its compliance system.

6. System for ensuring proper business execution by the corporate group consisting of the Company and its subsidiaries:

   Each Director, Corporate Officer and manager in charge of operations strives to achieve proper business operations by making decisions in accordance with the "TDK Code of Conduct", the Job Authority Regulations and other applicable corporate regulations for the entire TDK, in order to maintain soundness, compliance, and transparency in business operations, and to achieve the business targets of the Company and TDK.

   The Audit & Supervisory Board Members audit, on a regular basis, the condition of the business operations of each department of the Company and TDK by researching the departments, examining important documents, and attending important meetings. In addition, the internal audit group audits and supports each department of the Company and TDK in order to promote consistency in relation to business operations and management policies, appropriateness regarding management efficiency, and compliance with relevant laws and regulations.

7. Matters relating to employees who support the duties of Audit & Supervisory Board Members of the Company when Audit & Supervisory Board Members request such employees:

   The Audit & Supervisory Board Members Office, consisting of designated full-time employees who do not perform any business execution duties, assists the Audit & Supervisory Board Members.

8. Matters regarding the independence of employees in the preceding item from Directors and the ensuring of the effectiveness of instructions of Audit & Supervisory Board Members of the Company to such employees:

   The Audit & Supervisory Board Members shall directly evaluate the performance of the employees who serve as members of the Audit & Supervisory Board Members Office, and any transfer or discipline of these employees shall be determined pursuant to the operating rules of the Company subject to the consent of the Audit & Supervisory Board Members.

   In addition, any employee who has been instructed or ordered by an Audit & Supervisory Board Member in connection with audit duties shall not be subject to any Director's instruction or order with respect to said Audit & Supervisory Board Member's instruction or order.

9. System for ensuring Directors or employees of the Company report to Audit & Supervisory Board Members of the Company and system for ensuring Directors, Audit & Supervisory Board Members, employees of the Company's

subsidiaries or persons who have received reports from these persons report to Audit & Supervisory Board Members of the Company:

All members of TDK provide an appropriate report immediately, if an Audit & Supervisory Board Member requests a report regarding the execution of business. Information regarding management policies of TDK and conditions of business execution by Corporate Officers is timely provided to Audit & Supervisory Board Members who attend important meetings such as Executive Committee meetings and business plan review meetings, and minutes of such meetings are also provided to the Audit & Supervisory Board Members immediately. Furthermore, Audit & Supervisory Board Members may receive explanations directly from Corporate Officers and other personnel as necessary. Audit & Supervisory Board Members may review reports prepared by each department of the Company or company of TDK, and Audit & Supervisory Board Members may thereby confirm the conditions of the business operations of the Company and TDK.

In addition, all members of TDK may report any fact which may cause significant damage to the Company or TDK, such as violation of law or regulation, to the Consultations or Help Lines established by the Business Ethics and CSR Committee and covering the Company and TDK or the Ethics Councils established in each area and the Business Ethics and CSR Committee. In cases where the Business Ethics and CSR Committee or the Ethics Council in each area finds any fact which may cause significant damage to the Company or TDK, such as violation of law or regulation, it will immediately report such fact to Audit & Supervisory Board Members or the Audit & Supervisory Board.

Furthermore, information regarding the activities of the ERM Committee and other committees is provided to Audit & Supervisory Board Members from time to time, enabling the Audit & Supervisory Board Members to confirm the overall status of corporate activities.

10. System for ensuring persons who have reported as provided in the preceding item will not be treated unfavorably on grounds of such reporting

The Company prohibits members of TDK who have reported to the Consultation or Help Line from being treated unfavorably on the grounds of such reporting, and stipulates to that effect in the “TDK Code of Conduct” and clearly informs all members of TDK of that fact.

11. Matters concerning policies for disposal of expenses and obligations associated with the execution of duties by Audit & Supervisory Board Members

When Audit & Supervisory Board Members demand payment of expenses or obligations associated with execution of their duties from the Company pursuant to Article 388 of the Companies Act of Japan, the Company shall pay such expenses or obligations immediately after deliberation at the department in charge unless the expenses or obligations concerning such demand are proven to be unnecessary for the execution of such duties of the Audit & Supervisory Board Members.

12. System for ensuring Audit & Supervisory Board Members of the Company conduct audits effectively:

The Audit & Supervisory Board Members and the Audit & Supervisory Board meet with the Representative Director on a regular basis to confirm management policies and exchange opinions on pressing issues and risks affecting TDK and other important matters from the perspective of the Audit & Supervisory Board Members’ audits. These meetings also strengthen the mutual understanding between the Audit & Supervisory Board Members and the Representative Director.

The Audit & Supervisory Board Members and the internal audit group meet regularly and also receive regular audit reports from the Accounting Auditor. Audit & Supervisory Board Members conduct efficient audits by sharing information regarding initial audit plans and results. Furthermore, the Audit & Supervisory Board has entered into an advisory contract with an attorney who is independent from the business execution department and has established a system to ensure that it receives advice with respect to matters which need to reviewed or confirmed from the perspective of the Audit & Supervisory Board Members or the Audit & Supervisory Board.

13. Overview of current system and reason for adoption

The Company is a company with the Audit & Supervisory Board and has implemented various measures to strengthen its corporate governance. In 2002, efforts to reform governance included the introduction of an executive officer system along with a significant reduction in the number of Directors for the purpose of clearly separating management’s monitoring and execution functions. In addition, to fortify the system for boosting shareholders’ confidence, we shortened the term of office of Directors from 2 years to 1 year and actively invited the participation of Outside Directors.

In addition, the Company has established 4 committees acting as advisory organizations to the Board of Directors, namely the Business Ethics & CSR Committee and Compensation Advisory Committee formed in 2002, the Disclosure Advisory Committee formed in 2005 and the Nomination Advisory Committee formed in 2008 to exact our business ethics and fulfill our social responsibilities as well as strengthen our management supervision functions and framework for fulfilling our duty of explanation to our shareholders and investors.

In short, the Company has always believed it can realize a system to continuously ensure sound, compliant and transparent management through the introduction of a new framework that strengthens corporate governance based on its Audit & Supervisory Board System.

14. Matters regarding Outside Directors and Outside Audit & Supervisory Board Members

- Appointment of Outside Directors and Outside Audit & Supervisory Board Members

The Company is actively inviting Outside Directors to participate in our organization for the purpose of strengthening management supervision functions, and building a management conscious of our various stakeholders including shareholders and an effective and disciplined corporate governance framework. As a result, as of March 31, 2017 and the date of filing of this Annual Securities Report, three of the seven Directors are Outside Directors and three of the five Audit & Supervisory Board Members are Outside Audit & Supervisory Board Members, making Outside Directors and Outside Audit & Supervisory Board Members represent 50% of the total number of Directors and Audit & Supervisory Board Members.

The Outside Directors confirm significant issues that have become evident with regards to the above policy (6. (1) para items 3, 6 and 12, the same share apply hereafter) through reports from Corporate Officers and others in the Board of Directors and express their opinions as necessary to fulfill their supervisory function. Furthermore, the Outside Audit & Supervisory Board Members confirm the details of the above policy through reports from the full-time Audit & Supervisory Board Members and reports from the Accounting Auditors and discuss the details of such reports to fulfill their supervisory function.

- Criteria for independence of Outside Directors and Outside Audit & Supervisory Board Members

In order to secure the independence of the Outside Directors and Outside Audit & Supervisory Board Members it invites, the Company has established “items to be verified regarding independence” with reference to such criteria as Rule 436-2 of the Securities Listing Regulation regarding securing independent directors/auditors and Rule III. 5. (3)-2 of Guidelines Concerning Listed Company Compliance, etc., both of which are stipulated by Tokyo Stock Exchange, Inc. The outline of these items is as follows.

(1) In cases where the relevant Outside Director/ Audit & Supervisory Board Member has a business relationship with TDK

An Outside Director/ Audit & Supervisory Board Member shall be judged not to be independent if they are at present, or have been during the past five years, a party with a business relationship with TDK as described in (i) below, or a person who executes business for such party, or if (ii) below applies to them.

(i) Where it is recognized, objectively and reasonably, that such business relationship is necessary for, or has a substantial influence on, the continued operation of TDK or the other party to such business relationship (where there is a high degree of dependence in the relationship, where the relationship is the source of 2% or more of consolidated sales, and where the other party to the relationship receives money or other assets from TDK other than remuneration for officers)

(ii) Where it is recognized within TDK that the relevant Outside Director/ Audit & Supervisory Board Member is involved in the business relationship with the other party to such relationship

(2) In cases where the relevant Outside Director/ Audit & Supervisory Board Member is a consultant, an accounting professional or a law professional

An Outside Officer shall be judged not to be independent if any of the following cases apply to such person at present or have applied to such person during the past five years.

(i) Where it is recognized, objectively and reasonably, that the relevant Outside Director/ Audit & Supervisory Board Member (including candidates for such position; the same shall apply hereinafter) cannot perform duties as an Independent Outside Director/ Audit & Supervisory Board Member because they receive money or other assets from TDK other than remuneration for officers (where there is a high degree of dependence)

(ii) Where it is recognized, objectively and reasonably, that the relevant Outside Director/ Audit & Supervisory Board Member cannot perform duties as an Independent Outside Director/ Audit & Supervisory Board Member because the organization to which such person belongs (hereinafter the “Relevant Organization”) receives money or other assets from the TDK other than remuneration for officers (where this income is equivalent to 2% or more of total annual remuneration)

(iii) Where TDK has a high degree of dependence on a professional or a Relevant Organization, such as a case where services, etc. rendered by such party are essential to the corporate management of TDK or it would be difficult to find an alternative provider of the same services, etc.

(iv) Where it is recognized within TDK that the relevant Outside Director/ Audit & Supervisory Board Member is involved with the services, etc. provided by the Relevant Organization

(3) In the case of a close relative of the relevant Outside Director/ Audit & Supervisory Board Member

An Outside Director/ Audit & Supervisory Board Member shall be judged not to be independent if either of the following cases apply to their close relative at present or have applied to them during the past five years.

(i) A person to whom (1) or (2) above applies (except persons without material significance)

(ii) A person who executes business for the Company or a subsidiary of the Company (except persons without material significance)

The Company has in place a Nomination Advisory Committee as an advisory body to the Board of Directors which is chaired by an Outside Director and of which more than half of the members are composed of Outside Directors. In accordance with the "items to be verified regarding independence" shown above, the committee investigates and deliberates over the independence of the candidates for Outside Directors and Outside Audit & Supervisory Board Members (including cases where there is a change in an Outside Director/ Audit & Supervisory Board Member's status of independence during their current term of office). After making a comprehensive judgment on the independence of candidates, the committee reports the results of its deliberations to the Board of Directors.

Taking into account the above, the Company has notified the Tokyo Stock Exchange of its Outside Directors, namely Mr. Makoto Sumita, Mr. Kazumasa Yoshida, and Mr. Kazuhiko Ishimura and its Outside Audit & Supervisory Board Members, namely Mr. Kazunori Yagi and Mr. Kiyoshi Fujimura, who serve as independent directors/auditors pursuant to Rule 436-2 of the Securities Listing Regulations of Tokyo Stock Exchange, Inc.

- Activities during the fiscal year under review

Attendance at meetings of the Board of Directors, etc. during the fiscal year under review is as follows.

| | |
|---|---|
| Makoto Sumita (Outside Director): | All 14 meetings of the Board of Directors, all 6 meetings of the Nomination Advisory Committee |
| Kazumasa Yoshida (Outside Director): | All 14 meetings of the Board of Directors, all 5 meetings of the Nomination Advisory Committee (Appointed on June of 2016), all 3 meetings of the Compensation Advisory Committee |
| Kazuhiko Ishimura (Outside Director): | All 14 meetings of the Board of Directors, all 6 meetings of the Nomination Advisory Committee, all 3 meetings of the Compensation Advisory Committee |
| Kazunori Yagi (Outside Audit & Supervisory Board Member): | 14of 15 meetings of the Audit & Supervisory Board, 12 of 14 meetings of the Board of Directors |
| Toru Ishiguro (Outside Audit & Supervisory Board Member): | All 15 meetings of the Audit & Supervisory Board, all 14 meetings of the Board of Directors |
| Kiyoshi Fujimura (Outside Audit & Supervisory Board Member): | All 15 meetings of the Audit & Supervisory Board, all 14 meetings of the Board of Directors |

Outside Directors participate as committee chairman and members of the Nomination Advisory Committee and Compensation Advisory Committee, which are advisory bodies to the Board of Directors, and in doing so, contribute to the transparency of the personnel and remuneration determination process and the adequacy of appointments and remunerations.

15. Appointment of Audit & Supervisory Board Member with knowledge of finance and accounting

Full-time Audit & Supervisory Board Member Mr. Osamu Yotsui has 22 total years of experience in financing and accounting of TDK and, thus, has considerable knowledge in this field.

Outside Audit & Supervisory Board Member Mr. Kazunori Yagi has the experience of serving for many years in the fields of accounting and corporate planning at Yokogawa Electric Corporation, and thus, possesses considerable knowledge as regards financing and accounting.

Outside Audit & Supervisory Board Member Mr. Kiyoshi Fujimura has the experience of serving for many years in the fields of accounting at Mitsubishi Corporation, and, thus, possesses considerable knowledge as regards finance and accounting.

16. Limited liability agreements with Outside Directors and Audit & Supervisory Board Members

The Company entered into contracts with each Outside Directors and Audit & Supervisory Board Members pursuant to Article 427 paragraph 1 of the Companies Act to limit the liabilities of each such Outside Director/Audit & Supervisory Board Member to the Company under Article 423 paragraph 1 of the same Act to the amount set forth in each such contact, which amount shall be equal to or greater than the amount provided for in Article 425 paragraph 1 of the same Act.

17. Overview of personal, capital and business relationships or other interests between TDK and its Outside Directors and Outside Audit & Supervisory Board Members

- Special interests between TDK and its Outside Directors and Outside Audit & Supervisory Board Members

There are no special interests between TDK and any of its current Outside Directors and Outside Audit & Supervisory Board Members (three Outside Directors and three Outside Audit & Supervisory Board Members).

- Business relationships between TDK and companies where Outside Directors and Outside Audit & Supervisory Board Members serve as officers

Business relationships between TDK and companies where Outside Directors serve as officers are as follows.

・ Although the Company has a business relationship relating to flash memory devices, system maintenance and manufacturing equipment inspections, etc. with INNOTECH CORPORATION, where Outside Director Mr. Makoto Sumita is CEO, the transacted amount is so small for both entities that such business relationship is not a significant relationship; in fiscal 2017, the ratio of sales of TDK to the INNOTECH Group represented less than 1% of the consolidated net sales of TDK, and the ratio of sales of the INNOTECH Group to TDK represented less than 1% of the INNOTECH Group's consolidated net sales.

・ Although the Company has a business relationship relating to electromagnetic compatibility (EMC) measurement, glass and chemical goods, etc. with Asahi Glass Co., Ltd., where Outside Director Mr. Kazuhiko Ishimura serves as Representative Director, the transacted amount is so small for both entities that such business relationship is not a significant relationship; in fiscal 2017, the ratio of sales of TDK to the Asahi Glass Group represented less than 1% of the consolidated net sales of TDK, and the ratio of sales of the Asahi Glass Group to TDK represented less than 1% of the Asahi Glass Group's consolidated net sales.

18. Number of Directors

The Company's Articles of Incorporation stipulate that the number of Directors of the Company shall be ten or less.

19. Resolution requirements for election and dismissal of Directors

The Company's Articles of Incorporation stipulate that resolutions of the General Meeting of Shareholders concerning the election or dismissal of Directors shall be adopted by an affirmative vote of a majority of the voting rights of shareholders present at the General Meeting of Shareholders, a quorum for which shall be the presence of shareholders with one-third (1/3) or more of the voting rights exercisable for such meeting.

20. Items for resolution by the General Meeting of Shareholders that can be approved by resolution by the Board of Directors

1) Acquisition of treasury stock

Pursuant to Article 165, paragraph 2 of the Companies Act, for the purpose of enabling the execution of flexible capital policy, the Company's Articles of Incorporation provide for the acquisition of treasury stock to be possible by resolution of the Board of Directors.

2) Interim dividend

The Company's Articles of Incorporation provide that the Company may distribute an interim dividend with the record date of September 30 each year by resolution of the Board of Directors, pursuant to the provisions of Article 454, paragraph 5 of the Companies Act, to the effect that the Company may flexibly distribute profits to shareholders.

21. Requirements of special resolution of the General Meeting of Shareholders

The Company’s Articles of Incorporation stipulate that special resolutions of the General Meeting of Shareholders as provided for in Article 309, paragraph 2 of the Companies Act shall be adopted by an affirmative vote of two-thirds (2/3) or more of the voting rights of shareholders present at the General Meeting of Shareholders, a quorum for which shall be the presence of shareholders with one-third (1/3) or more of the voting rights exercisable for such meeting. This constitutes an easier quorum for special resolutions, which has been provided to facilitate the smooth conduct of General Meeting of Shareholders.

22. Details of Director and Audit & Supervisory Board Member Remunerations

Remuneration and other payments to Directors and Audit & Supervisory Board Member for the fiscal year under review are as follows.

| Officer category | Total amount of remuneration and other payments (Millions of yen) | Total amount of remuneration and other payments by type (Millions of yen) | | | Number of eligible officers |
|---|---|---|---|---|---|
| | | Basic remuneration | Results-linked bonus | Share-based compensation type stock options | |
| Directors (Excluding Outside Directors) | 377 | 191 | 46 | 140 | 6 |
| Outside Directors | 45 | 45 | | | 3 |
| Audit & Supervisory Board Members (Excluding Outside Audit & Supervisory Board Members) | 58 | 58 | | | 2 |
| Outside Audit & Supervisory Board Members | 27 | 27 | | | 3 |

Although there were four Directors (Excluding Outside Directors), three Outside Directors, two Audit & Supervisory Board Members and three Outside Audit & Supervisory Board Member as of March 31, 2017 in the table above, the number of eligible officers, the total amount of remuneration and other payments and the basic remuneration in the breakdown thereof include two Director who retired at the closing of the 120th Ordinary General Meeting of Shareholders held on June 29, 2016 and remuneration and other payments paid to them, respectively.

A breakdown of remuneration and other payments for individuals receiving a total of ¥100 million or more is provided below.

| Name | Officer category | Company category | Total amount of remuneration and other payments by type (Millions of yen) | | | Total amount of remuneration and other payments (Millions of yen) |
|---|---|---|---|---|---|---|
| | | | Basic remuneration | Results-linked bonus | Share-based compensation type stock options | |
| Takehiro Kamigama | Representative Director, Chairman | Filing company | 72 | — | 58 | 130 |
| Shigeno Ishiguro | Representative Director, President and CEO | Filling company | 54 | 26 | 30 | 110 |

23. Policy and determination method regarding the amounts of remuneration and other payments for Directors and Audit & Supervisory Board Members of the Company and its method of calculation

1) Policy on remuneration

(1) Purpose of remuneration system

The Company's remuneration system is designed for the following purpose based on the consultation and deliberation of the Compensation Advisory Committee (see 2) Remuneration determination process below for the detail), an advisory body to the Board of Directors.

By constantly pursuing the competitive remuneration system that focuses on linkage with short-term as well as mid- to long-term results and hiring various and excellent human resources, the Company promotes as much as possible behavior on the part of Directors and Audit & Supervisory Board Members geared towards enhancing corporate results and stock value to constantly increase the corporate value of the overall TDK.

(2) Remuneration level

The Company aims to set remuneration at levels enabling the maintenance of competitiveness compared with other companies in the same business category or of similar scale in different business categories. The adequacy of its level is examined by the Compensation Advisory Committee based on studies, etc., on corporate management remuneration performed periodically by third parties.

(3) Composition of remuneration

a. Remuneration for Directors who concurrently serve as Corporate Officer

Composed of basic remuneration, results-linked bonuses and share-based compensation type stock options

b. Remuneration for Directors who do not concurrently serve as Corporate Officer

Composed of basic remuneration and share-based compensation type stock options

c. Remuneration for Outside Directors

Basic remuneration only

d. Remuneration for Audit & Supervisory Board Members

Basic remuneration only

(4) Results linkage system

a. Short-term results linkage system (results-lined bonus)

A system whereby remuneration fluctuates within a range of 0% to 200% of the standard payment amount depending on the consolidated results for the year (operating income, ROE) and the degree of achievement of targets set for each division in charge.

b. Mid- to long-term results linkage system (share-based compensation type stock options)

Under this system, recipients share the same advantage of a rising stock value of the Company and the same risk of it falling as shareholders. The introduction of such a system is intended to increase the ambition and morale of eligible Directors and Corporate Officers with respect to the enhancement of results of operations and stock value. To further strengthen the link between executive remuneration and mid- to long-term results and corporate value, a performance condition is attached to some share-based compensation type stock options. The performance condition takes the consolidated medium-term management plan (operating income, ROE) as an index, and the number of exercisable options varies between 0% and 100% of the number of options granted, depending on the degree of achievement of targets.

The Company has established Corporate Stock Ownership Guidelines. The Company makes an effort to ensure that eligible Directors and Corporate Officers hold at least a certain number of shares in the Company pursuant to their rank, including share-based compensation type stock options.

2) Remuneration determination process (establishment and operation of the Compensation Advisory Committee)

In order to achieve the purpose of the aforementioned remuneration system, the Company has in place a "Compensation Advisory Committee" acting as an advisory body to the Board of Directors which is chaired by an Outside Director and of which more than half of the members are Outside Directors.

The Committee examines the remuneration system and the level of remuneration pertaining to Directors and Corporate Officers and reports the result to the Board of Directors in order to preserve the transparency of the remuneration decision-making process and help to ensure that the individual remuneration is reasonable in light of corporate business performance, individual performance and general industry standards, among other factors.

24. Share ownership

1) Total number of issues and balance sheet amounts for investment stock whose holding purpose is other than for net investment

| | |
|---|---|
| 18 issues | ¥9,881 million |

2) Issues, number of shares, balance sheet amounts and holding purpose of investment stock whose holding purpose is other than for net investment

As of March 31, 2016

Specified investment stocks

| Issue | Number of shares (Shares) | Balance sheet amounts (Millions of yen) | Holding purpose |
|---|---|---|---|
| Tabuchi Electric Co., Ltd. | 8,000,000 | 4,216 | Strategic holding on business development |
| Mabuchi Motor Co., Ltd. | 600,000 | 3,144 | Strategic holding on business development |
| ALPS LOGISTICS CO., LTD. | 2,804,400 | 1,567 | Strategic holding on business development |
| SIIX Corporation | 33,746 | 116 | Strategic holding on business development |
| FIDEA Holdings Co. Ltd. | 32,541 | 5 | Maintaining and Strengthening business to business transactions |

Regarded as holding shares

| Issue | Number of shares (Shares) | Balance sheet amounts (Millions of yen) | Holding purpose |
|---|---|---|---|
| Fukuda Denshi Co., Ltd. | 269,100 | 1,587 | Contribution on retirement benefit trust |
| Foster Electric Company, Limited | 587,000 | 1,393 | Contribution on retirement benefit trust |
| OMRON Corporation | 364,000 | 1,219 | Contribution on retirement benefit trust |
| KYOCERA Corporation | 210,000 | 1,040 | Contribution on retirement benefit trust |
| TODA KOGYO CORP. | 1,994,000 | 634 | Contribution on retirement benefit trust |
| Tokio Marine Holdings, Inc. | 129,500 | 492 | Contribution on retirement benefit trust |
| Shinko Shoji Co., Ltd. | 349,000 | 378 | Contribution on retirement benefit trust |
| NIKKO COMPANY | 2,500,000 | 267 | Contribution on retirement benefit trust |
| SUMIDA CORPORATION | 329,500 | 242 | Contribution on retirement benefit trust |
| Mitsubishi UFJ Financial Group, Inc. | 260,000 | 135 | Contribution on retirement benefit trust |
| Ricoh Company, Ltd. | 108,000 | 123 | Contribution on retirement benefit trust |
| DENKYOSHA CO., LTD. | 111,000 | 71 | Contribution on retirement benefit trust |
| ADVANTEST CORPORATION | 63,000 | 65 | Contribution on retirement benefit trust |
| Sumitomo Mitsui Trust Holdings, Inc. | 103,000 | 33 | Contribution on retirement benefit trust |
| MITSUMI ELECTRIC CO., LTD. | 52,000 | 27 | Contribution on retirement benefit trust |
| Resona Holdings, Inc. | 61,300 | 24 | Contribution on retirement benefit trust |
| Oki Electric Industry Co., Ltd. | 50,000 | 7 | Contribution on retirement benefit trust |
| Japan Radio Co., Ltd. | 6,000 | 1 | Contribution on retirement benefit trust |
| Uniden Holdings Corporation | 10,000 | 1 | Contribution on retirement benefit trust |

Note: Specified investment stocks and regarded as holding shares are not combined when selecting the top issues by balance sheet amount.

As of March 31, 2017

Specified investment stocks

| Issue | Number of shares (Shares) | Balance sheet amounts (Millions of yen) | Holding purpose |
|---|---|---|---|
| Mabuchi Motor Co., Ltd. | 600,000 | 3,762 | Strategic holding on business development |
| Tabuchi Electric Co., Ltd. | 8,000,000 | 2,696 | Strategic holding on business development |
| ALPS LOGISTICS CO., LTD. | 2,804,400 | 2,181 | Strategic holding on business development |
| SIIX Corporation | 35,052 | 157 | Strategic holding on business development |
| FIDEA Holdings Co. Ltd. | 32,541 | 6 | Maintaining and Strengthening business to business transactions |

Regarded as holding shares

| Issue | Number of shares (Shares) | Balance sheet amounts (Millions of yen) | Holding purpose |
|---|---|---|---|
| OMRON Corporation | 364,000 | 1,778 | Contribution on retirement benefit trust |
| Fukuda Denshi Co., Ltd. | 269,100 | 1,714 | Contribution on retirement benefit trust |
| KYOCERA Corporation | 210,000 | 1,302 | Contribution on retirement benefit trust |
| Tokio Marine Holdings, Inc. | 129,500 | 608 | Contribution on retirement benefit trust |
| Foster Electric Company, Limited | 300,000 | 572 | Contribution on retirement benefit trust |
| TODA KOGYO CORP. | 1,994,000 | 544 | Contribution on retirement benefit trust |
| SUMIDA CORPORATION | 310,000 | 514 | Contribution on retirement benefit trust |
| Shinko Shoji Co., Ltd. | 349,000 | 424 | Contribution on retirement benefit trust |
| NIKKO COMPANY | 2,500,000 | 285 | Contribution on retirement benefit trust |
| Mitsubishi UFJ Financial Group, Inc. | 260,000 | 181 | Contribution on retirement benefit trust |
| Ricoh Company, Ltd. | 108,000 | 98 | Contribution on retirement benefit trust |
| DENKYOSHA CO., LTD. | 55,500 | 71 | Contribution on retirement benefit trust |
| Sumitomo Mitsui Trust Holdings, Inc. | 10,300 | 39 | Contribution on retirement benefit trust |
| Resona Holdings, Inc. | 61,300 | 36 | Contribution on retirement benefit trust |

Note: Specified investment stocks and regarded as holding shares are not combined when selecting the top issues by balance sheet amount.

25. Circumstances of accounting audit

The Company has an auditing agreement with KPMG AZSA LLC for this company to conduct the accounting audit of TDK.

The two certified public accountants who conducted the accounting audit of the Company were Junichi Obi and Hiroto Yamane, and both were Designated Limited Liability Partners and Engagement Partners affiliated with KPMG AZSA LLC. The number of years of continued audits is seven years or less.

In addition, working to assist the above accountants in conducting the accounting audit of the Company were 10 certified public accountants, 11 assistant certified public accountants, and 24 other people.

**(2) Audit fees, etc.**

a. Details of fees to auditors

(Millions of yen)

| Category | Fiscal 2016 | | Fiscal 2017 | |
|---|---|---|---|---|
| | Audit fees | Fees for non-attest service | Audit fees | Fees for non-attest service |
| Filing company | 347 | – | 377 | 7 |
| Consolidated subsidiaries | 65 | – | 62 | – |
| Total | 412 | – | 439 | 7 |

b. Details of other material fees

In fiscal 2016 and fiscal 2017, principal overseas consolidated subsidiaries of TDK Corporation pay audit fees to member firms of KPMG to which KPMG AZSA LLC, TDK Corporation’s auditors, belong.

c. Details of non-attest service rendered by auditors to the filing company

In fiscal 2017, the Company needs to pay the fee for non-attest service to KPMG AZSA LLC. The detail of non-attest service rendered by the auditor is to supervise and to advise for new accounting standards adoption and specific accounting policy applications.

d. Policy of deciding audit fees

TDK Corporation carefully considers the independence of auditors and decides the audit fees by resolution of the Board of Directors.

# V. Consolidated Financial Statements and Notes to Consolidated Financial Statements

## Consolidated statements of income

For the years ended March 31, 2016 and 2017

| | Yen (Millions) 2016 | Yen (Millions) 2017 | U.S. Dollars (Thousands) (Note 2) 2017 |
|---|---|---|---|
| **Net sales** | ¥ 1,152,255 | **¥ 1,178,257** | **$ 10,520,152** |
| **Cost of sales** | 831,123 | **855,948** | **7,642,393** |
| Gross profit | 321,132 | **322,309** | **2,877,759** |
| **Selling, general and administrative expenses** | 227,185 | **239,446** | **2,137,911** |
| **Other operating expense (income) (Note 1)** | 533 | **(125,797)** | **(1,123,188)** |
| Operating income | 93,414 | **208,660** | **1,863,036** |
| **Other income (deductions):** | | | |
| Interest and dividend income | 4,496 | **4,152** | **37,071** |
| Interest expense | (3,116) | **(3,428)** | **(30,607)** |
| Gain（loss）on securities, net (Note 3) | (3,145) | **80** | **714** |
| Equity in earnings of affiliates (Note 4) | 1,462 | **1,396** | **12,464** |
| Foreign exchange gain (loss) | (2,394) | **368** | **3,286** |
| Other - net | 1,122 | **489** | **4,366** |
| | (1,575) | **3,057** | **27,294** |
| Income before income taxes | 91,839 | **211,717** | **1,890,330** |
| **Income taxes (Note 7)** | | | |
| Current | 23,215 | **35,434** | **316,375** |
| Deferred | 2,001 | **30,723** | **274,312** |
| | 25,216 | **66,157** | **590,687** |
| Net income | 66,623 | **145,560** | **1,299,643** |
| **Less: Net income attributable to noncontrolling interests** | 1,795 | **461** | **4,116** |
| Net income attributable to TDK | ¥ 64,828 | **¥ 145,099** | **$ 1,295,527** |

| **Amounts per share:** | Yen 2016 | Yen 2017 | U.S. Dollars (Note 2) 2017 |
|---|---|---|---|
| Net income attributable to TDK (Note 20): | | | |
| Basic | ¥ 514.23 | **¥ 1,150.16** | **$ 10.27** |
| Diluted | 504.66 | **1,147.57** | **10.25** |
| Cash dividends paid during the year (Note 9) | ¥ 110.00 | **¥ 120.00** | **$ 1.07** |

## Consolidated statements of comprehensive income (loss)

For the years ended March 31, 2016 and 2017

| | Yen (Millions) 2016 | Yen (Millions) 2017 | U.S. Dollars (Thousands) (Note 2) 2017 |
|---|---|---|---|
| **Net income** | ¥ 66,623 | **¥ 145,560** | **$ 1,299,643** |
| Other comprehensive income (loss), net of taxes: | | | |
| Foreign currencies translation adjustments | (61,172) | **(18,866)** | **(168,447)** |
| Pension liability adjustments | (31,555) | **13,465** | **120,223** |
| Net unrealized gains (losses) on securities | (6,994) | **(274)** | **(2,446)** |
| Total other comprehensive income (loss) (Note 12) | (99,721) | **(5,675)** | **(50,670)** |
| Comprehensive income (loss) | (33,098) | **139,885** | **1,248,973** |
| Comprehensive income attributable to noncontrolling interests | 1,371 | **933** | **8,330** |
| Comprehensive income (loss) attributable to TDK | ¥ (34,469) | **¥ 138,952** | **$ 1,240,643** |

*See accompanying notes to consolidated financial statements.*

## Consolidated balance sheets

As of March 31, 2016 and 2017

| ASSETS | Yen (Millions) 2016 | Yen (Millions) 2017 | U.S. Dollars (Thousands) (Note 2) 2017 |
|---|---|---|---|
| **Current assets:** | | | |
| Cash and cash equivalents | ¥ 285,468 | **¥ 330,388** | **$ 2,949,893** |
| Short-term investments | 21,964 | **56,131** | **501,170** |
| Trade receivables: | | | |
| Notes | 14,465 | **40,867** | **364,884** |
| Accounts | 213,508 | **215,783** | **1,926,634** |
| Allowance for doubtful receivables | (1,755) | **(1,741)** | **(15,545)** |
| Net trade receivables | 226,218 | **254,909** | **2,275,973** |
| Inventories (Note 5) | 157,129 | **154,499** | **1,379,455** |
| Income taxes receivable | 4,660 | **6,153** | **54,937** |
| Prepaid expenses and other current assets | 45,555 | **64,056** | **571,929** |
| Total current assets | 740,994 | **866,136** | **7,733,357** |
| **Investments in affiliates (Notes 3 and 4)** | 22,213 | **149,057** | **1,330,866** |
| **Other investments in securities (Notes 3)** | 13,122 | **12,768** | **114,000** |
| **Property, plant and equipment, at cost (Note 18):** | | | |
| Land | 24,422 | **23,714** | **211,732** |
| Buildings | 266,721 | **299,196** | **2,671,393** |
| Machinery and equipment | 858,126 | **762,788** | **6,810,607** |
| Construction in progress | 86,183 | **64,118** | **572,482** |
| | 1,235,452 | **1,149,816** | **10,266,214** |
| Less accumulated depreciation | (747,813) | **(685,149)** | **(6,117,401)** |
| Net property, plant and equipment | 487,639 | **464,667** | **4,148,813** |
| **Goodwill (Note 19)** | 73,012 | **61,031** | **544,920** |
| **Intangible assets (Note 19)** | 45,824 | **51,821** | **462,688** |
| **Deferred income taxes (Notes 7)** | 37,776 | **29,546** | **263,803** |
| **Other assets (Note 21)** | 29,984 | **29,307** | **261,669** |
| Total assets | ¥ 1,450,564 | **¥ 1,664,333** | **$ 14,860,116** |

*See accompanying notes to consolidated financial statements.*

| LIABILITIES AND EQUITY | Yen (Millions) 2016 | 2017 | U.S. Dollars (Thousands) (Note 2) 2017 |
|---|---|---|---|
| **Current liabilities:** | | | |
| Short-term debt (Note 6) | ¥ 158,683 | **¥ 77,680** | **$ 693,571** |
| Current installments of long-term debt (Note 6) | 36,228 | **42,517** | **379,616** |
| Trade payables: | | | |
| Notes | 40,805 | **87,157** | **778,188** |
| Accounts | 71,859 | **89,487** | **798,991** |
| Accrued salaries and wages | 50,115 | **57,551** | **513,848** |
| Accrued expenses (Note 8) | 73,777 | **91,058** | **813,018** |
| Income taxes payable (Note 7) | 5,267 | **16,650** | **148,661** |
| Other current liabilities | 14,500 | **15,494** | **138,339** |
| Total current liabilities | 451,234 | **477,594** | **4,264,232** |
| **Long-term debt, excluding current installments (Note 1 and 6)** | 140,826 | **213,935** | **1,910,134** |
| **Retirement and severance benefits (Note 8)** | 147,136 | **125,202** | **1,117,875** |
| **Deferred income taxes (Notes 7)** | 9,562 | **29,786** | **265,946** |
| **Other noncurrent liabilities (Note 7)** | 17,173 | **15,698** | **140,161** |
| Total noncurrent liabilities | 314,697 | **384,621** | **3,434,116** |
| Total liabilities | 765,931 | **862,215** | **7,698,348** |
| **TDK stockholders' equity:** | | | |
| Common stock | | | |
| Authorized 480,000,000 shares; issued 129,590,659 shares in 2016 and 2017; outstanding 126,122,814 shares in 2016 and 126,199,815 shares in 2017 | 32,641 | **32,641** | **291,438** |
| Additional paid-in capital (Note 11) | 21,083 | **15,349** | **137,044** |
| Legal reserve (Note 9) | 34,221 | **37,727** | **336,848** |
| Retained earnings (Note 9) | 707,508 | **833,884** | **7,445,393** |
| Accumulated other comprehensive income (loss) (Note 12) | (102,285) | **(108,575)** | **(969,420)** |
| Treasury stock at cost; 3,467,845 shares in 2016 and 3,390,844 shares in 2017 | (17,807) | **(17,412)** | **(155,464)** |
| Total TDK stockholders' equity | 675,361 | **793,614** | **7,085,839** |
| **Noncontrolling interests** | 9,272 | **8,504** | **75,929** |
| Total equity | 684,633 | **802,118** | **7,161,768** |
| Total liabilities and equity | ¥ 1,450,564 | **¥ 1,664,333** | **$ 14,860,116** |

## Consolidated statements of equity

For the years ended March 31, 2016 and 2017

**Yen (Millions)**

| | Common stock | Additional paid-in capital | Legal reserve | Retained earnings | Accumulated other comprehensive income (loss) | Treasury stock | Total TDK stockholders' equity | Noncontrolling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| **Notes** | | Note 11 | Note 9 | Note 9 | Note 12 | | | Note 11 | |
| **Balance at March 31, 2015** | ¥ 32,641 | ¥ 39,755 | ¥ 29,685 | ¥ 661,159 | ¥ (5,882) | ¥ (18,497) | ¥ 738,861 | ¥ 19,146 | ¥ 758,007 |
| Equity transaction of consolidated subsidiaries and other | | (18,961) | | | 2,894 | | (16,067) | (11,079) | (27,146) |
| Cash dividends | | | | (13,864) | | | (13,864) | (177) | (14,041) |
| Transferred to legal reserve | | | 4,536 | (4,536) | | | - | | - |
| Comprehensive income | | | | | | | | | |
| Net income | | | | 64,828 | | | 64,828 | 1,795 | 66,623 |
| Other comprehensive income (loss) | | | | | (99,297) | | (99,297) | (424) | (99,721) |
| Total comprehensive income (loss) | | | | | | | (34,469) | 1,371 | (33,098) |
| Acquisition of treasury stock | | | | | | (12) | (12) | | (12) |
| Sale of treasury stock | | | | | | | - | | - |
| Compensation expenses related to stock options | | 439 | | | | | 439 | 11 | 450 |
| Exercise of stock options | | (150) | | (79) | | 702 | 473 | | 473 |
| **Balance at March 31, 2016** | ¥ 32,641 | ¥ 21,083 | ¥ 34,221 | ¥ 707,508 | ¥ (102,285) | ¥ (17,807) | ¥ 675,361 | ¥ 9,272 | ¥ 684,633 |
| Equity transaction of consolidated subsidiaries and other | | (5,931) | | | (143) | | (6,074) | (1,625) | (7,699) |
| Cash dividends | | | | (15,137) | | | (15,137) | (76) | (15,213) |
| Transferred to legal reserve | | | 3,506 | (3,506) | | | - | | - |
| Comprehensive income | | | | | | | | | |
| Net income | | | | 145,099 | | | 145,099 | 461 | 145,560 |
| Other comprehensive income (loss) | | | | | (6,147) | | (6,147) | 472 | (5,675) |
| Total comprehensive income (loss) | | | | | | | 138,952 | 933 | 139,885 |
| Acquisition of treasury stock | | | | | | (3) | (3) | | (3) |
| Sale of treasury stock | | | | | | 1 | 1 | | 1 |
| Compensation expenses related to stock options | | 310 | | | | | 310 | | 310 |
| Exercise of stock options | | (113) | | (80) | | 397 | 204 | | 204 |
| **Balance at March 31, 2017** | ¥ 32,641 | ¥ 15,349 | ¥ 37,727 | ¥ 833,884 | ¥ (108,575) | ¥ (17,412) | ¥ 793,614 | ¥ 8,504 | ¥ 802,118 |

*See accompanying notes to consolidated financial statements.*

**U.S.Dollars (Thousands) (Note 2)**

| | Common stock | Additional paid-in capital | Legal reserve | Retained earnings | Accumulated other comprehensive income (loss) | Treasury stock | Total TDK stockholders' equity | Noncontrolling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| **Notes** | | Note 11 | Note 9 | Note 9 | Note 12 | | | Note 11 | |
| **Balance at March 31, 2016** | $ 291,438 | $ 188,241 | $ 305,544 | $ 6,317,036 | $ (913,259) | $ (158,991) | $ 6,030,009 | $ 82,786 | $ 6,112,795 |
| Equity transaction of consolidated subsidiaries and other | | $ (52,955) | | | $ (1,277) | | (54,232) | (14,509) | (68,741) |
| Cash dividends | | | | (135,152) | | | (135,152) | (678) | (135,830) |
| Transferred to legal reserve | | | 31,304 | (31,304) | | | - | | - |
| Comprehensive income | | | | | | | | | |
| Net income | | | | 1,295,527 | | | 1,295,527 | 4,116 | 1,299,643 |
| Other comprehensive income (loss) | | | | | (54,884) | | (54,884) | 4,214 | (50,670) |
| Total comprehensive income (loss) | | | | | | | 1,240,643 | 8,330 | 1,248,973 |
| Acquisition of treasury stock | | | | | | (27) | (27) | | (27) |
| Sale of treasury stock | | | | | | 9 | 9 | | 9 |
| Compensation expenses related to stock options | | 2,768 | | | | | 2,768 | | 2,768 |
| Exercise of stock options | | (1,010) | | (714) | | 3,545 | 1,821 | | 1,821 |
| **Balance at March 31, 2017** | $ 291,438 | $ 137,044 | $ 336,848 | $ 7,445,393 | $ (969,420) | $ (155,464) | $ 7,085,839 | $ 75,929 | $ 7,161,768 |

*See accompanying notes to consolidated financial statements.*

## Consolidated statements of cash flows

For the years ended March 31, 2016 and 2017

| | Yen (Millions) | | U.S. Dollars (Thousands) (Note 2) |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| **Cash flows from operating activities:** | | | |
| Net income | ¥ 66,623 | **¥ 145,560** | **$ 1,299,643** |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 83,224 | **87,491** | **781,170** |
| Deferred income taxes | 2,001 | **30,723** | **274,312** |
| Loss (gain) on sale or disposal of property, plant and equipment | 1,105 | **601** | **5,366** |
| Impairment loss on long-lived assets | 533 | **16,811** | **150,098** |
| Impairment loss on goodwill | - | **2,600** | **23,214** |
| Gain on sale of business | - | **(149,538)** | **(1,335,161)** |
| Loss (gain) on securities, net | 3,145 | **(80)** | **(714)** |
| Equity in earnings of affiliates, net of dividends received | (1,417) | **(1,280)** | **(11,429)** |
| Changes in assets and liabilities: | | | |
| Decrease (increase) in trade receivables | (7,262) | **(59,152)** | **(528,143)** |
| Decrease (increase) in inventories | (10,591) | **(21,709)** | **(193,830)** |
| Decrease (increase) in other current assets | 3,016 | **6,152** | **54,929** |
| Increase (decrease) in trade payables | 16,460 | **67,913** | **606,366** |
| Increase (decrease) in accrued expenses | (509) | **12,467** | **111,313** |
| Increase (decrease) in income taxes payables, net | (1,293) | **11,097** | **99,080** |
| Increase (decrease) in other current liabilities | 2,318 | **1,046** | **9,339** |
| Increase (decrease) in retirement and severance benefits, net | (3,966) | **1,646** | **14,697** |
| Other - net | (1,824) | **7,788** | **69,536** |
| Net cash provided by operating activities | 151,563 | **160,136** | **1,429,786** |
| **Cash flows from investing activities:** | | | |
| Capital expenditures | (160,674) | **(167,631)** | **(1,496,705)** |
| Proceeds from sales of tangible and intangible assets | 3,918 | **21,085** | **188,259** |
| Proceeds from sale and maturity of short-term investments | 30,348 | **38,697** | **345,509** |
| Payment for purchase of short-term investments | (27,352) | **(73,632)** | **(657,429)** |
| Proceeds from sale and maturity of securities | 4,833 | **523** | **4,670** |
| Payment for purchase of securities | (1,112) | **(837)** | **(7,473)** |
| Proceeds from sale of business, net of cash transferred | 1,668 | **128,210** | **1,144,732** |
| Acquisition of subsidiaries, net of cash acquired | (15,165) | **(16,819)** | **(150,170)** |
| Receipt from collection of loans made by TDK | 21,605 | **603** | **5,384** |
| Other - net | 1,346 | **(1,310)** | **(11,697)** |
| Net cash used in investing activities | (140,585) | **(71,111)** | **(634,920)** |
| **Cash flows from financing activities:** | | | |
| Proceeds from long-term debt | 22,700 | **119,275** | **1,064,955** |
| Repayment of long-term debt | (1,289) | **(52,246)** | **(466,482)** |
| Increase (decrease) in short-term debt, net | 50,213 | **(81,063)** | **(723,777)** |
| Dividends paid | (13,864) | **(15,132)** | **(135,107)** |
| Acquisition of noncontrolling interests | (28,504) | **(8,914)** | **(79,589)** |
| Other - net | 49 | **327** | **2,920** |
| Net cash provided by (used in) financing activities | 29,305 | **(37,753)** | **(337,080)** |
| Effect of exchange rate changes on cash and cash equivalents | (19,919) | **(6,352)** | **(56,714)** |
| Net increase in cash and cash equivalents | 20,364 | **44,920** | **401,072** |
| Cash and cash equivalents, beginning of year | 265,104 | **285,468** | **2,548,821** |
| Cash and cash equivalents, end of year | ¥ 285,468 | **¥ 330,388** | **$ 2,949,893** |

*See accompanying notes to consolidated financial statements.*

## Notes to Consolidated Financial Statements

## 1. Nature of Operations and Summary of Significant Accounting Policies

### (1) Nature of Operations

TDK Corporation, a Tokyo-based company founded in 1935 to accomplish the world's first industrialization of a magnetic material called ferrite, and its subsidiaries (collectively "TDK") have always been a multinational developer, manufacturer and distributor of unique and diverse products, including ferrite cores, inductive devices, ceramic capacitors, magnetic heads, magnets and other items created by pursuing core technologies.

TDK's three basic reportable segments, Passive Components, Magnetic Application Products and Film Application Products, and the "Other" unrelated to the aforementioned three segments, accounted for 46.6 percent, 29.7 percent, 21.0 percent, and 2.7 percent of net sales, respectively, for the year ended March 31, 2017.

These three segments and the Other consist of the following businesses:

**(i) Passive Components:**

Ceramic Capacitors, Aluminum Electrolytic Capacitors, Film Capacitors, Inductive Devices (Coils / Ferrite Cores / Transformers), High-Frequency Devices, Piezoelectric Materials Devices, Circuit Protection Components, Sensors

**(ii) Magnetic Application Products:**

HDD Heads, HDD Suspension Assemblies, Magnetic Sensors, Power Supplies, Magnets

**(iii) Film Application Products:**

Energy Devices (Rechargeable Batteries)

**(iv) Other:**

Mechatronics (Production Equipment), Others

### (2) 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 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").

### (3) 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 as defined 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 by the equity method of accounting. All significant intercompany profits from these affiliates have been eliminated.

### (4) Cash Equivalents and Short-term Investments

Cash equivalents include all highly liquid investments with an original maturity of three months or less. All other highly liquid investments not considered to be cash equivalents are classified as short-term investments. TDK determines the appropriate classification of its investments at the time of purchase.

### (5) Allowance for Doubtful Receivables

The allowance for doubtful receivables is TDK's best estimate of the amount of probable credit losses in TDK's existing trade receivables. An additional reserve for individual receivables is recorded when TDK becomes aware of a customer's inability to meet its financial obligations, such as in the case of bankruptcy filings or deterioration in a customer's operating results or financial position. If customer circumstances change, estimates of the recoverability of receivables would be further adjusted.

**(6) Investments in Securities**

TDK classifies its debt and equity securities into one of the three categories: trading, available-for-sale, or held-to-maturity. Trading securities are acquired and held principally for the purpose of selling them in the near future. Held-to-maturity securities are those securities in which TDK has the ability and intent to hold the security until maturity. All securities not included in trading or held-to-maturity are classified as available-for-sale.

Trading and available-for-sale securities are recorded at fair value. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts. Unrealized holding gains and losses on trading securities are included in earnings. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of accumulated other comprehensive income (loss) until realized. As of March 31, 2016 and 2017, TDK did not hold any trading or held-to-maturity securities. Available-for-sale securities, which mature or are expected to be sold in less than one year, are classified as marketable securities.

If a decline in the fair value below the cost basis of an equity security which is an available-for-sale security is deemed to be other-than-temporary, a decline in the fair value below amortized cost basis of an debt security which is available for sale but not expected to be sold is deemed to be other-than-temporary and represents a credit loss, and a decline in the fair value of a debt security which is an available-for-sale security and expected to be sold before recovery of its amortized cost basis exists, an impairment is recognized in earnings and the fair value becomes the new cost basis of the security. To determine whether an impairment is other-than-temporary, TDK periodically reviews the fair value of available-for-sale securities for possible impairment by taking into consideration the financial and operating conditions of the issuer, general market conditions in the issuer’s industry, degree and period of the decline in fair value and other relevant factors.

Nonmarketable securities are recorded at cost. TDK periodically evaluates whether an event or change in circumstances may have a significant adverse effect on the fair value of the investment. Factors considered in assessing whether an indication of impairment exists include the financial and operating conditions of the issuer, general market conditions in the issuer’s industry and other relevant factors. If an indication of impairment is present, TDK estimates the fair value of nonmarketable securities. If the fair value is less than cost and the impairment is determined to be other-than-temporary, a nonmarketable security is written down to its impaired value through a charge to earnings.

**(7) Inventories**

Inventories are stated at the lower of cost or market. Cost is determined principally by the average cost method.

The cost elements for finished goods and work in process include direct costs for materials such as primary materials and purchased semi-finished products, direct labor costs such as basic salaries, bonuses, and legal welfare expenses, direct costs such as expenses paid to subcontractors, and indirect manufacturing costs comprising material costs, labor costs and other overhead costs.

**(8) Property, Plant and Equipment**

Depreciation of property, plant and equipment is principally calculated using the straight-line method over the following estimated useful lives:

| | | |
|---|---|---|
| Buildings | .................................................. | 2 to 60 years |
| Machinery and equipment | ....................... | 2 to 17 years |

**(9) Income Taxes**

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date.

TDK uses a specific identification method to release the residual tax effects associated with components of accumulated other comprehensive income (loss) resulting from a change in tax law or rate.

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

**(10) Stock Option Plan**

TDK measures the expenses of employee services received in exchange for equity awards based on the grant date fair value of the awards and use the straight-line attribution method to recognize compensation expenses related to stock options over the requisite service period. TDK will continue to use the simplified method to estimate expected remaining term until TDK has the historical data necessary to provide reasonable estimates of the expected term.

**(11) Other operating expense (income)**

Other operating expense (income) for the year ended March 31, 2016 and 2017 are as follows:

| | Yen (Millions) | | U.S. Dollars (Thousands) |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Gain on sale of business (Note 23) | ¥ - | **¥ (145,208)** | **$ (1,296,500)** |
| Impairment of long-lived assets (Note 18) | 533 | **16,811** | **150,098** |
| Impairment of goodwill (Note 19) | - | **2,600** | **23,214** |
| Total | ¥ 533 | **¥ (125,797)** | **$ (1,123,188)** |

**(12) Research and Development Expenses**

Research and development expenses are expensed as incurred.

**(13) Advertising Costs**

Advertising costs are expensed as incurred.

**(14) Shipping and Handling Fees and Costs**

Shipping and handling fees and costs amounted to ¥16,156 million and ¥15,552 million ($138,857 thousand) for the years ended March 31, 2016 and 2017, respectively, and are included in selling, general and administrative expenses in the consolidated statements of income.

**(15) Foreign Currency Translation**

Foreign currency financial statements have been translated in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 830, “Foreign Currency Matters”. Under FASB ASC 830, the assets and liabilities of TDK’s subsidiaries located outside Japan are translated into Japanese yen at the rates of exchange in effect at the balance sheet date. Revenue and expense items are translated at the average exchange rates prevailing during the year. Gains and losses resulting from foreign currency transactions are included in other income (deductions), and those resulting from translation of financial statements of foreign subsidiaries are excluded from the statements of income and are accumulated in TDK stockholders’ equity as a component of accumulated other comprehensive income (loss).

**(16) Use of Estimates**

Management of TDK has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenue and expenses and the disclosure of contingencies to prepare these consolidated financial statements in conformity with U.S. GAAP. Significant items subject to such estimates and assumptions include the valuation of goodwill and other intangible assets, long-lived assets, trade receivables, inventories, investments in securities, deferred tax assets, and assumptions related to the estimation of actuarial determined employee benefit obligations.  Actual results could differ from those estimates.

**(17) Accounting for the Impairment of Long-Lived Assets**

Property, plant and equipment and certain identifiable intangible assets with finite useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.  Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows (undiscounted and without interest charges) expected to be generated by the asset.  If such assets are considered to be impaired, an impairment loss to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets.  Assets to be disposed of by sale are reported at the lower of the carrying amount or fair value less costs to sell.

**(18) Goodwill and Other Intangible Assets**

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

Intangible assets with finite useful lives are amortized over their respective estimated useful lives. Intangible assets determined to have indefinite useful lives are not amortized, but instead are tested for impairment annually or more frequently if certain indicators arise until the useful life is determined to no longer be indefinite except TDK determines that it is not more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount.

**(19) Derivative Financial Instruments**

TDK applies ASC 815 (“Derivatives and Hedging”), and all derivatives held by TDK are recognized on the consolidated balance sheets at fair value. The accounting treatment of subsequent changes in the fair value depends on their use, and whether they qualify as effective “hedges” for accounting purposes. Derivatives that are not hedges must be adjusted to fair value through the consolidated statement of income. If a derivative is a hedge, then depending on its nature, changes in its fair value will be either offset against changes in the fair value of hedged assets or liabilities through the consolidated statement of income, or recorded in other comprehensive income (loss).

If a derivative is used as a hedge of a net investment in a foreign operation, changes in its fair value, to the extent effective as a hedge, are recognized in the foreign currency translation adjustments section of other comprehensive income (loss).

The required disclosures in accordance with FASB ASC 815 “Derivatives and Hedging” are presented in Note 15 of the Notes to Consolidated Financial Statements.

**(Additional information)**

From the year ended March 31, 2017, TDK uses forward foreign exchange contracts to hedge the foreign currency exposure of the net investment in consolidated subsidiaries etc. and applies hedge accounting.  Effect to consolidated statement of income of the year ended March 31, 2017 is immaterial.

**(20) Net Income attributable to TDK per Share**

Basic net income attributable to TDK per share has been computed by dividing net income attributable to TDK available to common stockholders by the weighted average number of common shares outstanding for each year. Diluted net income attributable to TDK per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock of TDK.

**(21) Revenue Recognition**

TDK generates revenue principally through the sale of products under separate contractual arrangements. TDK recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred and title and risk of loss have been transferred to the customer, the sales price is fixed or determinable, and collectability is probable.

In principle, revenue from sales of products is recognized when the products are received by customers based on the free on board destination sales term. With regards to sales of products, TDK's policy is not to accept product returns unless the products are defective. TDK reduces revenue for estimated future returns based upon historical experience at the time the related revenue is recorded. The conditions of acceptance are governed by the terms of the contract or customer arrangement and those not meeting the predetermined specification are not recorded as revenue.

Warranties offered on TDK's products are insignificant.

**(22) Receipt of Contingent Consideration**

Contingent consideration is recognized when the amount of the contingent consideration becomes realized or realizable.

**(23) Adoption of New Accounting Standards**

Simplifying the Presentation of Debt Issuance Costs

In April 2015, FASB issued Accounting Standards Update ("ASU") 2015-03 "Simplifying the Presentation of Debt Issuance Costs". The amendments in this ASU require debt issuance costs to be presented as a deduction from the related debt liability. TDK adopted this ASU from the year ended March 31, 2017. 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 ASU 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 ASU 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 ASU is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. TDK adopted this ASU prospectively for adjustments to provisional amounts that occur after the effective date of this ASU. The adoption of this ASU did not have a material impact on TDK's results of operations and financial position.

**(24) Subsequent Events**

TDK has evaluated the subsequent events through July 21, 2017, the date on which the consolidated financial statements are available to be issued.

**(25) Reclassifications**

Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the presentation used for the year ended March 31, 2017.

## 2. Financial Statement Translation

The consolidated financial statements are expressed in Japanese yen, the functional currency of TDK. Supplementally, the Japanese yen amounts as of and for the year ended March 31, 2017, have also been translated into U.S. dollar amounts, solely for the convenience of the reader, at the rate of ¥112=U.S.$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 31, 2017. This translation should not be construed as a representation that the amounts shown could be converted into U.S. dollars at such rate.

## 3. Investments in Securities

Marketable securities and investments in securities as of March 31, 2016 and 2017 are as follows:

| | Yen (Millions) | | U.S. Dollars (Thousands) |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Investments in affiliates (Note 4) | ¥ 22,213 | **¥ 149,057** | **$ 1,330,866** |
| Other investments in securities: | | | |
| Long-term marketable securities | 10,649 | **10,118** | **90,339** |
| Nonmarketable securities | 2,473 | **2,650** | **23,661** |
| Total other investments in securities | 13,122 | **12,768** | **114,000** |
| Total | ¥ 35,335 | **¥ 161,825** | **$ 1,444,866** |

Other investments in securities include available-for-sale securities. Information with respect to such securities as of March 31, 2016 and 2017 is as follows:

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 |

**2017**

| Yen (Millions): | Cost | Gross Unrealized Holding Gains | Gross Unrealized Holding Losses | Fair Value |
|---|---|---|---|---|
| Investments (Debt securities): | | | | |
| Commercial papers | **¥ 25** | **¥ 91** | **¥ -** | **¥ 116** |
| Public-utility bonds | **2** | **-** | **-** | **2** |
| Investments (Equity securities): | | | | |
| Manufacturing companies | **2,717** | **4,179** | **112** | **6,784** |
| Other | **1,147** | **1,042** | **-** | **2,189** |
| Investments (Mutual funds) | **936** | **96** | **5** | **1,027** |
| Total | **¥ 4,827** | **¥ 5,408** | **¥ 117** | **¥ 10,118** |

**2017**

| U.S. Dollars (Thousands): | Cost | Gross Unrealized Holding Gains | Gross Unrealized Holding Losses | Fair Value |
|---|---|---|---|---|
| Investments (Debt securities): | | | | |
| Commercial papers | **$ 223** | **$ 813** | **$ -** | **$ 1,036** |
| Public-utility bonds | **18** | **-** | **-** | **18** |
| Investments (Equity securities): | | | | |
| Manufacturing companies | **24,259** | **37,312** | **1,000** | **60,571** |
| Other | **10,241** | **9,304** | **-** | **19,545** |
| Investments (Mutual funds) | **8,357** | **857** | **45** | **9,169** |
| Total | **$ 43,098** | **$ 48,286** | **$ 1,045** | **$ 90,339** |

The proceeds from sale and maturity of available-for-sale securities and nonmarketable securities were ¥4,833 million and ¥523 million ($4,670 thousand) for the year ended March 31, 2016 and 2017, respectively. The gross realized gains on the sale and settlement of available-for-sale securities and nonmarketable securities were ¥261 million and ¥80 million ($714 thousand) for the year ended March 31, 2016 and 2017, respectively. The gross realized losses on the sale and settlement of available-for-sale securities and nonmarketable securities were ¥1,839 million for the year ended March 31, 2016. The gross realized gains and losses on available-for-sale securities contributed to an employee retirement benefit trust, which were included in Other-net in Consolidated statement of income, were ¥1,213 million and ¥18 million, respectively, for the year ended March 31, 2016. The cost of available-for-sale securities sold was determined on average cost basis. TDK recorded an impairment of ¥1,567 million on certain available-for-sale securities or nonmarketable securities representing other-than-temporary declines in the fair value for the years ended March 31, 2016.

As of March 31, 2017, 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 2017 totaled ¥2,473 million and ¥2,650 million ($23,661 thousand), respectively.

## 4. Investments in Affiliates

As of March 31, 2017, investments in affiliates accounted for under the equity method consist of 49.0 percent of the common stock of RF360 Holdings Singapore PTE. Ltd. ("RF360"), a holding company with subsidiaries that run high-frequency components operations, 31.7 percent of the common stock of Semiconductor Energy Laboratory Co., Ltd., a research and development company, 34.0 percent of the common stock of Toppan TDK Label Co., Ltd., a magnetic products manufacturing company, and six other affiliated companies. Since TDK holds an option to sell TDK's interest in RF360 for $1.15 billion 30 months after the closing date (February 3, 2017) and do not have the right to receive any profit sharing such as dividends, TDK concluded that it is not material to disclose summarized financial information and omitted to disclose it. The effect of investments in affiliates accounted for under the equity method, which includes this investment, to our financial statements, collectively, are not significant, as of March 31, 2016 and 2017. As of March 31, 2016 and 2017, the difference between TDK's carrying value of investments in affiliates and its share of the underlying net equity in such affiliates substantially consists of unamortized amounts of equity method goodwill of ¥980 million and ¥44,180 million ($394,464 thousand), respectively. The details of the sale of business related to RF360 is presented in Note 23 of the Notes to Consolidated Financial Statements.

## 5. Inventories

Inventories as of March 31, 2016 and 2017 are summarized as follows:

| | Yen (Millions) | | U.S. Dollars (Thousands) |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Finished goods | ¥ 68,731 | **¥ 62,278** | **$ 556,053** |
| Work in process | 39,943 | **38,582** | **344,482** |
| Raw materials | 48,455 | **53,639** | **478,920** |
| Total | ¥ 157,129 | **¥ 154,499** | **$ 1,379,455** |

## 6. Short-Term and Long-Term Debt

Short-term debt and weighted average interest rates as of March 31, 2016 and 2017 are as follows:

| | 2016 | | **2017** | | **2017** |
|---|---|---|---|---|---|
| | Yen (Millions) | Weighted average interest rate | Yen (Millions) | Weighted average interest rate | U.S. Dollars (Thousands) |
| Short-term bank loans - unsecured | ¥ 158,683 | 0.21% | **¥ 77,680** | **0.20%** | **$ 693,571** |

Long-term debt as of March 31, 2016 and 2017 are as follows:

| | Yen (Millions) | | U.S. Dollars (Thousands) |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Loans from banks, unsecured (weighted average: 2016-0.83%, 2017-0.53%) | ¥ 152,298 | **¥ 237,983** | **$ 2,124,848** |
| Unsecured Bonds due 2019－2.038% | 13,000 | **13,000** | **116,071** |
| Bond issuance cost | (21) | (14) | (125) |
| Lease obligation (weighted average: 2016－7.19%, 2017－11.99%) | 11,777 | **5,483** | **48,956** |
| | 177,054 | **256,452** | **2,289,750** |
| Less current installments | 36,228 | **42,517** | **379,616** |
| Total | ¥ 140,826 | **¥ 213,935** | **$ 1,910,134** |

The aggregate annual maturities of long-term debt outstanding as of March 31, 2017 are as follows:

| | Yen (Millions) | U.S. Dollars (Thousands) |
|---|---|---|
| Year ending March 31, | | |
| 2018 | ¥ 41,882 | $ 373,946 |
| 2019 | 64,142 | 572,697 |
| 2020 | 24,134 | 215,482 |
| 2021 | 66,664 | 595,214 |
| 2022 | 54,074 | 482,804 |
| 2023 and thereafter | 87 | 777 |
| Total | ¥ 250,983 | $ 2,240,920 |

The aggregate annual maturities of long-term debt outstanding as of March 31, 2017 do not include lease obligation. A schedule by years of future minimum lease payments is presented in Note 13 of the Notes to Consolidated Financial Statements.

Short-term and long-term debt from banks were made under general agreements in which security and guarantees for present and future indebtedness will be given upon request of the banks, and that the banks shall have the rights, as the obligations become due, or in the event of default, to offset cash deposits against such obligations due to the banks.

As of March 31, 2016 and 2017, property, plant and equipment having a net book value of ¥1,969 million and ¥292 million ($2,607 thousand), respectively, were pledged as collateral for lease obligation.

There were no debt covenants or cross-default provisions under TDK’s financing arrangements. Furthermore, there were no subsidiary level dividend restrictions under the financing arrangements.

## 7. Income Taxes

TDK Corporation and its domestic subsidiaries are subject to a national corporate tax of 24.952percent, an inhabitants tax of between 3.1 percent and 3.9 percent and a deductible enterprise tax of between 6.7 percent and 7.1 percent, which in the aggregate resulted in statutory rate of 33.1 percent for the year ended March 31, 2016, and a national corporate tax of 24.43percent, an inhabitants tax of between 3.0 percent and 3.8 percent and a deductible enterprise tax of between 4.8 percent and 5.2 percent, which in the aggregate resulted in statutory rate of 31.3 percent for the year ended March 31, 2017.

On November 18, 2016, legislations regarding amendments to Japanese taxes and surtaxes were enacted. The domestic statutory tax rate to calculate deferred tax assets and liabilities for the year ended March 31, 2017 has not changed from the year ended March 31, 2016, but the allocation breakdown of tax rate between national and local tax has been changed.

The effective tax rates of TDK for the years ended March 31, 2016 and 2017 are reconciled with the Japanese statutory tax rate in the following table:

| | 2016 | **2017** |
|---|---|---|
| Japanese statutory tax rate for income from continuing operations, before income taxes | 33.1% | **31.3%** |
| Difference in statutory tax rates of foreign subsidiaries | (16.0) | **(9.6)** |
| Expenses not deductible for tax purposes | 1.9 | **5.4** |
| Nontaxable income | (0.7) | **(12.1)** |
| Change in valuation allowance | 14.3 | **4.1** |
| Investment tax credit | (2.6) | **(1.4)** |
| Research and development tax credit | (0.3) | **(0.2)** |
| Prior-year tax adjustments | (3.1) | **(0.2)** |
| Impact of change in Japanese statutory tax rate | (0.2) | **0.0** |
| Undistributed earnings of subsidiaries and affiliates | (0.4) | **12.0** |
| Unrealized gains (losses) on subsidiaries' and affiliates' securities | 1.5 | **0.5** |
| Other | 0.0 | **1.4** |
| Effective tax rate of continuing operations | 27.5% | **31.2%** |

Total income taxes for the years ended March 31, 2016 and 2017 are allocated as follows:

| | Yen (Millions) | | U.S. Dollars (Thousands) |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Income from continuing operations, before income taxes attributable to TDK | ¥ 25,216 | **¥ 66,157** | **$ 590,687** |
| TDK stockholders' equity, accumulated other comprehensive income (loss): | | | |
| Foreign currency translation adjustments | (220) | **435** | **3,884** |
| Pension liability adjustments | 937 | **432** | **3,857** |
| Net unrealized gains (losses) on securities | (3,252) | **(108)** | **(964)** |
| Total income taxes | ¥ 22,681 | **¥ 66,916** | **$ 597,464** |

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of March 31, 2016 and 2017 are as follows:

| | Yen (Millions) | | U.S. Dollars (Thousands) |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Deferred tax assets: | | | |
| Inventories | ¥ 1,926 | **¥ 2,248** | **$ 20,071** |
| Accrued expenses | 9,023 | **10,226** | **91,304** |
| Retirement and severance benefits | 41,904 | **36,213** | **323,330** |
| Net operating loss carryforwards | 88,789 | **79,581** | **710,545** |
| Tax credit carryforwards | 6,162 | **5,319** | **47,491** |
| Property, plant and equipment, and Intangible assets | 5,791 | **10,029** | **89,545** |
| Other | 3,129 | **2,766** | **24,696** |
| Total gross deferred tax assets | 156,724 | **146,382** | **1,306,982** |
| Less valuation allowance | (115,821) | **(103,998)** | **(928,553)** |
| Net deferred tax assets | ¥ 40,903 | **¥42,384** | **$ 378,429** |
| Deferred tax liabilities: | | | |
| Marketable securities and investments adjustments | ¥ (2,266) | **¥ (2,095)** | **$ (18,705)** |
| Undistributed earnings of foreign subsidiaries and affiliated companies | (5,091) | **(30,675)** | **(273,884)** |
| Acquired fixed assets | (3,762) | **(8,110)** | **(72,411)** |
| Other | (1,570) | **(1,744)** | **(15,572)** |
| Total gross deferred tax liabilities | (12,689) | **(42,624)** | **(380,572)** |
| Net deferred tax assets | ¥ 28,214 | **¥ (240)** | **$ (2,143)** |

The net changes in total valuation allowance were an increase of ¥32,728 million for the year ended March 31, 2016 and a decrease of ¥ 11,823 million ($105,563 thousand) for the year ended March 31, 2017. The valuation allowance primarily relates to deferred tax assets associated with net operating loss carryforwards.

The increase in deferred tax liabilities of undistributed earnings of foreign subsidiaries and affiliated companies for the years ended March 31, 2017 was mainly due to the reconciliation of deferred tax liabilities for expected dividend from foreign subsidiaries and affiliated companies.

In assessing the realizability of deferred tax assets, TDK considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and tax carryforwards are utilized. TDK considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, TDK believes it is more likely than not that TDK will realize the benefits of these deductible differences and tax carryforwards, net of the existing valuation allowance as of March 31, 2017.

As of March 31, 2017, TDK Corporation and its subsidiaries have net operating loss carryforwards for income tax purposes of ¥282,494million ($2,522,268 thousand) which are available to offset future taxable income, if any.

Periods available to offset future taxable income vary in each tax jurisdiction and range from one year to an indefinite period as follows:

| | Yen (Millions) | U.S. Dollars (Thousands) |
|---|---|---|
| Within 1 year | ¥ 15,557 | $ 138,902 |
| 1 to 5 years | 55,596 | 496,393 |
| 5 to 20 years | 123,933 | 1,106,544 |
| Indefinite periods | 87,408 | 780,429 |
| | ¥ 282,494 | $ 2,522,268 |

As of March 31, 2017, TDK Corporation and its subsidiaries have tax credit carryforwards for income tax purposes of ¥5,319 million ($47,491 thousand) which are available to reduce future income taxes, if any. ¥2,527 million ($22,563 thousand) of the tax credit carryforwards will expire through 2036, while the remainder has an indefinite carryforward period.

Net deferred income tax assets and liabilities as of March 31, 2016 and 2017 are reflected in the accompanying consolidated balance sheets under the following captions:

| | Yen (Millions) | | U.S. Dollars (Thousands) |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Deferred income taxes (noncurrent assets) | 37,776 | **¥ 29,546** | **$ 263,803** |
| Deferred income taxes (noncurrent liabilities) | (9,562) | **(29,786)** | **(265,946)** |
| | ¥ 28,214 | **¥ (240)** | **$ (2,143)** |

As of March 31, 2016 and 2017, TDK did not recognize deferred tax liabilities of ¥16,172 million and ¥4,297 million ($38,366 thousand), respectively, for certain portions of undistributed earnings of foreign subsidiaries because TDK currently does not expect those unremitted earnings to reverse and become taxable to TDK in the foreseeable future.

A deferred tax liability will be recognized when TDK expects that it will recover those undistributed earnings in a taxable manner, such as through receipt of dividends or sale of the investments. As of March 31, 2016 and 2017, the undistributed earnings of these subsidiaries are ¥489,467 million and ¥193,710million ($1,729,554 thousand), respectively.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits for the years ended March 31, 2016 and 2017 are as follows:

| | Yen (Millions) | | U.S. Dollars (Thousands) |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Balance at beginning of year | ¥ 4,342 | **¥ 4,285** | **$ 38,259** |
| Additions for tax positions of the current year | 347 | **2,988** | **26,679** |
| Additions for tax positions of prior years | 219 | **512** | **4,571** |
| Reductions for tax positions of prior years | (114) | **(198)** | **(1,768)** |
| Settlements with taxing authorities during the period | - | **-** | **-** |
| Other | (509) | **(381)** | **(3,402)** |
| Balance at end of year | ¥ 4,285 | **¥ 7,206** | **$ 64,339** |

The total amount of unrecognized tax benefits that, if recognized, would reduce the effective tax rate as of March 31, 2016 and 2017 are ¥3,834 million and ¥3,742 million ($33,411 thousand), respectively.

Although TDK believes its estimates and assumptions used to identify unrecognized tax benefits are reasonable, there is an uncertainty about the final determination of tax audit settlements and any related litigation which could affect the effective tax rate in the future periods. As of March 31, 2017, TDK is not aware of any significant changes in its unrecognized tax benefits over the next 12 months.

TDK classifies interest and penalties related to unrecognized tax benefits as interest expense and other deductions-other, respectively, in the consolidated statements of income. Interest and penalties accrued which are recorded in other current liabilities as of March 31, 2017 as well as interest and penalties recorded in interest expense and other deductions-other for the year then ended are not material.

TDK files income tax returns in Japan and various foreign tax jurisdictions. In Japan, TDK is no longer subject to regular income tax examinations by the tax authority for years ended on or before March 31, 2015. While there has been no specific indication by the tax authority that TDK will be subject to a transfer pricing examination in the near future, the tax authority could conduct a transfer pricing examination for years ended on or after March 31, 2007. In other major foreign tax jurisdictions, including the U.S. and Hong Kong, TDK is no longer subject to income tax examinations by tax authorities for years ended on or before March 31, 2010 with few exceptions. The tax authorities are currently conducting income tax examinations of TDK’s income tax returns for certain years ended on or after March 31, 2011 in major foreign tax jurisdictions.

## 8. Retirement and Severance Benefits

1. Defined Benefit Pension Plans

TDK sponsors contributory and noncontributory retirement and severance plans that provide for pension or lump-sum benefit payments, based on length of service, employee salary and certain other factors, to substantially all employees who retire or terminate their employment for reasons other than dismissal for cause. These pension plans are recognized in accordance with FASB ASC 715 “Compensation－Retirement Benefits”.

Reconciliations of beginning and ending balances of the benefit obligations and the fair value of the plan assets are as follows:

| | Yen (Millions) | | | |
|---|---|---|---|---|
| | 2016 | | **2017** | |
| | Japanese plans | Foreign plans | Japanese plans | Foreign plans |
| Change in benefit obligations: | | | | |
| Benefit obligations at beginning of period | ¥ 196,284 | ¥ 82,680 | **¥ 222,517** | **¥ 97,400** |
| Service cost | 5,270 | 2,689 | **6,112** | **2,537** |
| Interest cost | 2,445 | 1,893 | **1,497** | **2,148** |
| Employee contribution | - | - | - | **(2)** |
| Actuarial (gain) loss | 21,662 | (1,970) | **(3,435)** | **1,028** |
| Benefits paid | (7,697) | (2,488) | **(7,441)** | **(2,787)** |
| Plan amendments | 4,537 | 46 | - | **(500)** |
| Curtailment/settlement | - | (43) | **-** | **(93)** |
| Acquisition of subsidiaries | 16 | 17,646 | - | **120** |
| Sale of business | - | - | - | **(8,596)** |
| Translation adjustment | - | (3,053) | **-** | **(4,306)** |
| Benefit obligations at end of period | 222,517 | 97,400 | **219,250** | **86,949** |
| Change in plan assets: | | | | |
| Fair value of plan assets at beginning of period | 151,468 | 19,634 | **150,309** | **19,358** |
| Actual return on plan assets | (4,578) | (365) | **6,814** | **1,821** |
| Employer contributions | 11,116 | 4,023 | **6,933** | **2,444** |
| Benefits paid | (7,697) | (2,488) | **(7,441)** | **(2,787)** |
| Curtailment/settlement | - | - | - | **(89)** |
| Translation adjustment | - | (1,446) | **-** | **90** |
| Fair value of plan assets at end of period | 150,309 | 19,358 | **156,615** | **20,837** |
| Funded status | ¥ (72,208) | ¥ (78,042) | **¥ (62,635)** | **¥ (66,112)** |

| | U.S. Dollars (Thousands) | |
|---|---|---|
| | **2017** | |
| | Japanese plans | Foreign plans |
| Change in benefit obligations: | | |
| Benefit obligations at beginning of period | **$ 1,986,759** | **$ 869,643** |
| Service cost | **54,571** | **22,652** |
| Interest cost | **13,366** | **19,179** |
| Employee contribution | **-** | **(18)** |
| Actuarial (gain) loss | **(30,670)** | **9,179** |
| Benefits paid | **(66,438)** | **(24,884)** |
| Plan amendments | **-** | **(4,464)** |
| Curtailment/settlement | **-** | **(830)** |
| Acquisition of subsidiaries | **-** | **1,071** |
| Sale of business | **-** | **(76,750)** |
| Translation adjustment | **-** | **(38,446)** |
| Benefit obligations at end of period | **1,957,588** | **776,332** |
| Change in plan assets: | | |
| Fair value of plan assets at beginning of period | **1,342,045** | **172,839** |
| Actual return on plan assets | **60,839** | **16,259** |
| Employer contributions | **61,902** | **21,821** |
| Benefits paid | **(66,438)** | **(24,884)** |
| Curtailment/settlement | **-** | **(795)** |
| Translation adjustment | **-** | **804** |
| Fair value of plan assets at end of period | **1,398,348** | **186,044** |
| Funded status | **$ (559,240)** | **$ (590,288)** |

Amounts recognized in the consolidated balance sheets as of March 31, 2016 and 2017 consist of:

| | Yen (Millions) | | | |
|---|---|---|---|---|
| | 2016 | | **2017** | |
| | Japanese plans | Foreign plans | Japanese plans | Foreign plans |
| Other assets | ¥ - | ¥ 239 | **¥ -** | **¥ 318** |
| Accrued expenses | (1,648) | (2,970) | **(1,806)** | **(2,994)** |
| Retirement and severance benefits | (70,560) | (75,311) | **(60,829)** | **(63,436)** |
| Total | ¥ (72,208) | ¥ (78,042) | **¥ (62,635)** | **¥ (66,112)** |

| | U.S. Dollars (Thousands) | |
|---|---|---|
| | **2017** | |
| | Japanese plans | Foreign plans |
| Other assets | **$ -** | **$ 2,840** |
| Accrued expenses | **(16,125)** | **(26,732)** |
| Retirement and severance benefits | **(543,116)** | **(566,394)** |
| Total | **$ (559,240)** | **$ (590,288)** |

Amounts recognized in accumulated other comprehensive income (loss) as of March 31, 2016 and 2017 consist of:

| | Yen (Millions) | | | |
|---|---|---|---|---|
| | 2016 | | **2017** | |
| | Japanese plans | Foreign plans | Japanese plans | Foreign plans |
| Net actuarial loss | ¥ 81,296 | ¥ 28,193 | **¥ 69,516** | **¥ 22,998** |
| Prior service cost (benefit) | (763) | (2,670) | **914** | **(1,359)** |
| Total | ¥ 80,533 | ¥ 25,523 | **¥ 70,430** | **¥ 21,639** |

| | U.S. Dollars (Thousands) | |
|---|---|---|
| | **2017** | |
| | Japanese plans | Foreign plans |
| Net actuarial loss | **$ 620,679** | **$ 205,339** |
| Prior service cost (benefit) | **8,161** | **(12,134)** |
| Total | **$ 628,840** | **$ 193,205** |

Accumulated benefit obligations for all defined benefit plans are as follows:

| | Yen (Millions) | | | |
|---|---|---|---|---|
| | 2016 | | **2017** | |
| | Japanese plans | Foreign plans | Japanese plans | Foreign plans |
| Accumulated benefit obligations | ¥ 214,503 | ¥ 90,732 | **¥ 212,012** | **¥ 87,320** |

| | U.S. Dollars (Thousands) | |
|---|---|---|
| | **2017** | |
| | Japanese plans | Foreign plans |
| Accumulated benefit obligations | **$ 1,892,964** | **$ 779,643** |

The projected benefit obligations and the fair value of plan assets for the pension plans with projected benefit obligations in excess of plan assets, and the accumulated benefit obligations and the fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets are as follows:

| | Yen (Millions) | | | |
|---|---|---|---|---|
| | 2016 | | **2017** | |
| | Japanese plans | Foreign plans | Japanese plans | Foreign plans |
| Plans with projected benefit obligations in excess of plan assets: | | | | |
| Projected benefit obligations | ¥ 222,517 | ¥ 96,844 | **¥ 219,250** | **¥ 86,949** |
| Fair value of plan assets | 150,309 | 18,563 | **156,615** | **20,837** |
| Plans with accumulated benefit obligations in excess of plan assets: | | | | |
| Accumulated benefit obligations | ¥ 211,566 | ¥ 90,181 | **¥ 212,012** | **¥ 87,320** |
| Fair value of plan assets | 147,369 | 18,563 | **156,615** | **20,837** |

| | U.S. Dollars (Thousands) | |
|---|---|---|
| | **2017** | |
| | Japanese plans | Foreign plans |
| Plans with projected benefit obligations in excess of plan assets: | | |
| Projected benefit obligations | **$ 1,957,589** | **$ 776,330** |
| Fair value of plan assets | **1,398,348** | **186,045** |
| Plans with accumulated benefit obligations in excess of plan assets: | | |
| Accumulated benefit obligations | **$ 1,892,964** | **$ 779,643** |
| Fair value of plan assets | **1,398,348** | **186,045** |

Net periodic benefit cost (including discontinued operations) for TDK's employee retirement and severance defined benefit plans for the years ended March 31, 2016 and 2017 consist of the following components. Prior service cost (benefit) is amortized by the straight-line method over the average remaining service period of current employees.

| | Yen (Millions) | | | |
|---|---|---|---|---|
| | 2016 | | **2017** | |
| | Japanese plans | Foreign plans | Japanese plans | Foreign plans |
| Service cost-benefits earned during the year | ¥ 5,270 | ¥ 2,689 | **¥ 6,112** | **¥ 2,537** |
| Interest cost on projected benefit obligation | 2,445 | 1,893 | **1,497** | **2,148** |
| Expected return on plan assets | (3,217) | (1,300) | **(3,174)** | **(1,178)** |
| Amortization of actuarial loss | 2,637 | 2,640 | **4,704** | **1,960** |
| Amortization of prior service cost (benefit) | (2,028) | (297) | **(1,676)** | **(297)** |
| Curtailment/settlement loss | - | 13 | **-** | **2,102** |
| Net periodic benefit cost | ¥ 5,107 | ¥ 5,638 | **¥ 7,463** | **¥ 7,272** |

| | U.S. Dollars (Thousands) | |
|---|---|---|
| | **2017** | |
| | Japanese plans | Foreign plans |
| Service cost-benefits earned during the year | **$ 54,571** | **$ 22,652** |
| Interest cost on projected benefit obligation | **13,366** | **19,179** |
| Expected return on plan assets | **(28,339)** | **(10,518)** |
| Amortization of actuarial loss | **42,000** | **17,500** |
| Amortization of prior service cost (benefit) | **(14,964)** | **(2,652)** |
| Curtailment/settlement loss | **-** | **18,768** |
| Net periodic benefit cost | **$ 66,634** | **$ 64,929** |

Amounts recognized in pension liability adjustment that is a part of other comprehensive income (loss) mainly as changes in plan assets and benefit obligations for the years ended March 31, 2016 and 2017 are summarized as follows:

| | Yen (Millions) | | | |
|---|---|---|---|---|
| | 2016 | | **2017** | |
| | Japanese plans | Foreign plans | Japanese plans | Foreign plans |
| Net actuarial loss (gain) | ¥ 29,457 | ¥ (305) | **¥ (7,075)** | **¥ 385** |
| Plan amendments | 4,537 | 46 | **-** | **(500)** |
| Amortization of actuarial loss | (2,637) | (2,640) | **(4,704)** | **(1,960)** |
| Amortization of prior service (cost) benefit | 2,028 | 297 | **1,676** | **297** |
| Curtailment/settlement loss (gain) | - | (26) | **-** | **(2,106)** |
| Amount recognized in other comprehensive income (loss) | 33,385 | (2,628) | **(10,103)** | **(3,884)** |
| Total of net periodic benefit cost and amount recognized in other comprehensive income (loss) | ¥ 38,492 | ¥ 3,010 | **¥ (2,640)** | **¥ 3,388** |

| | U.S. Dollars (Thousands) | |
|---|---|---|
| | **2017** | |
| | Japanese plans | Foreign plans |
| Net actuarial loss (gain) | **$ (63,170)** | **$ 3,438** |
| Plan amendments | **-** | **(4,464)** |
| Amortization of actuarial loss | **(42,000)** | **(17,500)** |
| Amortization of prior service (cost) benefit | **14,964** | **2,652** |
| Curtailment/settlement loss (gain) | **-** | **(18,804)** |
| Amount recognized in other comprehensive income (loss) | **(90,206)** | **(34,678)** |
| Total of net periodic benefit cost and amount recognized in other comprehensive income (loss) | **$ (23,572)** | **$ 30,251** |

The estimated net actuarial loss and prior service cost (benefit) for the defined benefit pension plans that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost over the next year are summarized as follows:

| | Yen (Millions) | | U.S. Dollars (Thousands) | |
|---|---|---|---|---|
| | Japanese plans | Foreign plans | Japanese plans | Foreign plans |
| Amortization of actuarial loss | **¥ 3,919** | **¥ 1,755** | **$ 34,991** | **$ 15,670** |
| Amortization of prior service cost (benefit) | **(1,340)** | **(72)** | **(11,964)** | **(643)** |

**Assumptions**

Weighted average assumptions used to determine benefit obligations as of March 31:

| | 2016 | | **2017** | |
|---|---|---|---|---|
| | Japanese plans | Foreign plans | Japanese plans | Foreign plans |
| Discount rate | 0.7% | 2.5% | **0.8%** | **2.5%** |
| Assumed rate of increase in future compensation levels | 3.0% | 2.7% | **3.0%** | **2.7%** |

Weighted average assumptions used to determine net periodic benefit cost for the years ended March 31:

| | 2016 | | **2017** | |
|---|---|---|---|---|
| | Japanese plans | Foreign plans | Japanese plans | Foreign plans |
| Discount rate | 1.3% | 2.3% | **0.7%** | **2.5%** |
| Assumed rate of increase in future compensation levels | 3.1% | 2.9% | **3.0%** | **2.7%** |
| Expected long-term rate of return on plan assets | 2.3% | 6.6% | **2.3%** | **6.4%** |

TDK determines the expected long-term rate of return based on the expected long-term return of the various asset categories in which it invests. TDK considers the current expectations for future returns and the actual historical returns of each plan asset category.

**Plan assets**

TDK's investment policies are designed to ensure adequate plan assets are available to provide future payments of pension benefits to eligible participants. Taking into account the expected long-term rate of return on plan assets, TDK formulates a "model" portfolio comprised of the optimal combination of equity securities and debt securities. Plan assets are invested in individual equity and debt securities using the guidelines of the "model" portfolio in order to produce a total return that will match the expected return on a mid-term to long-term basis. TDK evaluates the gap between expected return and actual return of invested plan assets on an annual basis to determine if such differences necessitate a revision in the formulation of the "model" portfolio. TDK revises the "model" portfolio when and to the extent considered necessary to achieve the expected long-term rate of return on plan assets.

As of March 31, 2017, the asset portfolio of TDK's Japanese plans is divided into three main asset categories with approximately 29 percent consisting of equity securities, approximately 36 percent of debt securities and approximately 35 percent of other assets such as cash and cash equivalents. The asset portfolio of TDK's foreign plans is also divided into three main asset categories with approximately 48 percent consisting of equity securities, approximately 40 percent of debt securities and approximately 12 percent of other assets such as cash and cash equivalents. As of March 31, 2017, there is no significant deviation between the target allocations and actual results.

Shares in Japanese companies included in equity securities mainly consist of shares listed on stock exchanges and over-the-counter markets. They are selected after a thorough examination and analysis of the operations of investment target companies and are appropriately diversified with respect to business categories and issues. Bonds of Japanese companies among debt securities mainly consist of corporate bonds, government bonds and public bonds. They are selected after a thorough examination and analysis of issuance conditions such as bond ratings, coupons, maturity dates, etc. and are appropriately diversified with respect to issuers and remaining periods. Regarding investments in foreign issues, target countries and currencies are selected after a thorough examination of political and economic stability, market characteristics such as clearing systems and taxation systems. For other assets, which include a life insurance company general account, pooled funds and real estate investment trusts, among others, diversified investment is carried out after a thorough examination and analysis of general economic conditions and investment target assets. A life insurance company general account is a product of life insurance companies in which individual insurance funds, corporate plan assets and other funds are jointly managed.

The fair value of TDK's plan assets as of March 31, 2016 and 2017 by asset type are as follows:

| | Yen (Millions) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | | | | | | | |
| | Japanese plans | | | | Foreign plans | | | |
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Plan assets: | | | | | | | | |
| Cash and cash equivalents: | | | | | | | | |
| Cash and cash equivalents | ¥ 3,137 | ¥ - | ¥ - | ¥ 3,137 | ¥ 2,459 | ¥ - | ¥ - | ¥ 2,459 |
| Equity securities: | | | | | | | | |
| Listed shares | 7,839 | - | - | 7,839 | 2,382 | - | - | 2,382 |
| Mutual funds | - | 28,777 | - | 28,777 | 2,420 | 961 | - | 3,381 |
| Pooled funds | - | 5,937 | - | 5,937 | 17 | 2,615 | - | 2,632 |
| Debt securities: | | | | | | | | |
| Government bonds, public bonds, corporate bonds | 7,321 | - | - | 7,321 | 610 | 2,479 | - | 3,089 |
| Mutual funds | - | 17,065 | - | 17,065 | 1,090 | 2,867 | - | 3,957 |
| Pooled funds | - | 33,746 | - | 33,746 | - | 186 | - | 186 |
| Other assets: | | | | | | | | |
| Life insurance company general account | - | 15,175 | - | 15,175 | - | 167 | - | 167 |
| Mutual funds | - | 19,586 | - | 19,586 | 239 | - | - | 239 |
| Pooled funds | - | 3,750 | - | 3,750 | - | - | - | - |
| Others | - | 58 | 7,918 | 7,976 | - | 866 | - | 866 |
| Total plan assets | ¥ 18,297 | ¥ 124,094 | ¥ 7,918 | ¥ 150,309 | ¥ 9,217 | ¥ 10,141 | ¥ - | ¥ 19,358 |

| | Yen (Millions) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2017** | | | | | | | |
| | Japanese plans | | | | Foreign plans | | | |
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Plan assets: | | | | | | | | |
| Cash and cash equivalents: | | | | | | | | |
| Cash and cash equivalents | **¥ 6,812** | **¥ -** | **¥ -** | **¥ 6,812** | **¥ 1,448** | **¥ -** | **¥ -** | **¥ 1,448** |
| Equity securities: | | | | | | | | |
| Listed shares | **8,250** | **-** | **-** | **8,250** | **1,896** | **-** | **-** | **1,896** |
| Mutual funds | **-** | **31,715** | **-** | **31,715** | **3,546** | **1,105** | **-** | **4,651** |
| Pooled funds | **-** | **6,000** | **-** | **6,000** | **3,206** | **154** | **-** | **3,360** |
| Debt securities: | | | | | | | | |
| Government bonds, public bonds, corporate bonds | **7,131** | **-** | **-** | **7,131** | **3,146** | **2.919** | **-** | **6,065** |
| Mutual funds | **-** | **12,982** | **-** | **12.982** | **1,378** | **667** | **-** | **2,045** |
| Pooled funds | **-** | **36,274** | **-** | **36,274** | **-** | **220** | **-** | **220** |
| Other assets: | | | | | | | | |
| Life insurance company general account | **-** | **15,611** | **-** | **15,611** | **-** | **170** | **-** | **170** |
| Mutual funds | **-** | **16,510** | **-** | **16,510** | **-** | **-** | **-** | **-** |
| Pooled funds | **-** | **6,282** | **-** | **6,282** | **-** | **-** | **-** | **-** |
| Others | **-** | **221** | **8,827** | **9,048** | **-** | **982** | **-** | **982** |
| Total plan assets | **¥ 22,193** | **¥ 125,595** | **¥ 8,827** | **¥ 156,615** | **¥ 14,620** | **¥ 6,217** | **¥ -** | **¥ 20,837** |

| | U.S. Dollars (Thousands) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2017** | | | | | | | |
| | Japanese plans | | | | Foreign plans | | | |
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Plan assets: | | | | | | | | |
| Cash and cash equivalents: | | | | | | | | |
| Cash and cash equivalents | **$ 60,821** | **$ -** | **$ -** | **$ 60.821** | **$ 12,929** | **$ -** | **$ -** | **$ 12,929** |
| Equity securities: | | | | | | | | |
| Listed shares | **73,661** | **-** | **-** | **73,661** | **16,929** | **-** | **-** | **16,929** |
| Mutual funds | **-** | **283,170** | **-** | **283,170** | **31,660** | **9,866** | **-** | **41,526** |
| Pooled funds | **-** | **53,571** | **-** | **53,571** | **28,625** | **1,375** | **-** | **30,000** |
| Debt securities: | | | | | | | | |
| Government bonds, public bonds, corporate bonds | **63,670** | **-** | **-** | **63,670** | **28,089** | **26,063** | **-** | **54,152** |
| Mutual funds | **-** | **115,911** | **-** | **115,911** | **12,304** | **5,955** | **-** | **18,259** |
| Pooled funds | **-** | **323,875** | **-** | **323,875** | **-** | **1,964** | **-** | **1,964** |
| Other assets: | | | | | | | | |
| Life insurance company general account | **-** | **139,384** | **-** | **139,384** | **-** | **1,518** | **-** | **1,518** |
| Mutual funds | **-** | **147,411** | **-** | **147,411** | **-** | **-** | **-** | **-** |
| Pooled funds | **-** | **56,089** | **-** | **56,089** | **-** | **-** | **-** | **-** |
| Others | **-** | **1,973** | **78,813** | **80,786** | **-** | **8,768** | **-** | **8,768** |
| Total plan assets | **$ 198,152** | **$ 1,121,384** | **$ 78,813** | **$ 1,398,349** | **$ 130,536** | **$ 55,509** | **$ -** | **$ 186,045** |

Level 1 assets are mainly equity securities and debt securities that are valued using unadjusted quoted prices in active markets in which transactions occur with sufficient frequency and volume. Level 2 assets include mainly mutual funds and pooled funds that invest in equity securities and debt securities. They are valued based on quoted prices obtained from asset management agencies and are verified using observable market inputs. Level 3 assets are insurance products that are valued based on unobservable inputs regarding the assets and the relevant liabilities.

Change in TDK's plan assets that are classified as Level 3 assets for the years ended March 31, 2016 and 2017 are as follows:

| | Yen (Millions) | |
|---|---|---|
| | 2016 | **2017** |
| | Insurance products | |
| Balance at beginning of year | ¥ 6,627 | **¥ 7,918** |
| Net change due to purchase, sale, etc. | 1,000 | **500** |
| Gain (loss) on assets held at end of year | 291 | **409** |
| Balance at end of year | ¥ 7,918 | **¥ 8,827** |

| | U.S. Dollars (Thousands) |
|---|---|
| | **2017** |
| | Insurance products |
| Balance at beginning of year | **$ 70,696** |
| Net change due to purchase, sale, etc. | **4,464** |
| Gain (loss) on assets held at end of year | **3,653** |
| Balance at end of year | **$ 78,813** |

**Contributions**

TDK expects to contribute ¥8,592 million ($76,714 thousand) to its Japanese defined benefit plans and ¥1,220 million ($10,893 thousand) to its foreign defined benefit plans for the year ending March 31, 2018.

**Estimated future benefit payments**

The benefits are expected to be paid from the pension plans in each year 2018 through 2027 are as follows:

| | Yen (Millions) | | U.S. Dollars (Thousands) | |
|---|---|---|---|---|
| | Japanese plans | Foreign plans | Japanese plans | Foreign plans |
| Year ending March 31, | | | | |
| 2018 | ¥ 7,524 | ¥ 3,526 | $ 67,179 | $ 31,482 |
| 2019 | 8,274 | 3,111 | 73,875 | 27,777 |
| 2020 | 8,105 | 3,364 | 72,366 | 30,036 |
| 2021 | 8,281 | 3,658 | 73,938 | 32,661 |
| 2022 | 8,413 | 3,714 | 75,116 | 33,161 |
| 2023 - 2027 total | 45,706 | 21,418 | 408,089 | 191,232 |

2. Deferred Compensation Plans

Certain subsidiaries of TDK Corporation have deferred compensation plans under which employees place a portion of their compensation in a pension fund and contributions can be received with interest at the time of retirement. Estimated future benefit payments to retirees are determined by actuarial calculation. Liabilities relating to these plans are recorded as either the market value of plan assets or the present value of estimated future benefit payments, whichever is greater. As of March 31, 2016 and 2017, the amount of ¥1,265 million and ¥937 million ($8,366 thousand) are recorded as retirement and severance benefits, respectively.

Amount recognized in pension liability adjustment that is a part of other comprehensive income (loss) mainly as changes in plan assets and benefit obligations for the years ended March 31, 2016 and 2017 are summarized as follows:

| | Yen (Millions) | | | |
|---|---|---|---|---|
| | 2016 | | **2017** | |
| | Japanese plans | Foreign plans | Japanese plans | Foreign plans |
| Net actuarial loss (gain) | ¥ - | ¥ (141) | **¥ -** | **¥ (194)** |
| Plan amendments | - | - | **-** | **(6)** |
| Amortization of actuarial loss | - | (24) | **-** | **1** |
| Amortization of prior service (cost) benefit | - | 26 | **-** | **168** |
| Curtailment/settlement loss (gain) | - | - | | **121** |
| Amount recognized in other comprehensive income (loss) | ¥ - | ¥ (139) | **¥ -** | **¥ 90** |

| | U.S. Dollars (Thousands) | |
|---|---|---|
| | **2017** | |
| | Japanese plans | Foreign plans |
| Net actuarial loss (gain) | **$ -** | **$ (1,732)** |
| Plan amendments | **-** | **(54)** |
| Amortization of actuarial loss | **-** | **9** |
| Amortization of prior service (cost) benefit | **-** | **1,500** |
| Curtailment/settlement loss (gain) | | **1,080** |
| Amount recognized in other comprehensive income (loss) | **$ -** | **$ 803** |

3. Defined Contribution Pension Plans

Expenses for defined contribution pension plan recognized by TDK Corporation and certain subsidiaries for the years ended March 31, 2016 and 2017 were ¥2,127 million and ¥2,000 million ($17,857 thousand), respectively.

## 9. Legal Reserve and Dividends

The Japanese Companies Act provides that an amount equal to 10 percent of cash dividends and other distributions from retained earnings paid by TDK Corporation and its domestic subsidiaries be appropriated as a legal reserve. No further appropriations are required when the total amount of the additional paid-in capital and the legal reserve equals 25 percent of their respective stated capital. The Japanese Companies Act also provides that additional paid-in capital and the legal reserve are available for appropriations by the resolution of the shareholders. Certain foreign subsidiaries are also required to appropriate their earnings to legal reserves under the laws of the respective countries. Cash dividends and appropriations to the legal reserve charged to retained earnings in accordance with Japanese Companies Act for the years ended March 31, 2016 and 2017 represent dividends paid out during those years and the related appropriations to the legal reserve. The accompanying consolidated financial statements do not include any provision for the dividend taken up at the Ordinary General Meeting of Shareholders of ¥60 ($0.54) per share aggregating ¥7,572 million ($67,607 thousand) in respect of the year ended March 31, 2017.

Cash dividends per common share are computed based on dividends paid for the year.

## 10. Stock Option Plan

Compensation expenses related to stock options that TDK Corporation and one of its subsidiaries recognized for the years ended March 31, 2016 and 2017 were ¥450 million and ¥310 million ($2,768 thousand), respectively.

The tax benefits related to these compensation expenses for the years ended March 31, 2016 and 2017 were ¥77 million and ¥96 million ($857 thousand), respectively. The tax benefits realized from stock options exercised for the years ended March 31, 2016 and 2017 were ¥46 million and ¥35 million ($313 thousand), respectively.

1. TDK Corporation Stock Option Plans

TDK Corporation has two types of stock option plans, the Ordinary-Type Stock Options and the Share-based Compensation Type Stock Options. Under the Ordinary-Type Stock Options, stock options, each representing a right to purchase 100 shares of common stock of TDK Corporation, are granted to the senior executives of TDK Corporation and to the directors and senior executives of its subsidiaries. The stock options are vested based on 2 years of continuous service after the grant date and have the exercise period of 4 years. The exercise price of the stock options is equal to or greater than the fair market value of TDK Corporation’s common stock on the grant date.

There are two types of the Share-based Compensation Type Stock Options as described below and the second type contains a certain performance condition.

1) Stock options, each representing a right to purchase 100 shares of common stock of TDK Corporation, are granted to the directors and corporate officers of TDK Corporation. The stock options are fully vested on the grant date and have the exercise period of 20 years. The amount to be paid by qualified persons upon the exercise of the stock options is set at ¥1 ($0.01) per share of common stock.

2) Stock options, each representing a right to purchase 100 shares of common stock of TDK Corporation, are granted to the directors and corporate officers of TDK Corporation. The stock options are vested depending on the degree of achievement of the medium-term management plan and have the exercise period of 20 years. The amount to be paid by qualified persons upon the exercise of the stock options is set at ¥1 ($0.01) per share of common stock.

A summary of the status of TDK Corporation's stock options as of March 31, 2016 and 2017, and of the activity for the years ended on those dates, is as follows:

| | Number of shares | Weighted average exercise price | Weighted average remaining contractual term | Aggregate intrinsic value (1) |
|---|---|---|---|---|
| | | Yen | Years | Yen (Millions) |
| 2016 | | | | |
| Outstanding at beginning of year | 532,500 | ¥ 2,573 | | |
| Granted | 104,100 | 1 | | |
| Exercised | 136,700 | 3,459 | | |
| Forfeited or Expired | 12,400 | 4,952 | | |
| Outstanding at end of year | 487,500 | 1,714 | 11.0 | 2,211 |
| Exercisable at end of year | 401,100 | 2,083 | 9.2 | 1,671 |
| Expected to vest after end of year | 86,400 | 1 | 19.3 | 540 |
| **2017** | | | | |
| Outstanding at beginning of year | **487,500** | **¥ 1,714** | | |
| Granted | **47,500** | **1** | | |
| Exercised | **77,200** | **2,638** | | |
| Forfeited or Expired | **40,700** | **4,024** | | |
| Outstanding at end of year | **417,100** | **1,123** | **12.4** | **2,472** |
| Exercisable at end of year | **327,700** | **1,429** | **10.7** | **1,842** |
| Expected to vest after end of year | **89,400** | **1** | **18.5** | **630** |

(1) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the closing stock price of ¥6,250 on March 31, 2016 and ¥7,050 ($62.95) on March 31, 2017.

| | Number of shares | Weighted average exercise price | Weighted average remaining contractual term | Aggregate intrinsic value |
|---|---|---|---|---|
| | | U.S. Dollars | Years | U.S. Dollars (Thousands) |
| **2017** | | | | |
| Outstanding at beginning of year | **487,500** | **$ 15.30** | | |
| Granted | **47,500** | **0.01** | | |
| Exercised | **77,200** | **23.55** | | |
| Forfeited or Expired | **40,700** | **35.93** | | |
| Outstanding at end of year | **417,100** | **10.03** | **12.4** | **22,071** |
| Exercisable at end of year | **327,700** | **12.76** | **10.7** | **16,446** |
| Expected to vest after end of year | **89,400** | **0.01** | **18.5** | **5,625** |

As of March 31, 2017, all outstanding stock options were vested or expected to be vested. The total intrinsic value of stock options exercised for the years ended March 31, 2016 and 2017 was ¥616 million and ¥336 million ($3,000 thousand), respectively. Cash received from stock options exercised for the years ended March 31, 2016 and 2017 was ¥473 million and ¥204 million ($1,821 thousand).

Information about stock options outstanding as of March 31, 2017 is as follows:

| | Options Outstanding | | | |
|---|---|---|---|---|
| Range of exercise prices | Number outstanding at March 31, 2016 | Weighted average remaining contractual term | Weighted average exercise price | |
| Yen | | (years) | Yen | U.S. Dollars |
| 1 | 297,300 | 16.8 | ¥ 1 | $ 0.01 |
| 3,550 | 37,800 | 1.3 | 3,550 | 31.70 |
| 3,836 | 55,600 | 2.3 | 3,836 | 34.25 |
| 4,567 | 26,400 | 0.3 | 4,567 | 40.78 |
| 1 to 4,567 | 417,100 | 12.4 | 1,123 | 10.03 |

A summary of the status of TDK Corporation's nonvested stock options as of March 31, 2016 and 2017, and of the activity for the years ended on those dates, is as follows:

| | 2016 | | **2017** | | |
|---|---|---|---|---|---|
| | Number of shares | Weighted average grant-date fair value | Number of shares | Weighted average grant-date fair value | |
| | | Yen | | Yen | U.S. Dollars |
| Nonvested at beginning of year | 118,800 | ¥ 840 | **86,400** | **¥ 6,806** | **$ 60.77** |
| Granted | 104,100 | 6,806 | **47,500** | **4,273** | **38.15** |
| Vested | 136,500 | 1,614 | **36,700** | **4,508** | **40.25** |
| Forfeited | - | - | **7,800** | **6,806** | **60.77** |
| Nonvested at end of year | 86,400 | 6,806 | **89,400** | **6,404** | **57.18** |

As of March 31, 2017, TDK Corporation had ¥258 million ($2,304 thousand) of total unrecognized compensation expenses related to stock options that will be recognized over the weighted average period of 1.3 years. The total fair value of stock options vested for the years ended March 31, 2016 and 2017 was ¥220 million and ¥142 million ($1,268 thousand), respectively.

The fair value of these stock options was estimated on the grant date using the Black-Scholes option pricing model with the following assumptions:

**Share-based Compensation-Type Stock Options – the exercise price is less than the market price of the stock on the grant date**

| | 2016 | **2017** |
|---|---|---|
| Grant-date fair value | ¥ 6,806 | **¥ 4,273 ($ 38.15)** |
| Expected term | 9.6 years | **9.1 years** |
| Risk-free interest rate | 0.33% | **(0.33)%** |
| Expected volatility | 35.14% | **38.51%** |
| Expected dividend yield | 1.18% | **2.29%** |

2. Subsidiary Stock Option Plans

One of TDK Corporation's subsidiaries has two types of stock option plans. Under the plans, stock options, each representing a right to purchase one share of common stock of the subsidiary, are granted to the directors and senior executives of the subsidiary and its affiliates. Under one of the plans (Class A), the stock options vest over a 5 year period after the grant date. Under the other plan (Class B), 50 percent of the stock options vest when a certain performance condition is achieved and the remaining 50 percent vest over a 3 year period after the date of achievement.

Compensation expenses related to Class B were not recognized and the disclosure is omitted for the years ended March 31, 2016 and 2017, as it was not considered probable as of March 31, 2016 and 2017 that the performance condition would be achieved. These stock options have the exercise period of 8 years after the grant date, and will become exercisable when a certain performance condition is achieved.

The subsidiary shall issue new shares upon stock option exercised.

As the subsidiary is a nonpublic company, the fair value is estimated based on valuation techniques using assumptions.

A summary of the status of the subsidiary's stock options as of March 31, 2016 and 2017, and of the activity for the years ended on those dates is as follows:

| | Number of shares | Weighted average exercise price | Weighted average remaining contractual term | Aggregate intrinsic value |
|---|---|---|---|---|
| | | U.S. Dollars | Years | U.S. Dollars (Thousands) |
| 2016 | | | | |
| Outstanding at beginning of year | 86,400,000 | $ 0.00128 | | |
| Granted | - | - | | |
| Exercised | - | - | | |
| Forfeited or Expired | - | - | | |
| Modified | - | - | | |
| Outstanding at end of year | 86,400,000 | 0.00128 | 2.8 | $ 113,937 |
| Exercisable at end of year | - | - | - | - |
| Vested at end of year | 86,400,000 | 0.00128 | 2.8 | 113,937 |
| Expected to be vested after end of year | - | - | - | - |
| **2017** | | | | |
| Outstanding at beginning of year | **86,400,000** | **$ 0.00128** | | |
| Granted | - | - | | |
| Exercised | - | - | | |
| Forfeited or Expired | **86,400,000** | **0.00128** | | |
| Modified | - | - | | |
| Outstanding at end of year | - | - | - | - |
| Exercisable at end of year | - | - | - | - |
| Vested at end of year | - | - | - | - |
| Expected to be vested after end of year | - | - | - | - |

A summary of the status of the subsidiary's nonvested stock options for the years ended March 31, 2016 and 2017, and of the activity for the years ended on those dates, is as follows:

| | 2016 | | **2017** | |
|---|---|---|---|---|
| | Number of shares | Weighted average grant-date fair value | Number of shares | Weighted average grant-date fair value |
| | Thousands | U.S. Dollars | Thousands | U.S. Dollars |
| Nonvested at beginning of year | 28,800 | $ 0.06204 | - | - |
| Granted | - | - | - | - |
| Vested | 28,800 | 0.06204 | - | - |
| Forfeited | - | - | - | - |
| Nonvested at end of year | - | - | - | - |

As of March 31, 2017, there was no unrecognized compensation expenses at the subsidiary relating to nonvested "Class A" stock options. The total fair value of stock options vested for the year ended March 31, 2016 was $1,787 thousand.

The fair value of Class A plan was estimated on the grant date using the Binomial model with the following assumptions:

| | 2012 |
|---|---|
| Grant-date fair value | $ 0.06204 |
| Expected term | 5.95 years |
| Risk-free interest rate | 2.48% |
| Expected volatility | 50.00% |

## 11. Equity

Net income attributable to TDK and transfers (to) from noncontrolling interest for the years ended March 31, 2016 and 2017 are as follows:

| | Yen (Millions) | | U.S. Dollars (Thousands) |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Net income attributable to TDK | ¥ 64,828 | **¥ 145,099** | **$ 1,295,527** |
| Decrease in TDK's additional paid-in capital for purchase of Amperex Technology Ltd.'s common shares from third parties | (18,959) | **(5,805)** | **(51,831)** |
| Decrease in TDK's additional paid-in capital for purchase of Micronas Semiconductor Holding AG's common shares from third parties | (2) | **(53)** | **(473)** |
| Decrease in TDK's additional paid-in capital for purchase of Tronics Microsystems SA's common shares from third parties | - | **(73)** | **(652)** |
| Increase (Decrease) in TDK's additional paid-in capital for purchase of Magnecomp Precision Technology Public Co., Ltd.'s common shares from third parties | (0) | **(0)** | **(0)** |
| Net transfers (to) from noncontrolling interest | (18,961) | **(5,931)** | **(52,956)** |
| Change from net income attributable to TDK and transfers (to) from noncontrolling interest | ¥ 45,867 | **¥ 139,168** | **$ 1,242,571** |

## 12. Other Comprehensive Income (Loss)

Change in accumulated other comprehensive income (loss) for the years ended March 31, 2016 and 2017 are as follows:

2016

| | Yen (Millions) | | | |
|---|---|---|---|---|
| | Foreign currencies 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 | 2,894 | - | - | 2,894 |
| Other comprehensive income (loss) before reclassifications | (61,496) | (33,937) | (7,533) | (102,966) |
| Amounts reclassified from accumulated other comprehensive income (loss) | 324 | 2,382 | 539 | 3,245 |
| Other comprehensive income (loss) | (61,172) | (31,555) | (6,994) | (99,721) |
| Other comprehensive income (loss) attributable to noncontrolling interests | (422) | (2) | - | (424) |
| March 31, 2016 | ¥ (21,309) | ¥ (84,885) | ¥ 3,909 | ¥ (102,285) |

**2017**

| | Yen (Millions) | | | |
|---|---|---|---|---|
| | Foreign currencies 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 | **(143)** | - | - | **(143)** |
| Other comprehensive income (loss) before reclassifications | **(18,155)** | **7,943** | **(194)** | **(10,406)** |
| Amounts reclassified from accumulated other comprehensive income (loss) | **(711)** | **5,522** | **(80)** | **4,731** |
| Other comprehensive income (loss) | **(18,866)** | **13,465** | **(274)** | **(5,675)** |
| Other comprehensive income (loss) attributable to noncontrolling interests | **471** | **1** | **-** | **472** |
| March 31, 2017 | **¥ (40,789)** | **¥ (71,421)** | **¥ 3,635** | **¥ (108,575)** |

**2017**

| | U.S. Dollars (Thousands) | | | |
|---|---|---|---|---|
| | Foreign currencies translation adjustments | Pension liability adjustments | Net unrealized gains (losses) on securities | Total |
| March 31, 2016 | **$ (190,259)** | **$ (757,902)** | **$ 34,902** | **$ (913,259)** |
| Equity transaction of consolidated subsidiaries and other | **(1,277)** | **-** | **-** | **(1,277)** |
| Other comprehensive income (loss) before reclassifications | **(162,099)** | **70,920** | **(1,732)** | **(92,911)** |
| Amounts reclassified from accumulated other comprehensive income (loss) | **(6,348)** | **49,303** | **(714)** | **42,241** |
| Other comprehensive income (loss) | **(168,447)** | **120,223** | **(2,446)** | **(50,670)** |
| Other comprehensive income (loss) attributable to noncontrolling interests | **4,205** | **9** | **-** | **4,214** |
| March 31, 2017 | **$ (364,188)** | **$ (637,688)** | **$ 32,456** | **$ (969,420)** |

The reclassifications out of accumulated other comprehensive income (loss) for the year ended March 31, 2016 and 2017 are as follows:

| | Amount reclassified from accumulated other comprehensive income (loss) *1 | | | Affected line items in consolidated statements of income |
|---|---|---|---|---|
| | 2016 | **2017** | **2017** | |
| | Yen (Millions) | | U.S. Dollars (Thousands) | |
| Foreign currencies translation adjustments: | | | | |
| | ¥ (319) | **¥ 750** | **$ 6,696** | Selling, general and administrative expenses |
| | - | **(39)** | **(348)** | |
| | (5) | - | - | Equity in earnings of affiliates |
| | - | - | - | Tax (expense) or benefit |
| | (324) | **711** | **6,348** | Net of tax |
| Pension liability adjustments: | | | | |
| | (2,976) | **(6,507)** | **(58,098)** | *2 |
| | 594 | **985** | **8,795** | Tax (expense) or benefit |
| | (2,382) | **(5,522)** | **(49,303)** | Net of tax |
| Net unrealized gains (losses) on securities: | | | | |
| | (402) | 80 | 714 | Gain (loss) on securities, net |
| | (137) | - | - | Tax (expense) or benefit |
| | (539) | **80** | **714** | Net of tax |
| Total amount reclassified, net of tax | ¥ (3,245) | **¥ (4,731)** | **$ (42,241)** | |

*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 that is presented in Note 8 of the Notes to Consolidated Financial Statements.

Tax effects allocated to each component of other comprehensive income (loss) and reclassification adjustments for the years ended March 31, 2016 and 2017, are as follows:

| | Yen (Millions) | | |
|---|---|---|---|
| | Before tax Amount | Tax (expense) or benefit | Net-of-tax amount |
| 2016 | | | |
| Foreign currencies translation adjustments: | | | |
| Amount arising during the year from investments in foreign entities | ¥ (61,716) | ¥ 220 | ¥ (61,496) |
| Reclassification adjustments for the portion of gains and losses realized upon sale or liquidation of investments in foreign entities | 324 | - | 324 |
| Net foreign currency translation adjustments | (61,392) | 220 | (61,172) |
| Pension liability adjustments: | | | |
| Amount arising during the year | (33,594) | (343) | (33,937) |
| Reclassification adjustments for amortization and curtailment/settlement | 2,976 | (594) | 2,382 |
| Net pension liability adjustments | (30,618) | (937) | (31,555) |
| Unrealized gains (losses) on securities: | | | |
| Unrealized holding gains (losses) arising during the year | (10,648) | 3,115 | (7,533) |
| Reclassification adjustments for (gains) losses realized in net income | 402 | 137 | 539 |
| Net unrealized gains (losses) | (10,246) | 3,252 | (6,994) |
| Other comprehensive income (loss) | ¥ (102,256) | ¥ 2,535 | ¥ (99,721) |

| | Yen (Millions) | | |
|---|---|---|---|
| | Before tax Amount | Tax (expense) or benefit | Net-of-tax amount |
| **2017** | | | |
| Foreign currencies translation adjustments: | | | |
| Amount arising during the year from investments in foreign entities | **¥ (17,720)** | **¥ (435)** | **¥ (18,155)** |
| Reclassification adjustments for the portion of gains and losses realized upon sale or liquidation of investments in foreign entities | **(711)** | **-** | **(711)** |
| Net foreign currency translation adjustments | **(18,431)** | **(435)** | **(18,866)** |
| Pension liability adjustments: | | | |
| Amount arising during the year | **7,390** | **553** | **7,943** |
| Reclassification adjustments for amortization and curtailment/settlement | **6,507** | **(985)** | **5,522** |
| Net pension liability adjustments | **13,897** | **(432)** | **13,465** |
| Unrealized gains (losses) on securities: | | | |
| Unrealized holding gains (losses) arising during the year | **(302)** | **108** | **(194)** |
| Reclassification adjustments for (gains) losses realized in net income | **(80)** | **-** | **(80)** |
| Net unrealized gains (losses) | **(382)** | **108** | **(274)** |
| Other comprehensive income (loss) | **¥ (4,916)** | **¥ (759)** | **¥(5,675)** |

| | U.S. Dollars (Thousands) | | |
|---|---|---|---|
| | Before tax amount | Tax (expense) or benefit | Net-of-tax Amount |
| **2017** | | | |
| Foreign currencies translation adjustments: | | | |
| Amount arising during the year from investments in foreign entities | **$ (158,215)** | **$ (3,884)** | **$ (162,099)** |
| Reclassification adjustments for the portion of gains and losses realized upon sale or liquidation of investments in foreign entities | **(6,348)** | **-** | **(6,348)** |
| Net foreign currency translation adjustments | **(164,563)** | **(3,884)** | **(168,447)** |
| Pension liability adjustments: | | | |
| Amount arising during the year | **65,982** | **4,938** | **70,920** |
| Reclassification adjustments for amortization and curtailment/settlement | **58,098** | **(8,795)** | **49,303** |
| Net pension liability adjustments | **124,080** | **(3,857)** | **120,223** |
| Unrealized gains (losses) on securities: | | | |
| Unrealized holding gains (losses) arising during the year | **(2,696)** | **964** | **(1,732)** |
| Reclassification adjustments for (gains) losses realized in net income | **(714)** | **-** | **(714)** |
| Net unrealized gains (losses) | **(3,410)** | **964** | **(2,446)** |
| Other comprehensive income (loss) | **$ (43,893)** | **$ (6,777)** | **$ (50,670)** |

## 13. Leases

TDK occupies offices and other facilities under various cancellable lease agreements expiring in 2018 through 2019.

The amount of assets under capital leases and the related accumulated depreciation included in property, plant and equipment on the consolidated balance sheets as of March 31, 2016 and 2017 are as follows:

| | Yen (Millions) | | U.S. Dollars (Thousands) |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Buildings -cost | ¥ 5,307 | **¥ 3,988** | **$ 35,607** |
| Machinery and equipment - cost | 7,812 | **3,380** | **30,179** |
| Accumulated depreciation | (2,758) | **(3,406)** | **(30,411)** |
| Net leased assets | ¥ 10,361 | **¥ 3,962** | **$ 35,375** |

The depreciation expense for assets under capital leases is included in cost of sales and selling, general and administrative expenses of the consolidated statements of income.

Operating lease expenses are ¥8,962 million and ¥9,016 million ($80,500 thousand) for the year ended March 31, 2016 and 2017, respectively.

The following is a schedule by year of future minimum lease payments required under capital leases and operating leases that have initial or remaining noncancellable lease terms in excess of one year as of March 31, 2017:

| | Yen (Millions) | | U.S. Dollars (Thousands) | |
|---|---|---|---|---|
| | Capital leases | Operating leases | Capital leases | Operating leases |
| Year ending March 31, | | | | |
| 2018 | ¥ 1,218 | ¥ 5,624 | $ 10,875 | $ 50,214 |
| 2019 | 964 | 4,216 | 8,607 | 37,643 |
| 2020 | 817 | 3,161 | 7,295 | 28,223 |
| 2021 | 752 | 2,070 | 6,714 | 18,482 |
| 2022 | 737 | 1,708 | 6,580 | 15,250 |
| Later years | 9,834 | 10,314 | 87,804 | 92,090 |
| Total minimum lease payments | ¥ 14,322 | ¥ 27,093 | $ 127,875 | $ 241,902 |
| Amounts representing interest | 8,839 | | 78,919 | |
| Present value of net minimum lease payments | 5,483 | | 48,956 | |
| Current portion | 635 | | 5,670 | |
| Long-term lease obligations (Excluding current portion) | ¥ 4,848 | | $ 43,286 | |

## 14. Commitments and Contingent Liabilities

Commitments outstanding for the purchase of property, plant and equipment as of March 31, 2016 and 2017 are as follows:

| | Yen (Millions) | | U.S. Dollars (Thousands) |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Commitments outstanding for the purchase of property, plant and equipment | ¥ 64,357 | **¥ 53,878** | **$ 481,054** |

Certain overseas subsidiaries reached minimum purchase agreements with suppliers for raw materials and electricity necessary for production activities. As of March 31, 2016 and 2017, the minimum purchase obligations based on these agreements are as follows:

The decrease for the year ended March 31, 2017 was mainly attributable to reduction of commitments for the purchase of raw materials.

| | Yen (Millions) | | U.S. Dollars (Thousands) |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Commitments outstanding for the purchase of raw material and electricity | ¥ 73,679 | **¥ 28,010** | **$ 250,089** |

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 2017 are as follows:

| | Yen (Millions) | | U.S. Dollars (Thousands) |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Guarantees to third parties on bank loans of employees | ¥ 1,213 | **¥ 956** | **$ 8,536** |

As of March 31, 2017, the liability recognized for the estimated fair value of TDK’s obligation under the guarantee arrangements 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. A provision has been made for the estimated liabilities for the items. 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 results of operations of TDK.

## 15. 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 contracts. The fair values of the contracts are calculated based on the quotes presented by financial institutions. TDK does not hold any derivative instruments which consisted credit-risk-related contingent features.

(1) Hedges of net investment in foreign operations

TDK uses forward foreign exchange contracts to hedge the foreign currency exposure of the net investment in overseas subsidiaries. The gains and losses of these hedging instruments are recorded in foreign currency translation adjustments, which is a part of other comprehensive income (loss). There are no gains (losses) reclassified from other comprehensive income (loss) to earnings. Also, there is no ineffective portion and amount excluded from effectiveness testing.

(2) Derivatives not designated as hedging instruments

TDK uses forward foreign exchange contracts, nondeliverable 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 risk 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.

The effect of derivative financial instruments on the consolidated statements of income and consolidated statements of comprehensive income (loss) for the years ended March 31, 2016 and 2017 are as follows:

(1) Hedges of net investment in foreign operations

| | Gains (losses) recognized in other comprehensive income on derivative (effective portion) | | |
|---|---|---|---|
| | Yen (Millions) | | U.S. Dollars (Thousands) |
| | 2016 | **2017** | **2017** |
| Forward foreign exchange contracts | ¥ - | **¥ 725** | **$ 6,473** |

(2) Derivatives not designated as hedging instruments

| | | Yen (Millions) | | U.S. Dollars (Thousands) |
|---|---|---|---|---|
| | Account | 2016 | **2017** | **2017** |
| Forward foreign exchange contracts | Foreign exchange gain (loss) | ¥ 629 | **¥ 518** | **$ 4,625** |
| Nondeliverable forward contracts (NDF) | Foreign exchange gain (loss) | (253) | **(25)** | **(223)** |
| Currency swap contracts | Foreign exchange gain (loss) | (680) | **3,074** | **27,446** |
| Currency option contracts | Foreign exchange gain (loss) | 175 | **(52)** | **(464)** |
| Commodity forward contracts | Cost of sales | (149) | **291** | **2,598** |
| | Total | ¥ (278) | **¥ 3,806** | **$ 33,982** |

Notional amounts and fair value of derivative financial instruments as of March 31, 2016 and 2017 are as follows:

| Yen (Millions) | | | | | |
|---|---|---|---|---|---|
| 2016 | | | | | |
| Derivatives not designated as hedging instruments: | | | | | |
| | | Asset derivatives | | Liability derivatives | |
| | Notional amounts | Fair value | Consolidated balance sheets location | Fair value | Consolidated balance sheets location |
| Forward foreign exchange contracts | ¥ 104,623 | ¥ 981 | Prepaid expenses and other current assets | ¥ 517 | Other current liabilities |
| Nondeliverable forward contracts (NDF) | 4,345 | - | - | 34 | Other current liabilities |
| Currency swap contracts | 39,182 | 176 | Prepaid expenses and other current assets | 889 | Other current liabilities |
| | | 273 | Other assets | 10 | Other noncurrent liabilities |
| Currency option contracts | 544 | 15 | Prepaid expenses and other current assets | - | - |
| Commodity forward contracts | 1,173 | 18 | Prepaid expenses and other current assets | 78 | Other current liabilities |

| Yen (Millions) | | | | | |
|---|---|---|---|---|---|
| **2017** | | | | | |
| Derivatives designated as hedging instruments: | | | | | |
| | | Asset derivatives | | Liability derivatives | |
| | Notional amounts | Fair value | Consolidated balance sheets location | Fair value | Consolidated balance sheets location |
| Forward foreign exchange contracts | **¥ 133,201** | **¥ 752** | Prepaid expenses and other current assets | **¥ 27** | Other current liabilities |
| Derivatives not designated as hedging instruments: | | | | | |
| | | Asset derivatives | | Liability derivatives | |
| | Notional amounts | Fair value | Consolidated balance sheets location | Fair value | Consolidated balance sheets location |
| Forward foreign exchange contracts | **¥ 97,837** | **¥ 119** | Prepaid expenses and other current assets | **¥ 670** | Other current liabilities |
| Nondeliverable forward contracts (NDF) | **5,181** | **-** | - | **71** | Other current liabilities |
| Currency swap contracts | **17,093** | **188** | Prepaid expenses and other current assets | **-** | - |
| | | **1,351** | Other assets | **11** | Other noncurrent liabilities |
| Commodity forward contracts | **943** | **186** | Prepaid expenses and other current assets | **-** | - |

| U.S. Dollars (Thousands) | | | | | |
|---|---|---|---|---|---|
| **2017** | | | | | |
| Derivatives designated as hedging instruments: | | | | | |
| | | Asset derivatives | | Liability derivatives | |
| | Notional amounts | Fair value | Consolidated balance sheets location | Fair value | Consolidated balance sheets location |
| Forward foreign exchange contracts | **$ 1,189,294** | **$ 6,714** | Prepaid expenses and other current assets | **$ 241** | Other current liabilities |
| Derivatives not designated as hedging instruments: | | | | | |
| | | Asset derivatives | | Liability derivatives | |
| | Notional amounts | Fair value | Consolidated balance sheets location | Fair value | Consolidated balance sheets location |
| Forward foreign exchange contracts | **$ 873,545** | **$ 1,063** | Prepaid expenses and other current assets | **$ 5,982** | Other current liabilities |
| Nondeliverable forward contracts (NDF) | **46,259** | **-** | - | **634** | Other current liabilities |
| Currency swap contracts | **152,616** | **1,679** | Prepaid expenses and other current assets | **-** | - |
| | | **12,062** | Other assets | **98** | Other noncurrent liabilities |
| Commodity forward contracts | **8,420** | **1,661** | Prepaid expenses and other current assets | **-** | - |

## 16. 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, Income tax receivables, Prepaid expenses and other current assets, Short-term debt, Trade payables, Accrued salaries and wages, Accrued expenses, Income taxes payable 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 included in other assets are estimated based on the amount of future cash flows associated with the instrument discounted using 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 are classified as Level 2, one of the three levels of fair value hierarchy that is discussed in Note 17 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 17 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 2017 are summarized as follows:

| 2016 | Yen (Millions) | |
|---|---|---|
| | Carrying amount | Estimated fair value |
| Assets: | | |
| Other investments in securities and other assets | 23,547 | 23,547 |
| Liabilities: | | |
| Long-term debt, including current portion (Excluding lease obligation) | (165,277) | (166,609) |

| **2017** | Yen (Millions) | |
|---|---|---|
| | Carrying amount | Estimated fair value |
| Assets: | | |
| Other investments in securities and other assets | **¥ 24,156** | **¥ 24,156** |
| Liabilities: | | |
| Long-term debt, including current portion (Excluding lease obligation) | **(250,969)** | **(250,289)** |

| **2017** | U.S. Dollars (Thousands) | |
|---|---|---|
| | Carrying amount | Estimated fair value |
| Assets: | | |
| Other investments in securities and other assets | **$ 215,679** | **$ 215,679** |
| Liabilities: | | |
| Long-term debt, including current portion (Excluding lease obligation) | **(2,240,795)** | **(2,234,723)** |

Derivative financial instruments are presented in Note 15 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.

## 17. Fair Value Measurements

FASB 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. 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 2017 are as follows:

| 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 |
| Nondeliverable forward contracts (NDF) | - | 34 | - | 34 |
| Currency swap contracts | - | 899 | - | 899 |
| Commodity forward contracts | - | 78 | - | 78 |
| Total | ¥ - | ¥ 1,528 | ¥ - | ¥ 1,528 |

| 2017 | Yen (Millions) |
|---|---|

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets: | | | | |
| Derivative contracts: | | | | |
| Forward foreign exchange contracts | **¥ -** | **¥ 871** | **¥ -** | **¥ 871** |
| Currency swap contracts | **-** | **1,539** | **-** | **1,539** |
| Commodity forward contracts | **-** | **186** | **-** | **186** |
| Investments (Debt securities): | | | | |
| Commercial papers | **-** | **116** | **-** | **116** |
| Public-utility bonds | **2** | **-** | **-** | **2** |
| Investments (Equity securities): | | | | |
| Manufacturing companies | **6,784** | **-** | **-** | **6,784** |
| Other | **2,189** | **-** | **-** | **2,189** |
| Investments (Mutual funds) | **1,027** | **-** | **-** | **1,027** |
| Rabbi trust investments | **6,850** | **-** | **-** | **6,850** |
| Total | **¥ 16,852** | **¥ 2,712** | **¥ -** | **¥ 19,564** |
| Liabilities: | | | | |
| Derivative contracts: | | | | |
| Forward foreign exchange contracts | **¥ -** | **¥ 697** | **¥ -** | **¥ 697** |
| Nondeliverable forward contracts (NDF) | **-** | **71** | **-** | **71** |
| Currency swap contracts | **-** | **11** | **-** | **11** |
| Total | **¥ -** | **¥ 779** | **¥ -** | **¥ 779** |

| **2017** | U.S. Dollars (Thousands) | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Derivative contracts: | | | | |
| Forward foreign exchange contracts | **$ -** | **$ 7,777** | **$ -** | **$ 7,777** |
| Currency swap contracts | **-** | **13,741** | **-** | **13,741** |
| Commodity forward contracts | **-** | **1,660** | **-** | **1,660** |
| Investments (Debt securities): | | | | |
| Commercial papers | **-** | **1,036** | **-** | **1,036** |
| Public-utility bonds | **18** | **-** | **-** | **18** |
| Investments (Equity securities): | | | | |
| Manufacturing companies | **60,571** | **-** | **-** | **60,571** |
| Other | **19,545** | **-** | **-** | **19,545** |
| Investments (Mutual funds) | **9,170** | **-** | **-** | **9,170** |
| Rabbi trust investments | **61,161** | **-** | **-** | **61,161** |
| Total | **$ 150,465** | **$ 24,214** | **$ -** | **$ 174,679** |
| Liabilities: | | | | |
| Derivative contracts: | | | | |
| Forward foreign exchange contracts | **$ -** | **$ 6,223** | **$ -** | **$ 6,223** |
| Nondeliverable forward contracts (NDF) | **-** | **634** | **-** | **634** |
| Currency swap contracts | **-** | **98** | **-** | **98** |
| Total | **$ -** | **$ 6,955** | **$ -** | **$ 6,955** |

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, Nondeliverable 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.

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

Assets and liabilities that are measured at fair value on a nonrecurring basis for the year ended March 31, 2017 are as follows.  There were no material assets and liabilities that are measured at fair value on a nonrecurring basis for the year ended March 31, 2016.

| | Yen (Millions) | | | |
|---|---|---|---|---|
| **2017** | Total gains (losses) for 2017 | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Investments in affiliates | **43,200** | - | - | **123,250** |
| Long-lived assets (Property, plant and equipment) | **(16,505)** | - | - | **9,742** |
| Long-lived assets (Intangible assets) | **(306)** | - | - | - |
| Goodwill | **(2,600)** | - | - | - |

| | U.S. Dollars (Thousands) | | | |
|---|---|---|---|---|
| **2017** | Total gains (losses) for 2017 | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Investments in affiliates | **385,714** | - | - | **1,100,446** |
| Long-lived assets (Property, plant and equipment) | **(147,366)** | - | - | **86,982** |
| Long-lived assets (Intangible assets) | **(2,732)** | - | - | - |
| Goodwill | **(23,214)** | - | - | - |

For the year ended March 31, 2017, the book value of 49 percent of the common shares of RF360 Holdings Singapore PTE. Ltd. of ¥80,050 million ($714,732 thousand) was measured at fair value of ¥123,250 million ($1,100,446 thousand) based on the discounted future cash flow method, and valuation gain of ¥43,200 million ($385,714 thousand) was recognized. The book value of long-lived assets (property, plant and equipment) of ¥26,247 million ($234,348 thousand) was written down to its fair value of ¥9,742 million ($86,982 thousand), and the book value of long-lived assets (intangible assets) of ¥306 million ($2,732 thousand) was fully written down due to impairment.  The fair value of these long-lived assets was determined based on the discounted future cash flows expected from the use of each of the assets or real estate appraisal amount by external real estate appraiser etc. According to discounted cash flow method, the book value of goodwill of ¥2,600 million ($23,214 thousand) was fully written down due to impairment.  These fair values are classified as Level 3 because they were determined using unobservable inputs.

As a result of the above, impairment loss of ¥19,411 million ($173,312 thousand) caused by other-than-temporary declines in fair values during the year ended March 31, 2017 was included in the consolidated statements of income.

## 18. Impairment of Long-Lived Assets

For the years ended March 31, 2016 and 2017, impairment losses of ¥533 million and ¥16,811 million ($150,098 thousand), respectively, were recorded. These are the result of a reduction of the carrying value of the long-lived assets to the fair value because of a reduction in profitability derived from lower demand.

The impairment losses are mainly included in selling, general and administrative expenses in the consolidated statements of income.

For the year ended March 31, 2016, the impairment loss of ¥533 million is attributable to the Passive Components segment.

For the year ended March 31, 2017, the impairment loss includes ¥6,488 million ($57,928 thousand) for the Passive Components segment, ¥10,278 million ($91,768 thousand) for the Magnetic Application Products segment and ¥45 million ($402 thousand) for the Corporate and Eliminations.

## 19. Goodwill and Other Intangible Assets

The components of acquired intangible assets excluding goodwill as of March 31, 2016 and 2017 are as follows:

| | Yen (Millions) | | |
|---|---|---|---|
| | 2016 | | |
| | 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 |

| | Yen (Millions) | | |
|---|---|---|---|
| | **2017** | | |
| | Gross Carrying Amount | Accumulated Amortization | Net Amount |
| Amortizable intangible assets: | | | |
| Patent | **¥ 17,016** | **¥7,069** | **¥9,947** |
| Customer relationships | **21,510** | **17,307** | **4,203** |
| Software | **31,832** | **14,642** | **17,190** |
| Unpatented technologies | **25,170** | **17,853** | **7,317** |
| Other | **11,339** | **2,642** | **8,697** |
| Total | **¥ 106,867** | **¥ 59,513** | **¥ 47,354** |
| Nonamortizable intangible assets | | | |
| Trademark | **¥ 3,087** | | **¥ 3,087** |
| Other | **1,380** | | **1,380** |
| Total | **¥ 4,467** | | **¥ 4,467** |

U.S. Dollars (Thousands)

| | 2017 | | |
|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Amount |
| Amortizable intangible assets: | | | |
| Patent | **$ 151,929** | **$ 63,116** | **$ 88,813** |
| Customer relationships | **192,054** | **154,527** | **37,527** |
| Software | **284,214** | **130,732** | **153,482** |
| Unpatented technologies | **224,732** | **159,402** | **65,330** |
| Other | **101,241** | **23,589** | **77,652** |
| Total | **$ 954,170** | **$ 531,366** | **$ 422,804** |
| Nonamortizable intangible assets | | | |
| Trademark | **$ 27,563** | | **$ 27,563** |
| Other | **12,321** | | **12,321** |
| Total | **$ 39,884** | | **$ 39,884** |

Intangible assets subject to amortization are amortized using the straight-line method over their estimated useful lives to their estimated residual value of zero. The useful lives are 3 to 19 years for Patent, 4 to 17 years for Customer relationships, 2 to 10 years for Internal-use Software, 3 to 20 years for unpatented technologies and 2 to 7 years for other intangible assets.

Aggregate amortization expenses for the years ended March 31, 2016 and 2017 were ¥8,127 million and ¥10,400 million ($92,857 thousand), respectively. Estimated amortization expense for the next five years is: ¥7,730 million in 2018, ¥7,378 million in 2019, ¥7,078 million in 2020, ¥6,585 million in 2021 and ¥5,889 million in 2022.

No significant intangible assets other than goodwill were acquired during the years ended March 31, 2016.

The purchase price allocation of Micronas Semiconductor Holding AG and its subsidiaries was based on the available information as of the date on which the consolidated financial statements were issued and the goodwill for Magnetic Application Products segment was provisionally stated at ¥12,110 million as of March 31, 2016.

As a result of the completion of the purchase price allocation in the year ended March 31, 2017, the carrying amount of goodwill was modified to ¥1,032 million and unpatented technologies was allocated a purchase price of ¥4,558 million.

The purchase price allocation of Hutchinson Technology Incorporated and its subsidiaries was based on the available information as of the date on which the consolidated financial statements were issued and the goodwill for Magnetic Application Products segment was provisionally stated at ¥14,298 million as of December 31, 2016.

As a result of the completion of the purchase price allocation in the year ended March 31, 2017, the carrying amount of goodwill was modified to ¥5,809 million, and purchase price of ¥1,409 million for unpatented technologies, ¥357 million for customer relationships and ¥1,041 million for other nonamortizable intangible assets were allocated as of March 31, 2017.

The purchase price allocation of Tronics Microsystems SA and its subsidiaries was based on the available information as of the date on which the consolidated financial statements were issued and the goodwill for Passive Components segment was provisionally stated at ¥2,258 million and ¥1,062 million for customer relationships, ¥1,350 million for unpatented technologies and ¥232 million for other amortizable intangible assets were provisionally allocated as of December 31, 2016.

Based on the latest progress of the purchase price allocation for the year ended March 31, 2017, the carrying amount of goodwill was modified to ¥2,429 million and purchase price of ¥778 million for customer relationships, ¥1,285 million for unpatented technologies and ¥150 million for other amortizable intangible assets were allocated as of March 31, 2017. The amounts were still provisional as the purchase price allocation had not been completed as of March 31, 2017.

The purchase price allocation of ICsense NV was based on the available information as of the date on which the consolidated financial statements were issued and the goodwill for Magnetic Application Products segment was provisionally stated at ¥1,878 million as of March 31, 2017. The amounts were still provisional as the purchase price allocation had not been completed as of March 31, 2017.

The detail of the acquisitions is presented in Note 22 of the Notes to Consolidated Financial Statements.

The changes in the carrying amount of goodwill by segment for the years ended March 31, 2016 and 2017 are as follows:

| | Yen (Millions) | | | | |
|---|---|---|---|---|---|
| | Passive Components | Magnetic Application Products | Film Application Products | Other | Total |
| March 31 , 2015 | | | | | |
| Goodwill | ¥ 28,855 | ¥ 28,481 | ¥ 10,450 | ¥ 883 | ¥ 68,669 |
| Accumulated impairment losses | (457) | (4,208) | - | (774) | (5,439) |
| | 28,398 | 24,273 | 10,450 | 109 | 63,230 |
| Acquisitions | - | 12,110 | - | - | 12,110 |
| Impairments | - | - | - | - | - |
| Others | - | - | - | - | - |
| Translation adjustment | (578) | (1,039) | (711) | - | (2,328) |
| March 31 , 2016 | | | | | |
| Goodwill | 28,267 | 39,430 | 9,739 | 835 | 78,271 |
| Accumulated impairment losses | (447) | (4,086) | - | (726) | (5,259) |
| | 27,820 | 35,344 | 9,739 | 109 | 73,012 |
| Acquisitions | **2,429** | **7,687** | **-** | **1,216** | **11,332** |
| Impairments | **(2,600)** | **-** | **-** | **-** | **(2,600)** |
| Others | **(8,085)** | **(11,078)** | **-** | **-** | **(19,163)** |
| Translation adjustment | **(1,515)** | **82** | **(117)** | **-** | **(1,550)** |
| **March 31 , 2017** | | | | | |
| Goodwill | **21,046** | **36,113** | **9,622** | **2,046** | **68,827** |
| Accumulated impairment losses | **(2,997)** | **(4,078)** | **-** | **(721)** | **(7,796)** |
| | **¥ 18,049** | **¥ 32,035** | **¥ 9,622** | **¥ 1,325** | **¥ 61,031** |

| | U.S. Dollars (Thousands) | | | | |
|---|---|---|---|---|---|
| | Passive Components | Magnetic Application Products | Film Application Products | Other | Total |
| March 31 , 2016 | | | | | |
| Goodwill | $ 252,384 | $ 352,054 | $ 86,955 | $ 7,455 | $ 698,848 |
| Accumulated impairment losses | (3,991) | (36,482) | - | (6,482) | (46,955) |
| | 248,393 | 315,572 | 86,955 | 973 | 651,893 |
| Acquisitions | **21,688** | **68,634** | **-** | **10,857** | **101,179** |
| Impairments | **(23,214)** | **-** | **-** | **-** | **(23,214)** |
| Others | **(72,188)** | **(98,911)** | **-** | **-** | **(171,099)** |
| Translation adjustment | **(13,527)** | **732** | **(1,044)** | **-** | **(13,839)** |
| **March 31 , 2017** | | | | | |
| Goodwill | **187,911** | **322,437** | **85,911** | **18,268** | **614,527** |
| Accumulated impairment losses | **(26,759)** | **(36,410)** | **-** | **(6,438)** | **(69,607)** |
| | **$ 161,152** | **$ 286,027** | **$ 85,911** | **$ 11,830** | **$ 544,920** |

Goodwill acquired for year ended March 31, 2016 represents the excess of purchase price over the fair value of identifiable assets acquired and liabilities assumed in connection with the acquisition of Micronas and its subsidiaries which mainly run a magnetic sensor business, a part of Magnetic Application Products segment, for automotive and industrial equipment market.

Goodwill acquired for year ended March 31, 2017 mainly represents the excess of purchase price over the fair value of identifiable assets acquired and liabilities assumed in connection with the acquisition of Hutchinson Technology Incorporated and its subsidiaries which mainly run a HDD suspension assemble business, a part of Magnetic Application Products segment, the acquisition of Tronics Microsystems SA and its subsidiaries which mainly run a MEMS sensors business, a part of Passive Components segment and the acquisition of ICsense NV which mainly runs business of ASICs and custom ICs, a part of Magnetic Application Products segment.

In connection with the completion of the purchase price allocation of Micronas Semiconductor Holding AG, goodwill of Magnetic Application Products segment decreased by ¥11,078 million.

In addition, because of the sale of business, goodwill of Passive Components segment decreased by ¥8,085 million for the year ended March 31, 2017. The details are presented in Note 23 of the Notes to Consolidated Financial Statements.

For the year ended March 31, 2017, an impairment loss of ¥ 2,600 million on goodwill was recognized as a result of the modification of future projection, considering the external environment change in Aluminum Electrolytic Capacitors market. The fair value was measured according to discounted cash flow method. The impairment loss is included in other operating expense (income) in the consolidated statements of income.

## 20. 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 computations is as follows:

| | Yen (Millions) | | | |
|---|---|---|---|---|
| | 2016 | | **2017** | |
| | Basic | Diluted | **Basic** | **Diluted** |
| Net income attributable to TDK | ¥ 64,828 | ¥ 63,784 | **¥ 145,099** | **¥ 145,099** |
| | Number of shares (Thousands) | | | |
| Weighted average common shares outstanding | 126,068 | 126,068 | **126,156** | **126,156** |
| Incremental shares arising from the exercise of stock option | - | 322 | **-** | **284** |
| Weighted average common shares outstanding – Total | 126,068 | 126,390 | **126,156** | **126,440** |
| | Yen | | | |
| Per common share : | | | | |
| Net income attributable to TDK | 514.23 | 504.66 | **1,150.16** | **1,147.57** |

| | U.S. Dollars (Thousands) | |
|---|---|---|
| | **2017** | |
| | **Basic** | **Diluted** |
| Net income attributable to TDK | **$ 1,295,527** | **$ 1,295,527** |
| | Number of shares (Thousands) | |
| Weighted average common shares outstanding | **126,156** | **126,156** |
| Incremental shares arising from the exercise of stock option | **-** | **284** |
| Weighted average common shares outstanding - Total | **126,156** | **126,440** |
| | U.S. Dollars | |
| Per common share : | | |
| Net income attributable to TDK | **10.27** | **10.25** |

The decline of net income attributable to TDK for the years ended March 31, 2016 was caused by a dilutive effect of stock options issued by a subsidiary of TDK Corporation.

For the years ended March 31, 2016 and 2017, certain stock options issued by TDK Corporation were excluded from the diluted per share calculation of income from net income attributable to TDK as the effect would have been antidilutive. The stock options issued by a subsidiary that are vested when a certain performance condition is achieved were also excluded from the diluted per share calculation of income from net income attributable to TDK for the years ended March 31, 2016 as it was not probable that the performance condition would be achieved as of March 31, 2016.

## 21. Related Party Transaction

Receivables and payables include the following balances with affiliated companies as of March 31, 2016 and 2017:

| | Yen (Millions) | | U.S. Dollars (Thousands) |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Due from | ¥ 2,335 | **¥ 4,954** | **$ 44,232** |
| Due to | 358 | **1,824** | **16,286** |

Receivables as of March 31, 2016 and 2017 include long-term loans of ¥489 million and ¥448 million ($4,000 thousand), respectively.

Purchases, research and development expenses, patent fee, advertising costs, interest expense, interest income, rent income, etc. and sales transactions with affiliated companies for the years ended March 31, 2016 and 2017 are as follows:

| | Yen (Millions) | | U.S. Dollars (Thousands) |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Gross purchase | ¥ 3,969 | **¥ 4,502** | **$ 40,196** |
| Less raw materials sold with no mark-up | (79) | **(50)** | **(446)** |
| Net purchases | 3,890 | **4,452** | **39,750** |
| Research and development expenses and patent fee | 263 | **254** | **2,268** |
| Advertising costs | 158 | **135** | **1,205** |
| | | | |
| Interest income | 221 | **23** | **205** |
| Rent income, etc. | 800 | **-** | **-** |
| Sales | 2,582 | **996** | **8,893** |

## 22. Acquisition

**(1) Micronas Semiconductor Holding AG ("Micronas")**

On March 8, 2016 ("acquisition date"), TDK acquired 26,154 thousand shares (93.33 percent of equity interest that excludes treasury shares) of Micronas at a cost of ¥22,440 million ($200,357 thousand), 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. The acquisition-related costs of ¥579 million ($5,170 thousand) were recognized as a part of selling, general and administrative expenses.

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 expand the business even more in the global market.

The following table summarizes the fair values of the assets acquired and liabilities at the acquisition date. As of the date on which the consolidated financial statements were issued, the purchase price allocation had been completed.

| | Fair values | |
|---|---|---|
| | Yen (millions) | U.S. Dollars (Thousands) |
| Current assets | **19,667** | **175,598** |
| Net property, plant and equipment | **16,257** | **145,152** |
| Intangible assets | **4,775** | **42,634** |
| Investments in securities and Other assets | **6,978** | **62,304** |
| Total assets | **47,677** | **425,688** |
| Current liabilities | **3,065** | **27,366** |
| Noncurrent liabilities | **21,687** | **193,634** |
| Total liabilities | **24,752** | **221,000** |
| Noncontrolling interests | **1,517** | **13,545** |
| Net assets acquired | **21,408** | **191,143** |
| Goodwill | **1,032** | **9,214** |
| Total | **22,440** | **200,357** |

Other intangible assets acquired mainly include technologies of ¥4,558 million ($40,696 thousand), which are subject to amortization. TDK had estimated the amortization period for technologies to be 10 years. Goodwill recognized of ¥1,032 million ($9,214 thousand) 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 ($13,259 thousand), which was paid in cash. As a result of the acquisition, TDK held 100 percent 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 year ended March 31, 2016 as though the acquisition had occurred at the beginning of period were not material either.

**(2) Hutchinson Technology Incorporated ("HTI")**

On October 5, 2016 ("acquisition date"), TDK acquired 33,942 thousand shares (100 percent of equity interest) of HTI at a cost of ¥14,262 million ($127,339 thousand), 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 ¥1,347 million ($12,027 thousand) were recognized as a part of selling, general and administrative expenses. 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.

The following table summarizes the fair values of the assets acquired and liabilities at the acquisition date. As of the date on which the consolidated financial statements were issued, the purchase price allocation had been completed.

| | Fair values | |
|---|---|---|
| | Yen (millions) | U.S. Dollars (Thousands) |
| Current assets | **8,502** | **75,911** |
| Net property, plant and equipment | **10,925** | **97,545** |
| Intangible assets | **2,807** | **25,063** |
| Investments in securities and Other assets | **4,247** | **37,920** |
| Total assets | **26,481** | **236,439** |
| Current liabilities | **17,520** | **156,429** |
| Noncurrent liabilities | **508** | **4,536** |
| Total liabilities | **18,028** | **160,965** |
| Net assets acquired | **8,453** | **75,474** |
| Goodwill | **5,809** | **51,866** |
| Total | **14,262** | **127,340** |

Other intangible assets acquired mainly include technologies of ¥1,409 million ($12,580 thousand), which are subject to amortization. TDK had estimated the amortization period for technologies to be 3 years. Goodwill recognized of ¥5,809 million ($51,866 thousand) was attributable primarily to expected synergies from combining operations of HTI and TDK. The goodwill is not deductible for tax purpose.

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 year ended March 31, 2016 and 2017 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 percent of equity interest) of Tronics at a cost of ¥4,107 million ($36,670 thousand), 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 ($839 thousand) 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, the date on which the consolidated financial statements were issued, the purchase price allocation had not been completed.

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 March 31, 2017, TDK held 2,752 thousand shares (74.7 percent of equity interest) of Tronics at a cost of ¥4,439 million ($39,634 thousand), 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 year ended March 31, 2016 and 2017 as though the acquisition had occurred at the beginning of the year ended March 31, 2016 were not material either.

**(4) ICsense NV ("ICsense")**

On March 22, 2017 ("acquisition date"), TDK acquired 17 thousand shares (100 percent of equity interest) of ICsense at a cost of ¥2,396 million ($21,393 thousand), which was paid in cash, through a public tender in accordance with a share acquisition agreement, ICsense became consolidated subsidiary of TDK Corporation.

The acquisition-related costs of ¥25 million ($223 thousand) were recognized as a part of selling, general and administrative expenses. The purchase price allocation had not been completed.

ICsense is headquartered in Leuven, Belgium, and its primary businesses are development and supply of

ASICs, as well as the design of custom ICs.

Through the acquisition of ICsense, TDK broadens its portfolio of cutting-edge sensor technologies and expands its sensor business.

Although TDK included the results of operations of ICsense 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 year ended March 31, 2016 and 2017 as though the acquisition had occurred at the beginning of the year ended March 31, 2016 were not material either.

## 23. Sale of Business

On February 3, 2017, TDK transferred its high-frequency devices business to RF360 Holdings Singapore PTE. Ltd. ("RF360") and its subsidiaries, and subsequently sold 51 percent of the common shares of RF360 held by EPCOS AG, a wholly owned subsidiary of TDK, to Qualcomm Global Trading PTE. Ltd. ("QGT"), which is a 100 percent indirect ownership subsidiary of Qualcomm Incorporated ("Qualcomm") based on the business alliance agreement involving establishment of a joint venture concluded with Qualcomm on January 13, 2016. An option to put and call the remaining common shares (49 percent) of RF360 after 30 months after the closing date is held by TDK and QGT, respectively. Contingent consideration to be recognized over several years is included in the total consideration amount. The remaining common shares (49 percent) of RF360 Holdings is measured at fair value and recognized in consolidated balance sheet as investments in affiliates.

For the year ended March 31, 2017, the sale of the 51 percent of common shares including contingent consideration resulted in a gain of ¥102,008 million ($910,786 thousand), and the remeasurement of the remaining common shares to its fair value resulted in a gain of ¥43,200 million ($385,714 thousand). Total ¥145,208 million ($1,296,500 thousand) of the gain on sale of business is recognized in other operating expense (income) of consolidated statement of income. Besides, consolidated statements of cash flows adjusted ¥149,538 million ($1,335,161 thousand) for gain on sale of business to reconcile net income to net cash provided by operating activities. The difference between total gain on sale of business in the consolidated statements of income and the consolidated statements of cash flows is attributable to expenses of the sale of business.

## 24. Material Subsequent Events

On December 21, 2016, the Company entered into an agreement with the global inertial sensor company InvenSense, Inc. ("InvenSense") to acquire the shares of InvenSense and make it into a wholly owned subsidiary of the Company, with the purpose of further expanding the sensor business. Based on the agreement, the Company acquired all of the shares of InvenSense on May 18, 2017 with the total acquisition price of approximately $1.3 billion USD and made it into a wholly owned subsidiary of the Company.

## 25. Supplementary Information

| | Yen (Millions) | | U.S. Dollars (Thousands) |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| **(a) Statements of Income** | | | |
| Research and development | ¥ 84,920 | **¥ 91,254** | **$ 814,768** |
| Rent | 11,861 | **11,995** | **107,098** |
| Maintenance and repairs | 28,967 | **30,295** | **270,491** |
| Advertising costs | 4,286 | **4,493** | **40,116** |
| **(b) Statements of Cash Flows** | | | |
| Cash paid during year for: | | | |
| Interest | ¥ 3,100 | **¥ 3,429** | **$ 30,616** |
| Income taxes | 21,229 | **22,427** | **200,241** |

**Noncash activities**

For the years ended March 31, 2016 and 2017, there were no material noncash investing and financing activities.

## 26. 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,<br>Film Capacitors, Inductive Devices (Coils, Ferrite Cores and Transformers),<br>High-Frequency Devices, Piezoelectric Materials 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 Equipments), Others |

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

As a result of the reorganization in the year ended March 31, 2017, certain products of Other were reclassified into the Passive Components segment and certain products of the Film Application Prodcuts segment were reclassified into Other. The figures for the years ended March 31, 2016 were also reclassified to conform to the new segmentation.

The business segment information for the years ended March 31, 2016 and 2017 are as follows.

**Net sales**

| | Yen (Millions) | | U.S. Dollars (Thousands) |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Passive Components: | | | |
| External customers | ¥ 583,474 | **¥ 548,730** | **$ 4,899,375** |
| Intersegment | 2,795 | **3,017** | **26,937** |
| Total | 586,269 | **551,747** | **4,926,312** |
| Magnetic Application Products: | | | |
| External customers | 315,322 | **349,698** | **3,122,304** |
| Intersegment | 325 | **181** | **1,616** |
| Total | 315,647 | **349,879** | **3,123,920** |
| Film Application Products: | | | |
| External customers | 219,893 | **247,693** | **2,211,545** |
| Intersegment | - | - | - |
| Total | 219,893 | **247,693** | **2,211,545** |
| Other: | | | |
| External customers | 33,566 | **32,136** | **286,928** |
| Intersegment | 25,737 | **25,208** | **225,072** |
| Total | 59,303 | **57,344** | **512,000** |
| Intersegment eliminations | (28,857) | **(28,406)** | **(253,625)** |
| Total | ¥ 1,152,255 | **¥ 1,178,257** | **$ 10,520,152** |

**Segment profit (loss)**

| | Yen (Millions) | | U.S. Dollars (Thousands) |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Passive Components | ¥ 66,404 | **¥ 204,681** | **$ 1,827,509** |
| Magnetic Application Products | 13,194 | **(1,802)** | **(16,089)** |
| Film Application Products | 37,038 | **41,217** | **368,009** |
| Other | 1,199 | **(6,655)** | **(59,420)** |
| Sub total | 117,835 | **237,441** | **2,120,009** |
| Corporate and Eliminations | (24,421) | **(28,781)** | **(256,973)** |
| Operating income | 93,414 | **208,660** | **1,863,036** |
| Other income (deductions), net | (1,575) | **3,057** | **27,294** |
| Income before income taxes | ¥ 91,839 | **¥ 211,717** | **$ 1,890,330** |

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.

**Assets**

| | Yen (Millions) | | U.S. Dollars (Thousands) |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Passive Components | ¥ 628,301 | **¥ 711,911** | **$ 6,356,348** |
| Magnetic Application Products | 555,096 | **475,383** | **4,244,491** |
| Film Application Products | 285,275 | **368,057** | **3,286,223** |
| Other | 45,318 | **56,361** | **503,223** |
| Corporate and Eliminations | (63,426) | **52,621** | **469,831** |
| Total | ¥ 1,450,564 | **¥ 1,664,333** | **$ 14,860,116** |

Corporate mainly includes cash and cash equivalents and property, plant and equipment that are for general corporate use, deferred tax assets that are not allocated to operating segments, investments.

**Depreciation and amortization (including Intangible assets other than Goodwill)**

| | Yen (Millions) | | U.S. Dollars (Thousands) |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Passive Components | ¥ 35,770 | **¥ 34,902** | **$ 311,625** |
| Magnetic Application Products | 23,925 | **24,188** | **215,964** |
| Film Application Products | 17,017 | **20,624** | **184,143** |
| Other | 1,841 | **2,666** | **23,804** |
| Corporate and Eliminations | 4,671 | **5,111** | **45,634** |
| Total | ¥ 83,224 | **¥ 87,491** | **$ 781,170** |

**Capital expenditure**

| | Yen (Millions) | | U.S. Dollars (Thousands) |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Passive Components | ¥ 75,877 | **¥ 68,605** | **$ 612,545** |
| Magnetic Application Products | 16,131 | **14,954** | **133,518** |
| Film Application Products | 52,607 | **55,834** | **498,518** |
| Other | 2,510 | **7,246** | **64,696** |
| Corporate and Eliminations | 13,549 | **20,992** | **187,428** |
| Total | ¥ 160,674 | **¥ 167,631** | **$ 1,496,705** |

## Geographic Segment Information

The geographic segment information for the years ended March 31, 2016 and 2017 are as follows.

**Net sales**

| | Yen (Millions) | | U.S. Dollars (Thousands) |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Japan | ¥ 91,052 | **¥ 105,233** | **$ 939,581** |
| Americas | 101,974 | **104,910** | **936,696** |
| Europe | 145,336 | **146,201** | **1,305,366** |
| China | 606,045 | **598,959** | **5,347,848** |
| Asia and others | 207,848 | **222,954** | **1,990,661** |
| Total | ¥ 1,152,255 | **¥ 1,178,257** | **$ 10,520,152** |

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

**Property, plant and equipment**

| | Yen (Millions) | | U.S. Dollars (Thousands) |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Japan | ¥ 113,568 | **¥ 136,001** | **$ 1,214,295** |
| Americas | 14,088 | **21,068** | **188,107** |
| Europe | 91,776 | **61,270** | **547,054** |
| China | 205,869 | **208,737** | **1,863,723** |
| Asia and others | 62,338 | **37,591** | **335,634** |
| Total | ¥ 487,639 | **¥ 464,667** | **$ 4,148,813** |

Major countries in each geographic area :

(1) Americas ...................... United States of America

(2) Europe ......................... Germany, Austria, Hungary

(3) Asia and others ............ Thailand, India

## Sales to major customers

There was one customer group that accounted for more than 10 percent of net sales for the year ended March 31, 2016. The sales were approximately ¥135.8 billion that were included mainly in the Film Application Products segment.

There was one customer group that accounted for more than 10 percent of net sales for the year ended March 31, 2017. The sales were approximately ¥162.5 billion ($1,450.9 million) that were included mainly in the Magnetic Application Products segment.

## VI. Outline of filing company's business concerning shares

| | |
|---|---|
| Business year | From April 1 to March 31 |
| Ordinary General Meeting of Shareholders | June |
| Record date | March 31 |
| Record dates for dividends from surplus | September 30<br>March 31 |
| Number of shares consisting one unit | 100 shares |
| Purchase demands or additional purchase requests of shares less than one unit: | |
| Office for handling business | (Special Account)<br>Stock Transfer Agency Business Planning Dept., Sumitomo Mitsui Trust Bank, Limited.<br>1-4-1 Marunouchi, Chiyoda-ku, Tokyo, Japan |
| Administrator of shareholder registry | (Special Account)<br>Sumitomo Mitsui Trust Bank, Limited.<br>1-4-1 Marunouchi, Chiyoda-ku, Tokyo, Japan |
| Forwarding office | – |
| Handling charge for purchase | Free of charge |
| Method of public notice | Electronic public notice will be made. However, if TDK is unable to make an electronic public notice due to an incident or any other compelling reason, it will make an alternative public notice in "The Nikkei" newspaper.<br>The electronic public notice will be notified on TDK's website (http://www.tdk.co.jp). |
| Special benefits for shareholders | None |

Note: Pursuant to the provisions of TDK Corporation's Articles of Incorporation, the rights of holders of shares less than one unit are limited to the following: (i) rights listed in the items of Article 189, paragraph 2 of the Companies Act, (ii) rights to request to TDK Corporation in accordance with the provisions of Article 166, paragraph 1 of the same Act, (iii) rights to receive the allotment of the shares for subscription and the stock acquisition rights for subscription in accordance with the number of shares they hold, and (iv) rights to request to TDK Corporation to sell shares less than one unit.

## VII. Reference information on filing company

### 1. Information on filing company’s parent company

TDK Corporation does not have a parent company.

# B. INFORMATION ON GUARANTEE COMPANIES, ETC. OF FILING COMPANY

No items to report

**Independent Auditors' Report**

The Board of Directors
TDK Corporation:

We have audited the accompanying consolidated financial statements of TDK Corporation and its subsidiaries, which comprise the consolidated balance sheets as of March 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements expressed in Japanese yen.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of EPCOS AG, a wholly-owned subsidiary, and its subsidiaries, which statements reflect total assets constituting 24.3 percent and 22.3 percent, respectively, of consolidated total assets at March 31, 2017 and 2016, and total revenues constituting 18.1 percent and 18.9 percent, respectively, of consolidated total revenues for each of the years then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for EPCOS AG and its subsidiaries, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG

***Opinion***

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of TDK Corporation and its subsidiaries as of March 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

***Emphasis of Matters***

Without qualifying our opinion, we draw attention to the following:

1. As discussed in note 23 to the consolidated financial statements, the Company sold 51% of the shares of its subsidiary based on the business alliance agreement with Qualcomm Incorporated and recognized a gain of 145,208 million Yen.
2. As discussed in note 24 to the consolidated financial statements, the Company acquired all shares outstanding of InvenSense, Inc. on May 18, 2017.

***Convenience Translation***

The accompanying consolidated financial statements as of and for the year ended March 31, 2017 have been translated into United States dollars solely for the convenience of the readers. We have audited the translation and, in our opinion, the consolidated financial statements, expressed in Japanese yen, have been translated into United States dollars on the basis set forth in Note 2 to the consolidated financial statements.

KPMG AZSA LLC

Tokyo, Japan

July 21, 2017

## *Management's Annual Report on Internal Control over Financial Reporting*

### 1. Matters relating to the basic framework for internal control over financial reporting

President & Representative Director Shigenao Ishiguro, and Chief Financial Officer and Senior Vice President and Director Tetsuji Yamanishi of TDK Corporation are responsible for designing and operating effective internal control over financial reporting of TDK and have designed and operated internal control over financial reporting in accordance with the basic framework for internal control set forth in "On the Revision of the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting (Council Opinions)" released by the Business Accounting Council.

The internal control is designed to achieve its objectives to the extent reasonable through the effective function and combination of its basic elements. Therefore, there is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

### 2. Matters relating to the scope of assessment, the basis date of assessment and the assessment procedures

The assessment of internal control over financial reporting was performed as of March 31, 2017, which is the end of the current fiscal year. The assessment was performed in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

In conducting this assessment, we evaluated internal controls which may have a material effect on our entire financial reporting on a consolidation basis ("company-level controls") and based on the results of this evaluation, we selected business processes to be tested. In assessing the business processes, we analyzed these selected business processes, identified key controls that may have a material impact on the reliability of TDK's financial reporting, and assessed the design and operation of these key controls. These procedures have allowed us to evaluate the effectiveness of the internal controls of TDK.

We determined the scope of assessment of internal control over financial reporting, covering TDK Corporation, consolidated subsidiaries and equity-method affiliates and deemed necessary from the perspective of the materiality that may affect the reliability of their financial reporting. The materiality that may affect the reliability of the financial reporting is determined taking into account the materiality of quantitative and qualitative impacts on financial reporting. In light of the results of assessment of company-level controls covering all locations and business units except for consolidated subsidiaries and equity-method affiliates whose materiality of such impacts were deemed immaterial, we reasonably determined the scope of assessment of internal controls over business processes.

Regarding the scope of assessment of internal control over business processes, we selected locations and/or business units to be tested in descending order of sales for the previous fiscal year, and the locations and/or business units whose combined sales volume reaches approximately two thirds of consolidated sales amount were selected as “significant locations and/or business units.” We included in the scope of assessment, at the selected significant locations and/or business units, business processes leading to sales, accounts receivable and inventories as significant accounts that may have a material impact on the business objectives of TDK. Further, in addition to selected significant locations and/or business units, we also selected for testing, as business processes having greater materiality, business processes relating to (i) greater likelihood of material misstatements and/or (ii) significant accounts involving estimates and the management’s judgment and/or (iii) a business or operation dealing with high-risk transactions, taking into account their impact on the financial reporting.

## 3. Matters relating to the results of the assessment

As a result of the assessment described above, as of the end of the current fiscal year, we concluded that TDK’s internal control over financial reporting was effectively maintained.

## 4. Additional notes

Not applicable.

## 5. Special notes

Not applicable.