



Consolidated Financial Statements
for the three-month ended and as of June 30, 2017 (in English)

On August 10, 2017, the Japanese version of this report was filed with the Director-General of the Kanto Local Finance Bureau of the Ministry of Finance pursuant to Japan's Financial Instruments and Exchange Act.

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

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1) Consolidated balance sheets (Unaudited)

ASSETS	Yen (Millions)	
	March 31, 2017	June 30, 2017
Current assets:		
Cash and cash equivalents	¥ 330,388	¥ 305,130
Short-term investments	56,131	77,116
Marketable securities (Note 2)	-	3,793
Net trade receivables	254,909	290,346
Inventories (Note 3)	154,499	186,921
Other current assets	70,209	89,648
Total current assets	866,136	952,954
Investments in affiliates (Note 2)	149,057	142,157
Other investments in securities (Note 2)	12,768	11,102
Net property, plant and equipment	464,667	503,040
Goodwill (Note 9)	61,031	188,624
Intangible assets (Note 9)	51,821	55,381
Other assets	58,853	59,710
Total assets	¥ 1,664,333	¥ 1,912,968

See accompanying notes to consolidated financial statements.

	Yen (Millions)	
LIABILITIES AND EQUITY	March 31, 2017	June 30, 2017
Current liabilities:		
Short-term debt	¥ 77,680	¥ 185,082
Current installments of long-term debt	42,517	71,197
Trade payables	176,644	199,985
Accrued expenses	148,609	160,909
Other current liabilities	32,144	37,640
Total current liabilities	<u>477,594</u>	<u>654,813</u>
Long-term debt, excluding current installments	213,935	273,230
Retirement and severance benefits	125,202	127,798
Other noncurrent liabilities	45,484	47,275
Total noncurrent liabilities	<u>384,621</u>	<u>448,303</u>
Total liabilities	<u>862,215</u>	<u>1,103,116</u>
TDK stockholders' equity:		
Common stock		
Authorized 480,000,000 shares; issued 129,590,659 shares at March 31, 2017 and June 30, 2017 outstanding 126,199,815 shares at March 31, 2017 and 126,210,311 shares at June 30, 2017	32,641	32,641
Additional paid-in capital	15,349	15,385
Legal reserve	37,727	37,060
Retained earnings	833,884	837,934
Accumulated other comprehensive income (loss) (Notes 10 and 11)	(108,575)	(104,464)
Treasury stock at cost; 3,390,844 shares at March 31, 2017 and 3,380,348 shares at June 30, 2017	(17,412)	(17,359)
Total TDK stockholders' equity	<u>793,614</u>	<u>801,197</u>
Noncontrolling interests (Notes 10 and 11)	8,504	8,655
Total equity	<u>802,118</u>	<u>809,852</u>
Total liabilities and equity	<u>¥ 1,664,333</u>	<u>¥ 1,912,968</u>

2) Consolidated statements of income

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

For the Three-month ended June 30, 2016 and 2017

Consolidated statements of income

	Yen (Millions)	
	Three-month ended June 30, 2016	Three-month ended June 30, 2017
Net sales	¥ 278,769	¥ 289,526
Cost of sales	204,271	213,286
Gross profit	74,498	76,240
Selling, general and administrative expenses	57,038	62,324
Other operating expense (income) (Note 1)	958	(1,722)
Operating income	16,502	15,638
Other income (deductions):		
Interest and dividend income	953	1,367
Interest expense	(813)	(946)
Foreign exchange gain (loss)	(1,213)	(407)
Other - net	953	1,284
Total other income (deductions)	(120)	1,298
Income before income taxes	16,382	16,936
Income taxes	3,795	5,762
Net income	12,587	11,174
Less: Net income attributable to noncontrolling interests	186	219
Net income attributable to TDK	¥ 12,401	¥ 10,955

Amounts per share:

	Yen	
	Three-month ended June 30, 2016	Three-month ended June 30, 2017
Net income attributable to TDK (Note 12):		
Basic	¥ 98.32	¥ 86.80
Diluted	96.69	86.61
Cash dividends paid during the period	¥ 60.00	¥ 60.00

Consolidated statements of comprehensive income (loss)

	Yen (Millions)	
	Three-month ended June 30, 2016	Three-month ended June 30, 2017
Net income	¥ 12,587	¥ 11,174
Other comprehensive income (loss), net of taxes (Note 11):		
Foreign currencies translation adjustments	(81,251)	3,436
Pension liability adjustments	935	990
Net unrealized gains (losses) on securities	(1,475)	(304)
Total other comprehensive income (loss)	(81,791)	4,122
Comprehensive income (loss) (Note 10)	(69,204)	15,296
Comprehensive income (loss) attributable to noncontrolling interests	(648)	230
Comprehensive income (loss) attributable to TDK	¥ (68,556)	¥ 15,066

See accompanying notes to consolidated financial statements.

3) Consolidated statements of cash flows (Unaudited)

	Yen (Millions)	
	Three-month ended June 30, 2016	Three-month ended June 30, 2017
Cash flows from operating activities:		
Net income	¥ 12,587	¥ 11,174
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	20,628	20,551
Changes in assets and liabilities:		
Decrease (increase) in trade receivables	(35,538)	(29,623)
Decrease (increase) in inventories	(7,857)	(23,105)
Increase (decrease) in trade payables	32,767	19,708
Increase (decrease) in accrued expenses	(6,019)	(5,470)
Decrease (increase) in other assets and liabilities, net	(7,486)	(8,587)
Other - net	(351)	(4,291)
Net cash provided by (used in) operating activities	<u>8,731</u>	<u>(19,643)</u>
Cash flows from investing activities:		
Capital expenditures	(53,486)	(42,925)
Proceeds from sales of tangible and intangible assets	5,411	5,757
Proceeds from sale and maturity of short-term investments	7,529	29,982
Payment for purchase of short-term investments	(7,503)	(50,491)
Proceeds from sale and maturity of securities	67	20,375
Payment for purchase of securities	(165)	(70)
Acquisition of subsidiaries, net of cash acquired	-	(138,847)
Other - net	(95)	(46)
Net cash used in investing activities	<u>(48,242)</u>	<u>(176,265)</u>
Cash flows from financing activities:		
Proceeds from long-term debt	21,137	66,806
Repayment of long-term debt	(208)	(300)
Increase (decrease) in short-term debt, net	23,881	109,228
Dividends paid	(7,406)	(7,425)
Other - net	(92)	38
Net cash provided by financing activities	<u>37,312</u>	<u>168,347</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(24,918)</u>	<u>2,303</u>
Net decrease in cash and cash equivalents	<u>(27,117)</u>	<u>(25,258)</u>
Cash and cash equivalents at beginning of period	285,468	330,388
Cash and cash equivalents at end of period	<u>¥ 258,351</u>	<u>¥ 305,130</u>

See accompanying notes to consolidated financial statements.

4) Notes to Consolidated Financial Statements (Unaudited)

1. Summary of Significant Accounting Policies

(a) Basis of Presentation

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

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

(b) Consolidation Policy

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

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

(c) Adoption of New Accounting Standards

Simplifying the Measurement of Inventory

In July 2015, Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-11 "Simplifying the Measurement of Inventory".

This ASU applies to all inventories except for which is measured using last-in, first-out (LIFO) or the retail inventory method, and requires an entity to measure inventory at the lower of cost and net realizable value. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. TDK adopted this ASU prospectively from April 1, 2017.

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

Simplifying the Test for Goodwill Impairment

In January 2017, FASB issued ASU 2017-04 "Simplifying the Test for Goodwill Impairment". This ASU eliminates Step 2 of the goodwill impairment test, instead requires an entity to recognize an impairment charge for the amount by which the carrying amount of a reporting unit exceeds its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. TDK early adopted this ASU prospectively from April 1, 2017.

The adoption of this ASU did not have a impact on TDK's results of operations and financial position for the three month ended June 30, 2017.

(d) Other operating expense (income)

Other operating expense (income) for the three month ended June 30, 2016 and 2017 are as follows:

	Yen (Millions)	
	Three-month ended June 30, 2016	Three-month ended June 30, 2017
Gain on sale of business (Note 14)	¥ 640	¥ (1,740)
Impairment of long-lived assets	318	18
Other operating expense (income) total	¥ 958	¥ (1,722)

(e) Subsequent Events

TDK has evaluated the subsequent events through August 9, 2017, the date on which the consolidated financial statements are available to be issued.

(f) Reclassifications

Certain reclassifications have been made to the prior year's consolidated financial statements and quarterly consolidated financial statements to conform to the presentation used for the three-month ended June 30, 2017.

2. Marketable Securities and Investments in Securities

Marketable securities and investments in securities as of March 31, 2017 and June 30, 2017, are as follows:

	Yen (Millions)	
	March 31, 2017	June 30, 2017
Marketable securities	¥ -	¥ 3,793
Investments in affiliates	149,057	142,157
Other investments in securities:		
Long-term marketable securities	10,118	9,750
Nonmarketable securities	2,650	1,352
Total other investments in securities	12,768	11,102
Total	¥ 161,825	¥ 157,052

Marketable securities and investments in securities include available-for-sale securities. Information with respect to such securities as of March 31, 2017 and June 30, 2017, is as follows:

As of March 31, 2017	Yen (Millions)			Fair Value
	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	
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

As of June 30, 2017	Yen (Millions)			Fair Value
	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	
Marketable securities (Debt securities):				
Commercial papers	¥ 2,294	¥ -	¥ 0	¥ 2,294
Corporate bonds	1,443	-	1	1,442
Government bonds	55	2	-	57
Investments (Debt securities):				
Commercial papers	23	95	-	118
Public-utility bonds	2	-	-	2
Investments (Equity securities):				
Manufacturing companies	2,715	3,906	115	6,506
Other	1,147	873	-	2,020
Investments (Mutual funds)	1,013	96	5	1,104
Total	¥ 8,692	¥ 4,972	¥ 121	¥ 13,543

The proceeds from sale and maturity of available-for-sale securities and nonmarketable securities were ¥67 million and ¥20,375 million for the three-month ended June 30, 2016 and 2017, respectively. The gross realized gains on the sale and settlement of available-for-sale securities was ¥29 million and ¥559 million for the three-month ended June 30, 2016 and 2017, respectively. The costs of available-for-sale securities sold were determined on average cost basis.

As of June 30, 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, 2017 and June 30, 2017 totaled ¥2,650 million and ¥1,352 million, respectively.

3. Inventories

Inventories as of March 31, 2017 and June 30, 2017, are summarized as follows:

	Yen (Millions)	
	March 31, 2017	June 30, 2017
Finished goods	¥ 62,278	¥ 72,886
Work in process	38,582	45,365
Raw materials	53,639	68,670
Total	¥ 154,499	¥ 186,921

4. Cost for Retirement and Severance Benefits

Net periodic benefit cost for TDK's employee retirement and severance defined benefit plans for the three-month ended June 30, 2016 and June 30, 2017 consist of the following components:

	Yen (Millions)	
	Three-month ended June 30, 2016	Three-month ended June 30, 2017
Service cost-benefits earned during the period	¥ 2,195	¥ 2,041
Interest cost on projected benefit obligation	912	923
Expected return on plan assets	(1,076)	(1,032)
Amortization of actuarial loss	1,680	1,427
Amortization of prior service cost (benefit)	(487)	(354)
Net periodic benefit cost	¥ 3,224	¥ 3,005

5. Contingent Liabilities

TDK provides guarantees to third parties on bank loans of its employees. The guarantees on behalf of the employees are made for their housing loans. For each guarantee issued, in the event the employee defaults on payment, TDK would be required to make payments under its guarantee.

The maximum amount of undiscounted payments TDK would have to make in the event of default as of March 31, 2017 and June 30, 2017, are as follows:

	Yen (Millions)	
	March 31, 2017	June 30, 2017
Guarantees to third parties on bank loans of employees	¥ 956	¥ 905

As of June 30, 2017, the liability recognized for the estimated fair value of TDK's obligation under the guarantee arrangement is not material.

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

Several claims against TDK are pending. In the opinion of TDK management, based on discussions with legal counsel, any additional liability not currently provided for will not

materially affect the consolidated financial position or result of operations of TDK.

6. Derivative Financial Instruments and Hedging Activities

TDK operates internationally and is exposed to the risk of changes in foreign exchange rates and interest rates as well as changes in raw material prices. TDK assesses these risks by continuously monitoring changes in the exchange rates, interest 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 and borrowings denominated in the subsidiary's local currency 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. TDK uses interest rate swap in order to control the fluctuation risks of interest rates. 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 three-month ended June 30, 2016 and June 30, 2017 are as follows:

(1) Hedges of net investment in foreign operations and other hedging instruments

	Yen (Millions)	
	Gains (losses) recognized in other comprehensive income on derivative (effective portion)	
	Three-month ended June 30, 2016	Three-month ended June 30, 2017
Forward foreign exchange contracts	¥ -	¥ (498)
Borrowings in local currency	-	858
Total	¥ -	¥ 360

(2) Derivatives not designated as hedging instruments

		Yen (Millions)	
		Three-month ended June 30, 2016	Three-month ended June 30, 2017
Forward foreign exchange contracts	Foreign exchange gain (loss)	¥ (2,100)	¥ 1,737
Nondeliverable forward contracts (NDF)	Foreign exchange gain (loss)	473	(160)
Currency swap contracts	Foreign exchange gain (loss)	127	(137)
Interest rate swap contracts	Other income (deductions)-Other-net	-	(178)
Currency option contracts	Foreign exchange gain (loss)	30	17
Commodity forward contracts	Cost of sales	42	(6)
Total		¥ (1,428)	¥ 1,273

Notional amounts and fair value of derivative financial instruments as of March 31, 2017 and June 30, 2017 are as follows:

Yen (Millions)					
March 31, 2017					
Derivatives designated as hedging instruments:					
	Notional amounts	Asset derivatives		Liability derivatives	
		Fair value	Consolidated balance sheets location	Fair value	Consolidated balance sheets location
Forward foreign exchange contracts	¥ 133,201	¥ 752	Other current assets	¥ 27	Other current liabilities
Derivatives not designated as hedging instruments:					
	Notional amounts	Asset derivatives		Liability derivatives	
		Fair value	Consolidated balance sheets location	Fair value	Consolidated balance sheets location
Forward foreign exchange contracts	¥ 97,837	¥ 119	Other current assets	¥ 670	Other current liabilities
Nondeliverable forward contracts (NDF)	5,181	-	-	71	Other current liabilities
Currency swap contracts	17,093	188 1,351	Other current assets Other assets	- 11	- Other liabilities
Commodity forward contracts	943	186	Other current assets	-	-

Yen (Millions)					
June 30, 2017					
Derivatives designated as hedging instruments and other:					
	Notional amounts	Asset derivatives		Liability derivatives	
		Fair value	Consolidated balance sheets location	Fair value	Consolidated balance sheets location
Forward foreign exchange contracts	¥ 137,583	¥ 4,541	Other current assets	¥ 4,314	Other current liabilities
Borrowings in local currency	67,200	-	-	-	-
Derivatives not designated as hedging instruments:					
	Notional amounts	Asset derivatives		Liability derivatives	
		Fair value	Consolidated balance sheets location	Fair value	Consolidated balance sheets location
Forward foreign exchange contracts	¥ 103,996	¥ 2,212	Other current assets	¥ 1,072	Other current liabilities
Nondeliverable forward contracts (NDF)	5,620	-	-	36	Other current liabilities
Currency swap contracts	19,159	2 1,287	Other current assets Other assets	27 52	Other current liabilities Other liabilities
Interest rate swap contracts	33,600	-	-	178	Other liabilities
Commodity forward contracts	701	139	Other current assets	3	Other current liabilities

7. Fair Value of Financial Instruments

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

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

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

(b) Marketable securities, Investments in securities and Other assets

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

(c) Long-term debt

The fair value of TDK's long-term debt is estimated based on the amount of future cash flows associated with the instrument discounted using TDK's current borrowing rate for similar debt of comparable maturity, or based on the quoted market prices for the same or similar issues. The long-term debt is classified as Level 2, one of the three levels of fair value hierarchy that is discussed in Note 8 of the Notes to Consolidated Financial Statements.

The carrying amounts and estimated fair values of TDK's financial instruments as of March 31, 2017 and June 30, 2017, are summarized as follows:

As of March 31, 2017	Yen (Millions)	
	Carrying amount	Estimated fair value
Assets:		
Other investments in securities and other assets	¥ 24,156	¥ 24,156
Liability:		
Long-term debt, including current portion (excluding lease obligation)	(250,969)	(250,289)
As of June 30, 2017	Yen (Millions)	
	Carrying amount	Estimated fair value
Assets:		
Marketable securities	¥ 3,793	¥ 3,793
Other investments in securities and other assets	22,958	22,958
Liability:		
Long-term debt, including current portion (excluding lease obligation)	(338,981)	(338,267)

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

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

8. Fair Value Measurements

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

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

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

Level 3: Unobservable inputs for the asset or liability

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

Assets and liabilities that are measured at fair value on a recurring basis as of March 31, 2017 and June 30, 2017 are as follows:

As of March 31, 2017	Yen (Millions)			Total
	Level 1	Level 2	Level 3	
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
Non-deliverable forward contracts (NDF)	-	71	-	71
Currency swap contracts	-	11	-	11
Total	¥ -	¥ 779	¥ -	¥ 779

As of June 30, 2017	Yen (Millions)			
	Level 1	Level 2	Level 3	Total
Assets:				
Marketable securities (Debt securities):				
Government bonds	¥ 57	¥ -	¥ -	¥ 57
Commercial papers	-	2,294	-	2,294
Corporate bonds	-	1,442	-	1,442
Derivative contracts:				
Forward foreign exchange contracts	-	6,753	-	6,753
Currency swap contracts	-	1,289	-	1,289
Commodity forward contracts	-	139	-	139
Investments (Debt securities):				
Commercial papers	-	118	-	118
Public-utility bonds	2	-	-	2
Investments (Equity securities):				
Manufacturing companies	6,506	-	-	6,506
Other	2,020	-	-	2,020
Investments (Mutual funds)	1,104	-	-	1,104
Rabbi trust investments	6,159	-	-	6,159
Total	¥ 15,848	¥ 12,035	¥ -	¥ 27,883
Liabilities:				
Derivative contracts:				
Forward foreign exchange contracts	¥ -	¥ 5,386	¥ -	¥ 5,386
Non-deliverable forward contracts (NDF)	-	36	-	36
Currency swap contracts	-	79	-	79
Interest rate swap contracts	-	178	-	178
Commodity forward contracts	-	3	-	3
Total	¥ -	¥ 5,682	¥ -	¥ 5,682

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

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

9. Goodwill and Other Intangible Assets

The components of acquired intangible assets excluding goodwill as of March 31, 2017 and June 30, 2017 are as follows:

As of March 31, 2017	Yen (Millions)		Net Amount
	Gross Carrying Amount	Accumulated Amortization	
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
As of June 30, 2017	Yen (Millions)		Net Amount
	Gross Carrying Amount	Accumulated Amortization	
Amortizable intangible assets:			
Patent	¥ 15,302	¥ 5,914	¥ 9,388
Customer relationships	22,198	18,126	4,072
Software	31,323	13,569	17,754
Unpatented technologies	30,430	19,475	10,955
Other	11,341	2,701	8,640
Total	¥ 110,594	¥ 59,785	¥ 50,809
Nonamortizable intangible assets:			
Trademark	¥ 3,198		¥ 3,198
Other	1,374		1,374
Total	¥ 4,572		¥ 4,572

Intangible assets subject to amortization are amortized using the straight-line method over their estimated useful lives to their estimated residual value of zero. Aggregate amortization expense for the three-month ended June 30, 2017 was ¥2,384 million.

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 Sensor Application Products segment was provisionally stated at ¥2,429 million and ¥778 million for customer relationships, ¥1,285 million for unpatented technologies and ¥150 million for other amortizable intangible assets were provisionally allocated as of March 31, 2017. The amounts were still provisional as the purchase price allocation had not been completed as of June 30, 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 Sensor 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 June 30, 2017.

The purchase price allocation of InvenSense, Inc. 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 Sensor Application Products segment was provisionally stated at ¥126,974 million and ¥87 million for customer relationships, ¥170 million for software, ¥3,942 million for unpatented technologies and ¥173 million for other amortizable intangible assets were provisionally allocated as of June 30, 2017. The amounts were still provisional as the purchase price allocation had not been completed as of June 30, 2017.

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

10. Equity

The changes in the carrying amount of stockholders' equity, noncontrolling interests and total equity for the three-month ended June 30, 2016 and June 30, 2017 are as follows:

	Yen (Millions)		
	Stockholders' equity	Noncontrolling Interests	Total equity
March 31, 2016	¥ 675,361	¥ 9,272	¥ 684,633
Equity transaction of consolidated subsidiaries and other	43	(107)	(64)
Comprehensive income:			
Net income	12,401	186	12,587
Other comprehensive income (loss), net of taxes:			
Foreign currency translation adjustments	(80,417)	(834)	(81,251)
Pension liability adjustments	935	0	935
Net unrealized gains (losses) on securities	(1,475)	-	(1,475)
Total other comprehensive income (loss)	(80,957)	(834)	(81,791)
Comprehensive income (loss)	(68,556)	(648)	(69,204)
Dividends	(7,567)	(74)	(7,641)
June 30, 2016	¥ 599,281	¥ 8,443	¥ 607,724
	Yen (Millions)		
	Stockholders' equity	Noncontrolling Interests	Total equity
March 31, 2017	¥ 793,614	¥ 8,504	¥ 802,118
Equity transaction of consolidated subsidiaries and other	89	(0)	89
Comprehensive income:			
Net income	10,955	219	11,174
Other comprehensive income (loss), net of taxes:			
Foreign currency translation adjustments	3,425	11	3,436
Pension liability adjustments	990	0	990
Net unrealized gains (losses) on securities	(304)	-	(304)
Total other comprehensive income	4,111	11	4,122
Comprehensive income	15,066	230	15,296
Dividends	(7,572)	(79)	(7,651)
June 30, 2017	¥ 801,197	¥ 8,655	¥ 809,852

Net income attributable to TDK and transfers (to) from noncontrolling interests for the three-month ended June 30, 2016 and June 30, 2017 are as follows:

	Yen (Millions)	
	Three-month ended	
	June 30,	
	2016	2017
Net income attributable to TDK	¥ 12,401	¥ 10,955
Increase in TDK's additional paid-in capital for purchase of Tronics Microsystems SA's common shares from third parties	-	0
Decrease in TDK's additional paid-in capital for purchase of Micronas Semiconductor Holding AG's common shares from third parties	(5)	-
Net transfers (to) from noncontrolling interests	(5)	0
Changes arising from net income attributable to TDK and transfers (to) from noncontrolling interests	¥ 12,396	¥ 10,955

11. Other Comprehensive Income (Loss)

The changes in the carrying amount of accumulated other comprehensive income (loss) for the three-month ended June 30, 2016 and June 30, 2017 are as follows:

	Yen (Millions)			
	Foreign currency translation adjustments	Pension liability adjustments	Net unrealized gains (losses) on securities	Total
March 31, 2016	¥ (21,309)	¥ (84,885)	¥ 3,909	¥ (102,285)
Equity transaction of consolidated subsidiaries and other	(1)	-	-	(1)
Other comprehensive income (loss) before reclassifications	(81,251)	(149)	(1,446)	(82,846)
Amounts reclassified from accumulated other comprehensive income (loss)	-	1,084	(29)	1,055
Other comprehensive income (loss)	(81,251)	935	(1,475)	(81,791)
Other comprehensive income (loss) attributable to noncontrolling interests	(834)	0	-	(834)
June 30, 2016	¥ (101,727)	¥ (83,950)	¥ 2,434	¥ (183,243)

	Yen (Millions)			
	Foreign currency translation adjustments	Pension liability adjustments	Net unrealized gains (losses) on securities	Total
March 31, 2017	¥ (40,789)	¥ (71,421)	¥ 3,635	¥ (108,575)
Equity transaction of consolidated subsidiaries and other	-	-	-	-
Other comprehensive income (loss) before reclassifications	3,436	29	(303)	3,162
Amounts reclassified from accumulated other comprehensive income (loss)	-	961	(1)	960
Other comprehensive income (loss)	3,436	990	(304)	4,122
Other comprehensive income (loss) attributable to noncontrolling interests	11	0	-	11
June 30, 2017	¥ (37,364)	¥ (70,431)	¥ 3,331	¥ (104,464)

The reclassifications out of accumulated other comprehensive income (loss) for the three-month ended June 30, 2016 and June 30, 2017 are as follows:

For the three-month ended June 30,	Amount reclassified from accumulated other comprehensive income (loss) *1		Affected line items in consolidated statements of income
	2016	2017	
Pension liability adjustments:	¥ (1,190)	¥ (1,076)	*2
	106	115	Tax (expense) or benefit
	<u>(1,084)</u>	<u>(961)</u>	Net of tax
Net unrealized gains (losses) on securities:	29	1	Others
	-	-	Tax (expense) or benefit
	<u>29</u>	<u>1</u>	Net of tax
Total amount reclassified, net of tax	<u>¥ (1,055)</u>	<u>¥ (960)</u>	

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

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

Tax effects allocated to each component of other comprehensive income (loss) and reclassification adjustments for the three-month ended June 30, 2016 and June 30, 2017 are as follows:

For the three-month ended June 30, 2016	Yen (Millions)		
	Before tax Amount	Tax (expense) or benefit	Net-of-tax Amount
Foreign currency translation adjustments:			
Amount arising during the period from investments in foreign entities	¥ (81,299)	¥ 48	¥ (81,251)
Net foreign currency translation adjustments	(81,299)	48	(81,251)
Pension liability adjustments:			
Amount arising during the period	(152)	3	(149)
Reclassification adjustments for amortization	1,190	(106)	1,084
Net pension liability adjustments	1,038	(103)	935
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the period	(2,094)	648	(1,446)
Reclassification adjustment	(29)	-	(29)
Net unrealized gains (losses)	(2,123)	648	(1,475)
Other comprehensive income (loss)	¥ (82,384)	¥ 593	¥ (81,791)

For the three-month ended June 30, 2017	Yen (Millions)		
	Before tax Amount	Tax (expense) or benefit	Net-of-tax Amount
Foreign currency translation adjustments:			
Amount arising during the period from investments in foreign entities	¥ 2,135	¥ 1,301	¥ 3,436
Net foreign currency translation adjustments	2,135	1,301	3,436
Pension liability adjustments:			
Amount arising during the period	29	(0)	29
Reclassification adjustments for amortization	1,076	(115)	961
Net pension liability adjustments	1,105	(115)	990
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the period	(440)	137	(303)
Reclassification adjustment	(1)	-	(1)
Net unrealized gains (losses)	(441)	137	(304)
Other comprehensive income (loss)	¥ 2,799	¥ 1,323	¥ 4,122

12. Net Income Attributable to TDK per Share

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

	Yen (Millions)			
	Three-month ended June 30, 2016		Three-month ended June 30, 2017	
	Basic	Diluted	Basic	Diluted
Net income attributable to TDK	¥ 12,401	¥ 12,220	¥ 10,955	¥ 10,955
	Number of shares (Thousands)			
Weighted average common shares outstanding	126,128	126,128	126,203	126,203
Incremental shares arising from the exercise of stock option	-	259	-	285
Weighted average common shares outstanding – Total	126,128	126,387	126,203	126,488
	Yen			
Per common share:				
Net income attributable to TDK	¥ 98.32	¥ 96.69	¥ 86.80	¥ 86.61

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

For the three-month ended June 30, 2016 and June 30, 2017, certain stock options issued by TDK Corporation were excluded from the diluted per share calculation of net income attributable to TDK as the effect would have been antidilutive. The stock options issued by a subsidiary that are vested when a certain performance condition is achieved were also excluded from the diluted per share calculation of net income attributable to TDK for the three-month ended June 30, 2016 as it was not probable that the performance condition would be achieved as of June 30, 2016.

13. Acquisition

(1) Hutchinson Technology Incorporated (“HTI”)

On October 5, 2016 (“acquisition date”), TDK acquired 33,942 thousand shares (100% of equity interest) of HTI at a cost of ¥14,262 million, which was paid in cash, 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 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 provisional fair values of the assets acquired and liabilities assumed at the acquisition date. As of March 31, 2017, the allocation of the acquisition cost had been completed.

	Yen (millions)
	Fair values
Current assets	8,502
Net property, plant and equipment	10,925
Intangible assets	2,807
Investments in securities and Other assets	4,247
Total assets	26,481
Current liabilities	17,520
Noncurrent liabilities	508
Total liabilities	18,028
Net assets acquired	8,453
Goodwill	5,809
Total	14,262

Other intangible assets acquired mainly include technologies of ¥1,409 million, which are subject to amortization. TDK had estimated the amortization period for technologies to be 3 years. Goodwill recognized of ¥5,809 million 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 three-month ended June 30, 2016 as though the acquisition had occurred at the beginning of the year ended March 31, 2017 were not material either.

(2) Tronics Microsystems SA (“Tronics”)

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

The acquisition-related costs of ¥94 million were recognized as a part of selling, general and administrative expenses. The fair value of noncontrolling interests was measured based on the market price of the common shares of Tronics as of the acquisition date. As of August 10, 2017, the date on which the consolidated financial statements were issued, the allocation of the acquisition cost had not been completed yet.

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

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

As of June 30, 2017, TDK held 2,752 thousand shares (74.7% of equity interest) of Tronics at a cost of ¥4,439 million, which was paid in cash.

Although TDK included the results of operations of Tronics and its subsidiaries subsequent to the acquisition date in its consolidated financial statements, the results were not material. The effect of the acquisition to net sales and net income attributable to TDK for the three-month ended June 30, 2016 as though the acquisition had occurred at the beginning of the year ended March 31, 2017 were not material either.

(3) ICsense NV (“ICsense”)

On March 22, 2017 (“acquisition date”), TDK acquired 17 thousand shares (100% of equity interest) of ICsense at a cost of ¥2,396 million, which was paid in cash, in accordance with a share acquisition agreement. As a result, ICsense became a consolidated subsidiary of TDK Corporation.

The acquisition-related costs of ¥25 million 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 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 three month ended June 30, 2016 as though the acquisition had occurred at the beginning of the year ended March 31, 2017 were not material either.

(4) InvenSense, Inc. (“InvenSense”)

On May 18, 2017 (“acquisition date”), TDK acquired 96,253 thousand shares (100% of equity interest) of InvenSense at a cost of ¥142,758 million, which was paid in cash, in accordance with an acquisition agreement dated December 21, 2016. As a result, InvenSense and its subsidiaries became consolidated subsidiaries of TDK Corporation.

The acquisition-related costs of ¥1,104 million were recognized as a part of selling, general and administrative expenses.

InvenSense is headquartered in San Jose, California, U.S.A., and its primary businesses are development, fabless-manufacture and sales of inertial sensors, acceleration sensors, angular velocity sensors, magnetic compasses, voice sensors etc. and control software.

Through the acquisition of InvenSense, TDK will be able to strengthen its product line-ups and technologies, which is expected to enable TDK 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 added value for customers across multiple fields.

The following table summarizes the provisional fair values of the assets acquired and liabilities assumed at the acquisition date. As of August 10, 2017, the date on which the consolidated financial statements were issued, the allocation of the acquisition cost had not been completed yet.

	Yen (millions)
	<u>Fair values</u>
Current assets	37,295
Net property, plant and equipment	3,628
Intangible assets	4,372
Investments in securities and Other assets	577
Total assets	<u>45,872</u>
Current liabilities	27,686
Noncurrent liabilities	2,402
Total liabilities	<u>30,088</u>
Net assets acquired	<u>15,784</u>
Goodwill	126,974
Total	<u>142,758</u>

Goodwill of ¥126,974 million was recognized primarily because the acquisition cost exceeded the tentative net assets acquired as of acquisition date. The goodwill is not deductible for tax purpose.

Although TDK included the results of operations of InvenSense 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 three-month ended June 30, 2016 and 2017 as though the acquisition had occurred at the beginning of the year ended March 31, 2017 were not material either.

14. 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% 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% 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%) 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, realized or realizable portion of which is recognized in other operating expense (income) of consolidated statement of income for the three month ended June 30, 2017. The remaining common shares (49%) of RF360 Holdings is recognized in consolidated balance sheet as investments in affiliates.

15. 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 Sensor Application Products segment, the Magnetic Application Products segment and the Film Application Products segment. Operating segments which are not reportable segments are included in Other.

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

Furthermore, in accordance with the reorganization for the three month ended June 30, 2017, certain products of Other were reclassified into the Passive Components segment and certain products of the Magnetic Application Products segment were reclassified into Other.

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

Principal businesses of each segment are as follows:

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

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

The business segment information for the three-month ended June 30, 2016 and June 30, 2017 are as follows:

Net sales

	Yen (Millions)	
	Three-month ended June 30,	
	2016	2017
Passive Components:		
External customers	¥ 132,661	¥ 103,512
Intersegment	807	855
	<u>133,468</u>	<u>104,367</u>
Sensor Application Products:		
External customers	10,445	16,393
Intersegment	12	48
	<u>10,457</u>	<u>16,441</u>
Magnetic Application Products:		
External customers	77,300	80,043
Intersegment	23	71
	<u>77,323</u>	<u>80,114</u>
Film Application Products:		
External customers	51,812	76,699
Intersegment	-	-
	<u>51,812</u>	<u>76,699</u>
Other:		
External customers	6,551	9,879
Intersegment	6,820	7,498
	<u>13,371</u>	<u>17,377</u>
Intersegment eliminations	(7,662)	(8,472)
Total	<u>¥ 278,769</u>	<u>¥ 289,526</u>

Segment profit (loss)

	Yen (Millions)	
	Three-month ended June 30,	
	2016	2017
Passive Components	¥ 14,781	¥ 10,238
Sensor Application Products	(961)	(4,574)
Magnetic Application Products	4,090	4,838
Film Application Products	7,062	12,693
Other	(1,532)	328
	<u>23,440</u>	<u>23,523</u>
Corporate and eliminations	(6,938)	(7,885)
Operating income	16,502	15,638
Other income (deductions), net	(120)	1,298
Income before income taxes	<u>¥ 16,382</u>	<u>¥ 16,936</u>

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

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

Geographic Segment Information

The geographic segment information for the three-month ended June 30, 2016 and June 30, 2017 are as follows:

Net sales

	Yen (Millions)	
	Three-month ended June 30,	
	2016	2017
Japan	¥ 24,136	¥ 28,533
Americas	27,176	24,249
Europe	37,261	37,584
China	139,095	146,442
Asia and others	51,101	52,718
Total	¥ 278,769	¥ 289,526

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, Vietnam, Philippines, Korea