



**Consolidated Financial Statements**  
**for the nine-month ended and as of December 31, 2017 (in English)**

On February 14, 2018, the Japanese version of this report was filed with the Director-General of the Kanto Local Finance Bureau of the Ministry of Finance pursuant to Japan's Financial Instruments and Exchange Act.

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

**[Cover]**

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Company name (Japanese):	<i>TDK Kabushiki-Kaisha</i>
Company name (English):	TDK CORPORATION
Title and name of representative:	Shigenao Ishiguro, President & 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. (2-1, Nihonbashi-kabutocho, Chuo-ku, Tokyo, Japan)

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## 1) Consolidated balance sheets (Unaudited)

ASSETS	Yen (Millions)	
	March 31, 2017	December 31, 2017
<b>Current assets:</b>		
Cash and cash equivalents	¥ 330,388	¥ 279,410
Short-term investments	56,131	37,036
Marketable securities (Note 2)	-	808
Net trade receivables	254,909	342,986
Inventories (Note 3)	154,499	211,364
Other current assets	70,209	80,872
<b>Total current assets</b>	<b>866,136</b>	<b>952,476</b>
<b>Investments in affiliates (Note 2)</b>	<b>149,057</b>	<b>149,671</b>
<b>Other investments in securities (Note 2)</b>	<b>12,768</b>	<b>11,837</b>
<b>Net property, plant and equipment</b>	<b>464,667</b>	<b>538,720</b>
<b>Goodwill (Note 9)</b>	<b>61,031</b>	<b>163,904</b>
<b>Intangible assets (Note 9)</b>	<b>51,821</b>	<b>87,447</b>
<b>Other assets (Note 16)</b>	<b>58,853</b>	<b>59,630</b>
<b>Total assets</b>	<b>¥ 1,664,333</b>	<b>¥ 1,963,685</b>

*See accompanying notes to consolidated financial statements.*

LIABILITIES AND EQUITY	Yen (Millions)	
	March 31, 2017	December 31, 2017
<b>Current liabilities:</b>		
Short-term debt	¥ 77,680	¥ 109,298
Current installments of long-term debt	42,517	62,287
Trade payables	176,644	236,531
Accrued expenses	148,609	154,614
Other current liabilities	32,144	30,109
<b>Total current liabilities</b>	<b>477,594</b>	<b>592,839</b>
<b>Long-term debt, excluding current installments</b>	<b>213,935</b>	<b>321,349</b>
<b>Retirement and severance benefits</b>	<b>125,202</b>	<b>127,911</b>
<b>Other noncurrent liabilities (Note 16)</b>	<b>45,484</b>	<b>51,245</b>
<b>Total noncurrent liabilities</b>	<b>384,621</b>	<b>500,505</b>
<b>Total liabilities</b>	<b>862,215</b>	<b>1,093,344</b>
<b>TDK stockholders' equity:</b>		
Common stock		
Authorized 480,000,000 shares; issued 129,590,659 shares at March 31, 2017 and December 31, 2017 outstanding 126,199,815 shares at March 31, 2017 and 126,229,408 shares at December 31, 2017	32,641	32,641
Additional paid-in capital	15,349	8,726
Legal reserve	37,727	45,312
Retained earnings	833,884	863,423
Accumulated other comprehensive income (loss) (Notes 10 and 11)	(108,575)	(69,390)
Treasury stock at cost; 3,390,844 shares at March 31, 2017 and 3,361,251 shares at December 31, 2017	(17,412)	(17,262)
<b>Total TDK stockholders' equity</b>	<b>793,614</b>	<b>863,450</b>
<b>Noncontrolling interests (Notes 10 and 11)</b>	<b>8,504</b>	<b>6,891</b>
<b>Total equity</b>	<b>802,118</b>	<b>870,341</b>
<b>Total liabilities and equity</b>	<b>¥ 1,664,333</b>	<b>¥ 1,963,685</b>

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

For the Nine-month ended December 31, 2016 and 2017

**Consolidated statements of income**

	Yen (Millions)	
	Nine-month ended December 31, 2016	<b>Nine-month ended December 31, 2017</b>
Net sales	¥ 903,953	¥ 964,697
Cost of sales	649,461	<b>699,990</b>
<b>Gross profit</b>	<b>254,492</b>	<b>264,707</b>
Selling, general and administrative expenses	174,577	<b>193,204</b>
Other operating expense (income) (Note 1)	3,088	<b>(3,211)</b>
<b>Operating income</b>	<b>76,827</b>	<b>74,714</b>
<b>Other income (deductions):</b>		
Interest and dividend income	2,842	<b>4,585</b>
Interest expense	(2,551)	<b>(3,339)</b>
Foreign exchange gain (loss)	(1,422)	<b>(453)</b>
Other - net	733	<b>2,219</b>
<b>Total other income (deductions)</b>	<b>(398)</b>	<b>3,012</b>
<b>Income before income taxes</b>	<b>76,429</b>	<b>77,726</b>
<b>Income taxes (Note 16)</b>	<b>18,602</b>	<b>24,908</b>
<b>Net income</b>	<b>57,827</b>	<b>52,818</b>
<b>Less: Net income attributable to noncontrolling interests</b>	<b>738</b>	<b>549</b>
<b>Net income attributable to TDK</b>	<b>¥ 57,089</b>	<b>¥ 52,269</b>

**Amounts per share:**

	Yen	
	Nine-month ended December 31, 2016	<b>Nine-month ended December 31, 2017</b>
Net income attributable to TDK per share (Note 12):		
Basic	¥ 452.53	¥ 414.12
Diluted	443.82	<b>413.06</b>
Cash dividends paid during the period	¥ 120.00	<b>¥ 120.00</b>

**Consolidated statements of comprehensive income**

	Yen (Millions)	
	Nine-month ended December 31, 2016	<b>Nine-month ended December 31, 2017</b>
Net income	¥ 57,827	¥ 52,818
Other comprehensive income (loss), net of taxes (Note 11):		
Foreign currencies translation adjustments	5,873	<b>36,047</b>
Pension liability adjustments	3,098	<b>2,947</b>
Net unrealized gains (losses) on securities	(199)	<b>246</b>
<b>Total other comprehensive income (loss)</b>	<b>8,772</b>	<b>39,240</b>
<b>Comprehensive income (Note 10)</b>	<b>66,599</b>	<b>92,058</b>
<b>Comprehensive income attributable to noncontrolling interests</b>	<b>1,344</b>	<b>677</b>
<b>Comprehensive income attributable to TDK</b>	<b>¥ 65,255</b>	<b>¥ 91,381</b>

*See accompanying notes to consolidated financial statements.*

For the Three-month ended December 31, 2016 and 2017  
Consolidated statements of income

	Yen (Millions)	
	Three-month ended December 31, 2016	Three-month ended December 31, 2017
Net sales	¥ 324,772	¥ 341,126
Cost of sales	229,217	243,544
<b>Gross profit</b>	<b>95,555</b>	<b>97,582</b>
Selling, general and administrative expenses	62,070	65,438
Other operating expense (income) (Note 1)	971	(301)
<b>Operating income</b>	<b>32,514</b>	<b>32,445</b>
<b>Other income (deductions):</b>		
Interest and dividend income	956	1,583
Interest expense	(968)	(1,163)
Foreign exchange gain (loss)	(41)	(166)
Other - net	(358)	773
<b>Total other income (deductions)</b>	<b>(411)</b>	<b>1,027</b>
<b>Income before income taxes</b>	<b>32,103</b>	<b>33,472</b>
Income taxes (Note 16)	7,325	11,701
<b>Net income</b>	<b>24,778</b>	<b>21,771</b>
Less: Net income attributable to noncontrolling interests	363	191
<b>Net income attributable to TDK</b>	<b>¥ 24,415</b>	<b>¥ 21,580</b>

Amounts per share:

	Yen	
	Three-month ended December 31, 2016	Three-month ended December 31, 2017
Net income attributable to TDK per share (Note 12):		
Basic	¥ 193.52	¥ 170.96
Diluted	189.56	170.51
Cash dividends paid during the period	¥ 60.00	¥ 60.00

Consolidated statements of comprehensive income

	Yen (Millions)	
	Three-month ended December 31, 2016	Three-month ended December 31, 2017
Net income	¥ 24,778	¥ 21,771
Other comprehensive income (loss), net of taxes (Note 11):		
Foreign currencies translation adjustments	101,133	21,667
Pension liability adjustments	1,082	991
Net unrealized gains (losses) on securities	627	493
Total other comprehensive income (loss)	102,842	23,151
Comprehensive income (Note 10)	127,620	44,922
Comprehensive income attributable to noncontrolling interests	1,901	273
<b>Comprehensive income attributable to TDK</b>	<b>¥ 125,719</b>	<b>¥ 44,649</b>

See accompanying notes to consolidated financial statements.

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

	Yen (Millions)	
	Nine-month ended December 31, 2016	Nine-month ended December 31, 2017
<b>Cash flows from operating activities:</b>		
Net income	¥ 57,827	¥ 52,818
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	64,484	67,197
Changes in assets and liabilities:		
Decrease (increase) in trade receivables	(78,698)	(74,430)
Decrease (increase) in inventories	(13,620)	(42,973)
Increase (decrease) in trade payables	71,782	50,669
Increase (decrease) in accrued expenses	3,007	(201)
Decrease (increase) in other assets and liabilities, net	6,189	(23,724)
Other - net	4,393	1,619
Net cash provided by operating activities	115,364	30,975
<b>Cash flows from investing activities:</b>		
Capital expenditures	(134,504)	(132,964)
Proceeds from sales of tangible and intangible assets	7,516	8,082
Proceeds from sale and maturity of short-term investments	28,417	143,768
Payment for purchase of short-term investments	(24,296)	(123,442)
Proceeds from sale and maturity of securities	375	24,117
Payment for purchase of securities	(750)	(947)
Proceeds from sale of business	-	18,047
Acquisition of subsidiaries, net of cash acquired	(14,357)	(138,847)
Other - net	(246)	(1,474)
Net cash used in investing activities	(137,845)	(203,660)
<b>Cash flows from financing activities:</b>		
Proceeds from long-term debt	119,275	146,924
Repayment of long-term debt	(50,176)	(43,384)
Increase (decrease) in short-term debt, net	(2,179)	33,483
Dividends paid	(15,114)	(15,119)
Acquisition of noncontrolling interests	(8,812)	(8,796)
Other - net	71	(133)
Net cash provided by financing activities	43,065	112,975
Effect of exchange rate changes on cash and cash equivalents	4,606	8,732
Cash and cash equivalents included in assets held for sale (Note 14)	(16,747)	-
Net increase (decrease) in cash and cash equivalents	8,443	(50,978)
Cash and cash equivalents at beginning of period	285,468	330,388
Cash and cash equivalents at end of period	¥ 293,911	¥ 279,410

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 impacts on TDK's results of operations and financial position for the nine-month and the three-month ended December 31, 2017.

#### (d) Other operating expense (income)

Other operating expense (income) for the nine-month ended December 31, 2016 and 2017 are as follows:

	Yen (Millions)	
	Nine-month ended December 31, 2016	Nine-month ended December 31, 2017
Gain on sale of business (Note 14)	¥ 2,129	¥ (4,184)
Impairment of long-lived assets	959	973
Other operating expense (income) total	¥ 3,088	¥ (3,211)

Other operating expense (income) for the three-month ended December 31, 2016 and 2017 are as follows:

	Yen (Millions)	
	Three-month ended December 31, 2016	<b>Three-month ended December 31, 2017</b>
Gain on sale of business (Note 14)	¥ 858	¥ (1,249)
Impairment of long-lived assets	113	<b>948</b>
Other operating expense (income) total	¥ 971	<b>¥ (301)</b>

**(e) Subsequent Events**

TDK has evaluated the subsequent events through February 13, 2018, 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 nine-month and the three-month ended December 31, 2017.

## 2. Marketable Securities and Investments in Securities

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

	Yen (Millions)	
	March 31, 2017	December 31, 2017
Marketable securities	¥ -	¥ 808
Investments in affiliates	149,057	149,671
Other investments in securities:		
Long-term marketable securities	10,118	10,714
Nonmarketable securities	2,650	1,123
Total other investments in securities	12,768	11,837
<b>Total</b>	<b>¥ 161,825</b>	<b>¥ 162,316</b>

Marketable securities and investments in securities include available-for-sale securities. Information with respect to such securities as of March 31, 2017 and December 31, 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
<b>Total</b>	<b>¥ 4,827</b>	<b>¥ 5,408</b>	<b>¥ 117</b>	<b>¥ 10,118</b>

As of December 31, 2017	Yen (Millions)			Fair Value
	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	
Marketable securities (Debt securities):				
Commercial papers	¥ 305	¥ -	¥ 0	¥ 305
Corporate bonds	446	-	0	446
Government bonds	57	-	0	57
Investments (Debt securities):				
Commercial papers	19	101	-	120
Public-utility bonds	0	-	-	0
Investments (Equity securities):				
Manufacturing companies	2,739	4,000	54	6,685
Other	1,147	1,473	-	2,620
Investments (Mutual funds)	1,188	102	1	1,289
<b>Total</b>	<b>¥ 5,901</b>	<b>¥ 5,676</b>	<b>¥ 55</b>	<b>¥ 11,522</b>

The proceeds from sale and maturity of available-for-sale securities and nonmarketable securities were ¥375 million and ¥289 million for the nine-month and the three-month ended December 31, 2016, respectively. The proceeds from sale and maturity of available-for-sale securities and nonmarketable securities were ¥24,117 million and ¥438 million for the nine-month and the three-month ended December 31, 2017, respectively. The gross realized gains on the sale and settlement of available-for-sale securities was ¥74 million and ¥43 million for the nine-month and the three-month ended December 31, 2016, respectively. The gross realized gains on the sale and settlement of available-for-sale securities was ¥570

million and ¥11 million for the nine-month ended December 31, 2017, respectively. The gross realized loss on the sale and settlement of available-for-sale securities was ¥275 million for the nine-month ended December 31, 2017. The costs of available-for-sale securities sold were determined on average cost basis.

As of December 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, 2017 and December 31, 2017 totaled ¥2,650 million and ¥1,123 million, respectively.

### 3. Inventories

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

	Yen (Millions)	
	March 31, 2017	December 31, 2017
Finished goods	¥ 62,278	¥ 79,777
Work in process	38,582	49,565
Raw materials	53,639	82,022
Total	¥ 154,499	¥ 211,364

### 4. Cost for Retirement and Severance Benefits

Net periodic benefit cost for TDK's employee retirement and severance defined benefit plans for the nine-month ended December 31, 2016 and 2017 consist of the following components:

	Yen (Millions)	
	Nine-month ended December 31, 2016	Nine-month ended December 31, 2017
Service cost-benefits earned during the period	¥ 6,552	¥ 6,157
Interest cost on projected benefit obligation	2,743	2,806
Expected return on plan assets	(3,239)	(3,100)
Amortization of actuarial loss	4,992	4,299
Amortization of prior service cost (benefit)	(1,450)	(1,048)
Net periodic benefit cost	¥ 9,598	¥ 9,114

Net periodic benefit cost for TDK's employee retirement and severance defined benefit plans for the three-month ended December 31, 2016 and 2017 consist of the following components:

	Yen (Millions)	
	Three-month ended December 31, 2016	Three-month ended December 31, 2017
Service cost-benefits earned during the period	¥ 2,177	¥ 2,071
Interest cost on projected benefit obligation	943	948
Expected return on plan assets	(1,092)	(1,037)
Amortization of actuarial loss	1,655	1,452
Amortization of prior service cost (benefit)	(480)	(351)
Net periodic benefit cost	¥ 3,203	¥ 3,083

## 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 December 31, 2017, are as follows:

	Yen (Millions)	
	March 31, 2017	December 31, 2017
Guarantees to third parties on bank loans of employees	¥ 956	¥ 797

As of December 31, 2017, the liability recognized for the estimated fair value of TDK's obligation under the guarantee arrangement is not material.

On July 26, 2016, Japan Fair Trade Commission started an investigation on TDK Corporation based on the suspicion of the violation of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade in connection with the HDD suspension assembly business and TDK Corporation fully cooperated with Japan Fair Trade Commission for the investigation. On February 9, 2018, Japan Fair Trade Commission issued the cease and desist order and the surcharge payment order against manufacturers and sellers of the products in relation to the violation of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade in connection with the HDD suspension assembly business. An exemption from surcharge was admitted and TDK Corporation did not received the cease and desist order because of an application in advance to Japan Fair Trade Commission for leniency.

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 nine-month ended December 31, 2016 and 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)	
	Nine-month ended December 31, 2016	<b>Nine-month ended December 31, 2017</b>
Forward foreign exchange contracts	¥ -	¥ (1,126)
Borrowings in local currency	-	258
Total	¥ -	¥ (868)

(2) Derivatives not designated as hedging instruments

		Yen (Millions)	
		Nine-month ended December 31, 2016	<b>Nine-month ended December 31, 2017</b>
Forward foreign exchange contracts	Foreign exchange gain (loss)	¥ (583)	¥ 4,269
Nondeliverable forward contracts (NDF)	Foreign exchange gain (loss)	(49)	(655)
Currency swap contracts	Foreign exchange gain (loss)	4,222	26
Interest rate swap contracts	Other income (deductions): Other-net	-	101
Currency option contracts	Foreign exchange gain (loss)	(227)	(54)
Commodity forward contracts	Cost of sales	191	36
Total		¥ 3,554	¥ 3,723

The effect of derivative financial instruments on the consolidated statements of income and consolidated statements of comprehensive income (loss) for the three-month ended December 31, 2016 and 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 December 31, 2016	Three-month ended December 31, 2017
Forward foreign exchange contracts	¥ -	¥ (185)
Borrowings in local currency	-	(162)
Total	¥ -	¥ (347)

(2) Derivatives not designated as hedging instruments

		Yen (Millions)	
		Three-month ended December 31, 2016	Three-month ended December 31, 2017
Forward foreign exchange contracts	Foreign exchange gain (loss)	¥ 1,740	¥ 619
Nondeliverable forward contracts (NDF)	Foreign exchange gain (loss)	(493)	(132)
Currency swap contracts	Foreign exchange gain (loss)	3,924	49
Interest rate swap contracts	Other income (deductions): Other-net	-	200
Currency option contracts	Foreign exchange gain (loss)	(256)	4
Commodity forward contracts	Cost of sales	30	15
Total		¥ 4,945	¥ 755

Notional amounts and fair value of derivative financial instruments as of March 31, 2017 and December 31, 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 item	Fair value	Consolidated balance sheets item
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 item	Fair value	Consolidated balance sheets item
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)					
December 31, 2017					
Derivatives designated as hedging instruments and other:					
	Notional amounts	Asset derivatives		Liability derivatives	
		Fair value	Consolidated balance sheets item	Fair value	Consolidated balance sheets item
Forward foreign exchange contracts	¥ 142,017	¥ 7,603	Other current assets	¥ 331	Other current liabilities
Borrowings in local currency	67,800	-	-	-	-
Derivatives not designated as hedging instruments:					
	Notional amounts	Asset derivatives		Liability derivatives	
		Fair value	Consolidated balance sheets item	Fair value	Consolidated balance sheets item
Forward foreign exchange contracts	¥ 87,010	¥ 3,005	Other current assets	¥ 135	Other current liabilities
Currency swap contracts	21,419	154 1,412	Other current assets Other assets	12 51	Other current liabilities Other liabilities
Interest rate swap contracts	33,900	101	Other assets	-	-
Commodity forward contracts	80	23	Other current assets	1	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 December 31, 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 obligations)	(250,969)	(250,289)
As of December 31, 2017	Yen (Millions)	
	Carrying amount	Estimated fair value
Assets:		
Marketable securities	¥ 808	¥ 808
Other investments in securities and other assets	26,145	26,145
Liability:		
Long-term debt, including current portion (excluding lease obligations)	(377,793)	(376,476)

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 December 31, 2017 are as follows:

As of March 31, 2017	Yen (Millions)			Total
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
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
<b>Liabilities:</b>				
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 December 31, 2017	Yen (Millions)			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Marketable securities (Debt securities):				
Government bonds	¥ 57	¥ -	¥ -	¥ 57
Commercial papers	-	305	-	305
Corporate bonds	-	446	-	446
Derivative contracts:				
Forward foreign exchange contracts	-	10,608	-	10,608
Currency swap contracts	-	1,566	-	1,566
Interest rate swap contracts	-	101	-	101
Commodity forward contracts	-	23	-	23
Investments (Debt securities):				
Commercial papers	-	120	-	120
Public-utility bonds	0	-	-	0
Investments (Equity securities):				
Manufacturing companies	6,685	-	-	6,685
Other	2,620	-	-	2,620
Investments (Mutual funds)	1,289	-	-	1,289
Rabbi trust investments	6,429	-	-	6,429
Total	¥ 17,080	¥ 13,169	¥ -	¥ 30,249
<b>Liabilities:</b>				
Derivative contracts:				
Forward foreign exchange contracts	¥ -	¥ 466	¥ -	¥ 466
Currency swap contracts	-	63	-	63
Commodity forward contracts	-	1	-	1
Total	¥ -	¥ 530	¥ -	¥ 530

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 December 31, 2017 are as follows:

As of March 31, 2017	Yen (Millions)		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<b>Amortizable intangible assets:</b>			
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
<b>Total</b>	<b>¥ 106,867</b>	<b>¥ 59,513</b>	<b>¥ 47,354</b>
<b>Nonamortizable intangible assets:</b>			
Trademark	¥ 3,087		¥ 3,087
Other	1,380		1,380
<b>Total</b>	<b>¥ 4,467</b>		<b>¥ 4,467</b>
<b>As of December 31, 2017</b>	Yen (Millions)		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<b>Amortizable intangible assets:</b>			
Patent	¥ 22,980	¥ 8,504	¥ 14,476
Customer relationships	24,815	19,249	5,566
Software	34,954	15,387	19,567
Unpatented technologies	55,571	21,813	33,758
Other	11,779	2,931	8,848
<b>Total</b>	<b>¥ 150,099</b>	<b>¥ 67,884</b>	<b>¥ 82,215</b>
<b>Nonamortizable intangible assets:</b>			
Trademark	¥ 4,311		¥ 4,311
Other	921		921
<b>Total</b>	<b>¥ 5,232</b>		<b>¥ 5,232</b>

Intangible assets subject to amortization are amortized using the straight-line method over their estimated useful lives to their estimated residual value of zero. Aggregate amortization expense for the nine-month ended December 31, 2017 was ¥8,014 million.

As a result of the completion of the allocation of the acquisition cost of Tronics Microsystems SA and its subsidiaries during the nine-month ended December 31, 2017, the carrying amount of goodwill related to the Sensor Application Products segment was modified to ¥2,537 million and the modified amounts for customer relationships, unpatented technologies and other amortizable intangible assets were ¥663 million, ¥1,303 million and ¥150 million respectively.

As a result of the completion of the allocation of the acquisition cost of ICsense NV during the nine-month ended December 31, 2017, the carrying amount of goodwill related to the Sensor Application Products segment was modified to ¥1,515 million and the modified amounts for customer relationships and software were ¥503 million and ¥52 million respectively.

The purchase price allocation in relation to the acquisition of InvenSense, Inc. and its subsidiaries was performed based on the available information as of the date on which the consolidated financial statements were issued. The goodwill related to the Sensor Application Products segment was provisionally stated at ¥100,567 million and customer relationships, software, unpatented technologies, other amortizable intangible assets and trademark were provisionally stated at ¥1,303 million, ¥162 million, ¥27,509 million, ¥173 million and ¥856 million respectively as of December 31, 2017. The amounts were still provisional as the purchase price allocation had not been completed as of December 31, 2017.

The details of the acquisitions are disclosed 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 nine-month ended December 31, 2016 and 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	(5,592)	(2,277)	(7,869)
Comprehensive income:			
Net income	57,089	738	57,827
Other comprehensive income (loss), net of taxes:			
Foreign currency translation adjustments	5,267	606	5,873
Pension liability adjustments	3,098	0	3,098
Net unrealized gains (losses) on securities	(199)	-	(199)
Total other comprehensive income (loss)	8,166	606	8,772
Comprehensive income	65,255	1,344	66,599
Dividends	(15,137)	(76)	(15,213)
December 31, 2016	¥ 719,887	¥ 8,263	¥ 728,150

	Yen (Millions)		
	Stockholders' equity	Noncontrolling Interests	Total equity
<b>March 31, 2017</b>	<b>¥ 793,614</b>	<b>¥ 8,504</b>	<b>¥ 802,118</b>
Equity transaction of consolidated subsidiaries and other	(6,400)	(1,977)	(8,377)
Comprehensive income:			
Net income	52,269	549	52,818
Other comprehensive income (loss), net of taxes:			
Foreign currency translation adjustments	35,919	128	36,047
Pension liability adjustments	2,947	0	2,947
Net unrealized gains (losses) on securities	246	-	246
Total other comprehensive income	39,112	128	39,240
Comprehensive income	91,381	677	92,058
Dividends	(15,145)	(313)	(15,458)
<b>December 31, 2017</b>	<b>¥ 863,450</b>	<b>¥ 6,891</b>	<b>¥ 870,341</b>

Net income attributable to TDK and transfers (to) from noncontrolling interests for the nine-month ended December 31, 2016 and 2017 are as follows:

	Yen (Millions)	
	Nine-month ended	
	December 31,	
	2016	2017
Net income attributable to TDK	¥ 57,089	¥ <b>52,269</b>
Decrease in TDK's additional paid-in capital for purchase of Amperex Technology Ltd.'s common shares from third parties	(5,805)	<b>(6,893)</b>
Decrease in TDK's additional paid-in capital for purchase of Micronas Semiconductor Holding AG's common shares from third parties	(53)	-
Increase (decrease) in TDK's additional paid-in capital for purchase of Tronics Microsystems SA's common shares from third parties	(0)	<b>0</b>
Decrease in TDK's additional paid-in capital for purchase of Magnecomp Precision Technology Public Co.,Ltd.'s common shares from third parties	(0)	-
Net transfers (to) from noncontrolling interests	(5,858)	<b>(6,893)</b>
Changes arising from net income attributable to TDK and transfers (to) from noncontrolling interests	¥ 51,231	¥ <b>45,376</b>

## 11. Other Comprehensive Income (Loss)

The changes in the carrying amount of accumulated other comprehensive income (loss) for the nine-month ended December 31, 2016 and 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	(143)	-	-	(143)
Other comprehensive income (loss) before reclassifications	6,623	(149)	(125)	6,349
Amounts reclassified from accumulated other comprehensive income (loss)	(750)	3,247	(74)	2,423
Other comprehensive income (loss)	5,873	3,098	(199)	8,772
Other comprehensive income (loss) attributable to noncontrolling interests	606	0	-	606
December 31, 2016	¥ (16,185)	¥ (81,787)	¥ 3,710	¥ (94,262)

	Yen (Millions)			
	Foreign currency translation adjustments	Pension liability adjustments	Net unrealized gains (losses) on securities	Total
<b>March 31, 2017</b>	<b>¥ (40,789)</b>	<b>¥ (71,421)</b>	<b>¥ 3,635</b>	<b>¥ (108,575)</b>
Equity transaction of consolidated subsidiaries and other	73	-	-	73
Other comprehensive income (loss) before reclassifications	36,047	29	256	36,332
Amounts reclassified from accumulated other comprehensive income (loss)	-	2,918	(10)	2,908
Other comprehensive income (loss)	36,047	2,947	246	39,240
Other comprehensive income (loss) attributable to noncontrolling interests	128	0	-	128
December 31, 2017	¥ (4,797)	¥ (68,474)	¥ 3,881	¥ (69,390)



The reclassifications out of accumulated other comprehensive income (loss) for the nine-month ended December 31, 2016 and 2017 are as follows:

For the nine-month ended December 31,	Yen (Millions)		Affected line items in consolidated statements of income
	Amount reclassified from accumulated other comprehensive income (loss) *1		
	2016	2017	
Foreign currencies translation	¥ 750	¥ -	Selling, general and administrative expenses
	-	-	Tax (expense) or benefit
	<u>750</u>	<u>-</u>	Net of tax
Pension liability adjustments:	(3,535)	<b>(3,260)</b>	*2
	288	<b>342</b>	Tax (expense) or benefit
	<u>(3,247)</u>	<u><b>(2,918)</b></u>	Net of tax
Net unrealized gains (losses) on securities:	74	<b>10</b>	Others
	-	-	Tax (expense) or benefit
	<u>74</u>	<u><b>10</b></u>	Net of tax
Total amount reclassified, net of tax	<u>¥ (2,423)</u>	<u>¥ <b>(2,908)</b></u>	

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

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

The reclassifications out of accumulated other comprehensive income (loss) for the three-month ended December 31, 2016 and 2017 are as follows:

For the three-month ended December 31,	Yen (Millions)		Affected line items in consolidated statements of income
	Amount reclassified from accumulated other comprehensive income (loss) *1		
	2016	2017	
Foreign currencies translation	¥ (1)	¥ -	Selling, general and administrative expenses
	-	-	Tax (expense) or benefit
	(1)	-	Net of tax
Pension liability adjustments:	(1,173)	(1,104)	*2
	91	113	Tax (expense) or benefit
	(1,082)	(991)	Net of tax
Net unrealized gains (losses) on securities:	43	9	Others
	-	-	Tax (expense) or benefit
	43	9	Net of tax
Total amount reclassified, net of tax	¥ (1,040)	¥ (982)	

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

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

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

For the nine-month ended December 31, 2016	Yen (Millions)		
	Before tax Amount	Tax (expense) or benefit	Net-of-tax Amount
Foreign currency translation adjustments:			
Amount arising during the period from investments in foreign entities	¥ 6,694	¥ (71)	¥ 6,623
Reclassification adjustments for the portion of gains and losses realized upon sale or liquidation of investments in foreign entities	(750)	-	(750)
Net foreign currency translation adjustments	5,944	(71)	5,873
Pension liability adjustments:			
Amount arising during the period	(152)	3	(149)
Reclassification adjustments for amortization	3,535	(288)	3,247
Net pension liability adjustments	3,383	(285)	3,098
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the period	(187)	62	(125)
Reclassification adjustment	(74)	-	(74)
Net unrealized gains (losses)	(261)	62	(199)
Other comprehensive income (loss)	¥ 9,066	¥ (294)	¥ 8,772

For the nine-month ended December 31, 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	¥ 34,557	¥ 1,490	¥ 36,047
Net foreign currency translation adjustments	34,557	1,490	36,047
Pension liability adjustments:			
Amount arising during the period	29	(0)	29
Reclassification adjustments for amortization	3,260	(342)	2,918
Net pension liability adjustments	3,289	(342)	2,947
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the period	347	(91)	256
Reclassification adjustment	(10)	-	(10)
Net unrealized gains (losses)	337	(91)	246
Other comprehensive income (loss)	¥ 38,183	¥ 1,057	¥ 39,240

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

For the three-month ended December 31, 2016	Yen (Millions)		
	Before tax Amount	Tax (expense) or benefit	Net-of-tax Amount
Foreign currency translation adjustments:			
Amount arising during the period from investments in foreign entities	¥ 101,294	¥ (162)	¥ 101,132
Reclassification adjustments for the portion of gains and losses realized upon sale or liquidation of investments in foreign entities	1	-	1
Net foreign currency translation adjustments	101,295	(162)	101,133
Pension liability adjustments:			
Amount arising during the period	-	-	-
Reclassification adjustments for amortization	1,173	(91)	1,082
Net pension liability adjustments	1,173	(91)	1,082
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the period	989	(319)	670
Reclassification adjustment	(43)	-	(43)
Net unrealized gains (losses)	946	(319)	627
Other comprehensive income (loss)	¥ 103,414	¥ (572)	¥ 102,842

For the three-month ended December 31, 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	¥ 21,964	¥ (297)	¥ 21,667
Net foreign currency translation adjustments	21,964	(297)	21,667
Pension liability adjustments:			
Amount arising during the period	0	0	0
Reclassification adjustments for amortization	1,104	(113)	991
Net pension liability adjustments	1,104	(113)	991
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the period	721	(219)	502
Reclassification adjustment	(9)	-	(9)
Net unrealized gains (losses)	712	(219)	493
Other comprehensive income (loss)	¥ 23,780	¥ (629)	¥ 23,151

## 12. Net Income Attributable to TDK per Share

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

	Yen (Millions)			
	Nine-month ended December 31, 2016		Nine-month ended December 31, 2017	
	Basic	Diluted	Basic	Diluted
Net income attributable to TDK	¥ 57,089	¥ 56,116	¥ 52,269	¥ 52,269
	Number of shares (Thousands)			
Weighted average common shares outstanding	126,154	126,154	126,218	126,218
Incremental shares arising from the exercise of stock option	-	285	-	323
Weighted average common shares outstanding – Total	126,154	126,439	126,218	126,541
	Yen			
Per common share:				
Net income attributable to TDK	¥ 452.53	¥ 443.82	¥ 414.12	¥ 413.06
	Yen (Millions)			
	Three-month ended December 31, 2016		Three-month ended December 31, 2017	
	Basic	Diluted	Basic	Diluted
Net income attributable to TDK	¥ 24,415	¥ 23,971	¥ 21,580	¥ 21,580
	Number of shares (Thousands)			
Weighted average common shares outstanding	126,165	126,165	126,225	126,225
Incremental shares arising from the exercise of stock option	-	289	-	334
Weighted average common shares outstanding – Total	126,165	126,454	126,225	126,559
	Yen			
Per common share:				
Net income attributable to TDK	¥ 193.52	¥ 189.56	¥ 170.96	¥ 170.51

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

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

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.

The following table summarizes the assets acquired and liabilities assumed at the acquisition date. As of December 31, 2017, the allocation of the acquisition cost had been completed. The fair value of noncontrolling interests was measured based on the market price of the common shares of Tronics as of the acquisition date.

	Yen (millions)
	Fair values
Current assets	1,470
Net property, plant and equipment	780
Intangible assets	2,116
Investments in securities and Other assets	107
Total assets	4,473
Current liabilities	578
Noncurrent liabilities	788
Total liabilities	1,366
Noncontrolling interests	1,537
Net assets acquired	1,570
Goodwill	2,537
Total	4,107

Other intangible assets acquired mainly include technologies of ¥1,303 million, which are subject to amortization. TDK had estimated the amortization period for technologies to be 15 years. Goodwill recognized of ¥2,537 million was attributable primarily to expected synergies from combining operations of Tronics and TDK. The goodwill is not deductible for tax purpose.

As of December 31, 2017, TDK held 2,753 thousand shares (74.7% of equity interest) of Tronics at a cost of ¥4,440 million, which was paid in cash.

Although TDK included the results of operations of Tronics and its subsidiaries subsequent to the acquisition date in its consolidated financial statements, the results were not material. The effect of the acquisition to net sales and net income attributable to TDK for the nine-month ended December 31, 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.

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.

The following table summarizes the assets acquired and liabilities assumed at the acquisition date. As of December 31, 2017, the allocation of the acquisition cost had been completed.

	Yen (millions)
	Fair values
Current assets	666
Net property, plant and equipment	53
Intangible assets	555
Investments in securities and Other assets	48
Total assets	1,322
Current liabilities	254
Noncurrent liabilities	187
Total liabilities	441
Net assets acquired	881
Goodwill	1,515
Total	2,396

Other intangible assets acquired mainly include customer relationship of ¥354 million, which is amortized over ten years. Goodwill recognized of ¥1,515 million was attributable primarily to expected synergies from combining operations of ICsense and TDK. The goodwill is not deductible for tax purpose.

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 nine-month ended December 31, 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 ¥1,263 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 November 13, 2017, the date on which the consolidated financial statements were issued, the allocation of the acquisition cost had not been completed yet.

	Yen (millions)
	Fair values
Current assets	38,048
Net property, plant and equipment	4,154
Intangible assets	30,003
Investments in securities and Other assets	565
Total assets	72,770
Current liabilities	27,679
Noncurrent liabilities	2,900
Total liabilities	30,579
Net assets acquired	42,191
Goodwill	100,567
Total	142,758

Goodwill of ¥100,567 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 nine-month ended December 31, 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. The assets and liabilities subject to business transfer were disclosed as single line items in the assets held for sales and the liabilities held for sale in consolidated financial statements as of December 31, 2016.

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

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

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 nine-month ended December 31, 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 nine-month ended December 31, 2016 and 2017 are as follows:

**Net sales**

	Yen (Millions)	
	Nine-month ended December 31,	
	2016	2017
Passive Components:		
External customers	¥ 414,893	¥ 327,700
Intersegment	2,567	3,098
	<u>417,460</u>	<u>330,798</u>
Sensor Application Products:		
External customers	31,391	58,209
Intersegment	33	74
	<u>31,424</u>	<u>58,283</u>
Magnetic Application Products:		
External customers	243,922	252,489
Intersegment	85	146
	<u>244,007</u>	<u>252,635</u>
Film Application Products:		
External customers	193,342	289,039
Intersegment	-	-
	<u>193,342</u>	<u>289,039</u>
Other:		
External customers	20,405	37,260
Intersegment	19,999	26,186
	<u>40,404</u>	<u>63,446</u>
Intersegment eliminations	(22,684)	(29,504)
Total	<u>¥ 903,953</u>	<u>¥ 964,697</u>

**Segment profit (loss)**

	Yen (Millions)	
	Nine-month ended December 31,	
	2016	2017
Passive Components	¥ 53,632	¥ 34,984
Sensor Application Products	(4,324)	(14,579)
Magnetic Application Products	16,957	19,283
Film Application Products	36,254	57,602
Other	(5,116)	(1,304)
	<u>97,403</u>	<u>95,986</u>
Corporate and eliminations	(20,576)	(21,272)
Operating income	76,827	74,714
Other income (deductions), net	(398)	3,012
Income before income taxes	<u>¥ 76,429</u>	<u>¥ 77,726</u>

The business segment information for the three-month ended December 31, 2016 and 2017 are as follows:

### Net sales

	Yen (Millions)	
	Three-month ended December 31,	
	2016	2017
Passive Components:		
External customers	¥ 143,011	¥ 112,722
Intersegment	1,020	1,158
	<u>144,031</u>	<u>113,880</u>
Sensor Application Products:		
External customers	10,474	21,617
Intersegment	11	9
	<u>10,485</u>	<u>21,626</u>
Magnetic Application Products:		
External customers	87,674	86,878
Intersegment	28	50
	<u>87,702</u>	<u>86,928</u>
Film Application Products:		
External customers	76,364	105,859
Intersegment	-	-
	<u>76,364</u>	<u>105,859</u>
Other:		
External customers	7,249	14,050
Intersegment	7,243	8,152
	<u>14,492</u>	<u>22,202</u>
Intersegment eliminations	(8,302)	(9,369)
Total	<u>¥ 324,772</u>	<u>¥ 341,126</u>

### Segment profit (loss)

	Yen (Millions)	
	Three-month ended December 31,	
	2016	2017
Passive Components	¥ 19,123	¥ 12,337
Sensor Application Products	(1,547)	(3,931)
Magnetic Application Products	7,028	8,325
Film Application Products	16,171	23,647
Other	(950)	(444)
	<u>39,825</u>	<u>39,934</u>
Corporate and eliminations	(7,311)	(7,489)
Operating income	32,514	32,445
Other income (deductions), net	(411)	1,027
Income before income taxes	<u>¥ 32,103</u>	<u>¥ 33,472</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 nine-month ended December 31, 2016 and 2017 are as follows:

### **Net sales**

	Yen (Millions)	
	Nine-month ended December 31,	
	2016	2017
Japan	¥ 76,968	¥ 85,121
Americas	80,418	82,603
Europe	106,859	120,121
China	474,972	521,169
Asia and others	164,736	155,683
Total	¥ 903,953	¥ 964,697

The geographic segment information for the three-month ended December 31, 2016 and 2017 are as follows:

### **Net sales**

	Yen (Millions)	
	Three-month ended December 31,	
	2016	2017
Japan	¥ 27,192	¥ 31,022
Americas	26,551	29,588
Europe	34,040	41,890
China	175,756	187,129
Asia and others	61,233	51,497
Total	¥ 324,772	¥ 341,126

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, Philippines, Korea, Vietnam

## **16. Income Taxes**

The United States of America enacted the new tax legislation on December 22, 2017, and reduction of federal corporate tax rates, etc. came into effect from January 1, 2018. The impact of the tax reform is recognized in income in the period that includes the date of enactment of the tax legislation.

The main impact of the tax reform is the revaluation of deferred tax assets and deferred tax liabilities resulting from the reduction of federal corporate tax rates. As a result, income taxes increased by ¥3,513 million for the nine-month and the three-month ended December 31, 2017.