



Consolidated Financial Statements
for the three-month ended and as of June 30, 2019 (in English)

On August 9, 2019, 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, 2019	June 30, 2019
Current assets:		
Cash and cash equivalents	¥ 289,175	¥ 262,291
Short-term investments	40,505	34,556
Marketable securities (Note 2 and 7)	57	55
Net trade receivables	308,154	330,626
Inventories (Note 3)	226,892	234,215
Other current assets (Note 6)	57,702	61,336
Total current assets	922,485	923,079
Investments in affiliates (Note 2)	139,522	135,846
Other investments in securities (Note 2 and 7)	15,784	15,491
Net property, plant and equipment (Note 9)	603,110	607,325
Right-of-use assets of operating leases (Note 1)	-	37,091
Goodwill (Note 10)	164,794	160,155
Intangible assets (Note 10)	88,693	86,828
Other assets (Note 6 and 7)	58,092	51,569
Total assets	¥ 1,992,480	¥ 2,017,384

See accompanying notes to consolidated financial statements.

Yen (Millions)

LIABILITIES AND EQUITY	March 31, 2019	June 30, 2019
Current liabilities:		
Short-term debt	¥ 221,310	¥ 254,115
Current installments of long-term debt (Note 7 and 9)	91,276	111,622
Current portion of operating lease obligations (Note 1)	-	5,963
Trade payables	189,892	193,684
Accrued expenses	192,800	180,971
Other current liabilities (Note 6)	19,042	21,132
Total current liabilities	714,320	767,487
Long-term debt, excluding current installments (Note 7 and 9)	207,682	184,469
Long-term operating lease obligations (Note 1)	-	28,965
Retirement and severance benefits	129,050	126,098
Other noncurrent liabilities	57,672	58,107
Total noncurrent liabilities	394,404	397,639
Total liabilities	1,108,724	1,165,126
TDK stockholders' equity:		
Common stock		
Authorized 480,000,000 shares; issued 129,590,659 shares at March 31, 2019 and June 30, 2019 outstanding 126,288,818 shares at March 31, 2019 and 126,295,708 shares at June 30, 2019	32,641	32,641
Additional paid-in capital	5,958	6,114
Legal reserve	44,436	44,867
Retained earnings	935,649	940,703
Accumulated other comprehensive income (loss) (Notes 11 and 12)	(124,435)	(161,297)
Treasury stock at cost; 3,301,841 shares at March 31, 2019 and 3,294,951 shares at June 30, 2019	(16,959)	(16,924)
Total TDK stockholders' equity	877,290	846,104
Noncontrolling interests (Notes 11 and 12)	6,466	6,154
Total equity	883,756	852,258
Total liabilities and equity	¥ 1,992,480	¥ 2,017,384

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

For the Three-month ended June 30, 2018 and 2019

Consolidated statements of income

	Yen (Millions)	
	Three-month ended June 30, 2018	Three-month ended June 30, 2019
Net sales (Note 16)	¥ 343,068	¥ 336,815
Cost of sales (Note 4 and 6)	248,270	240,820
Gross profit	94,798	95,995
Selling, general and administrative expenses (Note 4)	70,341	71,882
Other operating expense (income) (Note 17)	(963)	(867)
Operating income	25,420	24,980
Other income (deductions):		
Interest and dividend income	1,910	2,520
Interest expense	(1,118)	(1,117)
Foreign exchange gain (loss) (Note 6)	(953)	(960)
Other - net (Note 4 and 6)	(1,524)	(720)
Total other income (deductions)	(1,685)	(277)
Income before income taxes	23,735	24,703
Income taxes	7,437	9,048
Net income	16,298	15,655
Less: Net income attributable to noncontrolling interests	101	67
Net income attributable to TDK	¥ 16,197	¥ 15,588

Amounts per share:

	Yen	
	Three-month ended June 30, 2018	Three-month ended June 30, 2019
Net income attributable to TDK (Note 13):		
Basic	¥ 128.29	¥ 123.43
Diluted	127.94	123.15
Cash dividends paid during the period	¥ 70.00	¥ 80.00

Consolidated statements of comprehensive income

	Yen (Millions)	
	Three-month ended June 30, 2018	Three-month ended June 30, 2019
Net income	¥ 16,298	¥ 15,655
Other comprehensive income (loss), net of taxes		
Foreign currencies translation adjustments	8,051	(38,058)
Pension liability adjustments	990	1,007
Net unrealized gains (losses) on securities	(3)	(14)
Total other comprehensive income (loss) (Note 12):	9,038	(37,065)
Comprehensive income (loss) (Note 11)	25,336	(21,410)
Comprehensive income (loss) attributable to noncontrolling interests	58	(136)
Comprehensive income (loss) attributable to TDK	¥ 25,278	¥ (21,274)

See accompanying notes to consolidated financial statements.

3) Consolidated statements of cash flows (Unaudited)

	Yen (Millions)	
	Three-month ended June 30, 2018	Three-month ended June 30, 2019
Cash flows from operating activities:		
Net income	¥ 16,298	¥ 15,655
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	25,472	29,572
Changes in assets and liabilities:		
Decrease (increase) in trade receivables	(33,605)	(33,513)
Decrease (increase) in inventories	(18,639)	(15,033)
Increase (decrease) in trade payables	(4,730)	12,719
Increase (decrease) in accrued expenses	(10,817)	(6,043)
Decrease (increase) in other assets and liabilities, net	(7,002)	822
Other - net	(3,261)	3,624
Net cash used in operating activities	<u>(36,284)</u>	<u>7,803</u>
Cash flows from investing activities:		
Capital expenditures	(42,287)	(50,895)
Proceeds from sales of tangible and intangible assets	364	628
Proceeds from sale and maturity of short-term investments	41,201	23,360
Payment for purchase of short-term investments	(27,202)	(18,622)
Proceeds from sale and maturity of securities	222	27
Payment for purchase of securities	(66)	(5)
Proceeds from sale of business, net of cash transferred	6,622	-
Acquisition of subsidiaries, net of cash acquired	(1,502)	(112)
Other - net	(846)	211
Net cash used in investing activities	<u>(23,494)</u>	<u>(45,408)</u>
Cash flows from financing activities:		
Proceeds from debt with maturities longer than three months	1,366	45
Repayment of debt with maturities longer than three months	(10,214)	(2,021)
Net increase (decrease) in debt with maturities of three months or less	43,791	34,546
Dividends paid	(8,713)	(9,962)
Other - net	(210)	18
Net cash provided by financing activities	<u>26,020</u>	<u>22,626</u>
Effect of exchange rate changes on cash and cash equivalents	5,511	(11,905)
Net decrease in cash and cash equivalents	<u>(28,247)</u>	<u>(26,884)</u>
Cash and cash equivalents at beginning of period	279,624	289,175
Cash and cash equivalents at end of period	<u>¥ 251,377</u>	<u>¥ 262,291</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

Leases

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02 "Leases (Topic 842)".

This ASU requires lessees to recognize most leases on their consolidated balance sheets but recognize expenses on their consolidated statements of income in a manner similar to the previous standard. Additionally, this ASU expands qualitative and quantitative disclosures related to leases. TDK adopted this ASU from April 1, 2019. TDK applied the package of practical expedients that allows us not to reassess whether any existing contracts at or expired contracts prior to the adoption date are or contain leases, lease classification and whether any initial direct costs qualify for capitalization, to use hindsight in determining the lease term and in assessing impairment of the right-of-use assets, in addition to applying the short term lease exception. TDK also adopted the transition method which no restatement of comparative periods and no reassessment of land easements not previously accounted for as a lease that exist at or expired prior to the adoption date are required. The right-of-use assets of operating leases and operating lease obligations recognized at April 1, 2019 was ¥38,016 million and ¥35,690 million, respectively and are included in assets and liabilities in the accompanying consolidated balance sheets.

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

Targeted Improvements to Accounting for Hedging Activities

In August 2017, FASB issued ASU 2017-12 "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities". This ASU amends existing standard to simplify the application of hedge accounting in certain situations and enables an entity to better portray the economic results of an entity's risk management activities in its financial statements. This ASU eliminates the requirement to separately measure and report hedge ineffectiveness, and requires an entity to present the earnings effect of the hedging instrument in the same line item of the consolidated statements of income in which the earnings effect of the hedged item is reported. TDK adopted this ASU from April 1, 2019. The adoption of this ASU did not have a material impact on TDK's results of operations and financial position.

(d) Subsequent Events

TDK has evaluated the subsequent events through August 8, 2019, the date on which the consolidated financial statements are available to be issued.

(e) Reclassifications

Certain reclassifications have been made to the prior year's consolidated financial statements and quarterly consolidated financial statements to conform to the presentation used for the three-month ended June 30, 2019.

2. Marketable Securities and Investments in Securities

Marketable securities and investments in securities as of March 31, 2019 and June 30, 2019, are as follows:

	Yen (Millions)	
	March 31, 2019	June 30, 2019
Marketable securities		
Debt securities	¥ 57	¥ 55
Total Marketable securities	57	55
Investments in affiliates	139,522	135,846
Other investments in securities:		
Debt securities	103	99
Equity securities with readily determinable fair values	6,409	5,897
Equity securities without readily determinable fair values	9,272	9,495
Total other investments in securities	15,784	15,491
Total	¥ 155,363	¥ 151,392

Debt securities include available-for-sale securities. Information with respect to such securities as of March 31, 2019 and June 30, 2019, is as follows:

	Yen (Millions)			
	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
As of March 31, 2019				
Marketable securities (Debt securities):				
Government bonds	¥ 57	¥ -	¥ 0	¥ 57
Investments (Debt securities):				
Commercial papers	2	101	-	103
Public-utility bonds	0	-	-	0
Total	¥ 59	¥ 101	¥ 0	¥ 160
As of June 30, 2019				
Marketable securities (Debt securities):				
Government bonds	¥ 55	¥ -	¥ 0	¥ 55
Investments (Debt securities):				
Commercial papers	0	99	-	99
Public-utility bonds	0	-	-	0
Total	¥ 55	¥ 99	¥ 0	¥ 154

The proceeds from sale and maturity of debt securities classified as available-for-sale securities was ¥3 million for the three-month ended June 30, 2018. The gross realized gains on the sale of debt securities classified as available-for-sale securities were determined on

average cost basis and were reflected in income (loss).

As of June 30, 2019, all of the debt securities classified as available-for-sale securities with unrealized losses were in a continuous unrealized loss position for less than 12 months.

TDK measures certain nonmarketable equity securities without readily determinable fair values based on a practical expedient by estimating the fair value at cost minus impairment, and plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar equity securities of the same issuer. The book value of such investments amounted to ¥1,031 million as of June 30, 2019. TDK did not record an impairment or other adjustments for the three-month ended June 30, 2019.

Net gains and losses and unrealized gains and losses recognized on equity securities for the three-month ended June 30, 2018 and June 30, 2019 are as follows:

	Yen (Millions) June 30, 2018	Yen (Millions) June 30, 2019
Unrealized gains and losses recognized during the period on equity securities held as of June 30	¥ (1,473)	¥ (325)
Net gains and losses recognized on equity securities sold during the period	99	0
Net gains and losses recognized during the period on equity securities	¥ (1,374)	¥ (325)

3. Inventories

Inventories as of March 31, 2019 and June 30, 2019, are summarized as follows:
Yen (Millions)

	March 31, 2019	June 30, 2019
Finished goods	¥ 86,507	¥ 89,605
Work in process	52,688	57,268
Raw materials	87,697	87,342
Total	¥ 226,892	¥ 234,215

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, 2018 and June 30, 2019 consist of the following components:

	Yen (Millions)	
	Three-month ended June 30, 2018	Three-month ended June 30, 2019
Service cost-benefits earned during the period	¥ 2,129	¥ 2,167
Interest cost on projected benefit obligation	877	750
Expected return on plan assets	(1,166)	(1,232)
Amortization of actuarial loss	1,316	1,437
Amortization of prior service cost (benefit)	(92)	(87)
Net periodic benefit cost	¥ 3,064	¥ 3,035

In net periodic benefit cost for TDK's employee retirement and severance defined benefit plans, service cost is included in cost of sales and sales and general administrative expense. Other elements except service cost are included in other - net of other income (deductions).

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, 2019 and June 30, 2019, are as follows:

	Yen (Millions)	
	March 31, 2019	June 30, 2019
Guarantees to third parties on bank loans of employees	¥ 610	¥ 561

As of June 30, 2019, the liability recognized for the estimated fair value of TDK's obligation under the guarantee arrangement is not material.

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 amount excluded from effectiveness testing.

(2) Derivatives not designated as hedging instruments

TDK uses forward foreign exchange contracts, 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 and other hedging instruments on the consolidated statements of income and consolidated statements of comprehensive income (loss) for the three-month ended June 30, 2018 and June 30, 2019 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, 2018	Three-month ended June 30, 2019
Forward foreign exchange contracts	¥ (2,628)	¥ 1,509
Borrowings in local currency	(2,580)	1,920
Total	¥ (5,208)	¥ 3,429

(2) Derivatives not designated as hedging instruments

		Yen (Millions)	
		Three-month ended June 30, 2018	Three-month ended June 30, 2019
		Forward foreign exchange contracts	Foreign exchange gain (loss)
Currency swap contracts	Foreign exchange gain (loss)	669	(578)
Interest rate swap contracts	Other income (deductions)-Other-net	27	(83)
Currency option contracts	Foreign exchange gain (loss)	(114)	(7)
Commodity forward contracts	Cost of sales	38	17
Total		¥ (2,618)	¥ 1,884

Notional amounts and fair value of derivative financial instruments and other hedging instruments as of March 31, 2019 and June 30, 2019 are as follows:

Yen (Millions)					
March 31, 2019					
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	¥ 135,102	¥ 977	Other current assets	¥ 522	Other current liabilities
Borrowings in local currency	66,594	-	-	-	-
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	¥ 57,800	¥ 225	Other current assets	¥ 698	Other current liabilities
Currency swap contracts	19,701	30 1,322	Other current assets Other assets	29 -	Other current liabilities -
Interest rate swap contracts	33,297	124	Other current assets	-	-
Commodity forward contracts	252	150	Other current assets	-	-

Yen (Millions)					
June 30, 2019					
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	¥ 132,044	¥ 2,157	Other current assets	¥ 173	Other current liabilities
Borrowings in local currency	64,674	-	-	-	-
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	¥ 59,713	¥ 291	Other current assets	¥ 412	Other current liabilities
Currency swap contracts	20,913	736 64	Other current assets Other assets	31 -	Other current liabilities -
Interest rate swap contracts	32,337	41	Other current assets	-	-
Commodity forward contracts	97	74	Other current assets	-	-

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, Other investments in securities and Other assets

The fair values of marketable securities and other 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 in the market 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 current borrowing rate in the market 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, 2019 and June 30, 2019, are summarized as follows:

As of March 31, 2019	Yen (Millions)	
	Carrying amount	Estimated fair value
Assets:		
Marketable securities	¥ 57	¥ 57
Other investments in securities and other assets	31,051	31,051
Liability:		
Long-term debt, including current portion (excluding lease obligation)	(293,274)	(293,017)
As of June 30, 2019	Yen (Millions)	
	Carrying amount	Estimated fair value
Assets:		
Marketable securities	¥ 55	¥55
Other investments in securities and other assets	30,393	30,393
Liability:		
Long-term debt, including current portion (excluding lease obligation)	(290,177)	(290,562)

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, 2019 and June 30, 2019 are as follows:

As of March 31, 2019	Yen (Millions)			Total
	Level 1	Level 2	Level 3	
Assets:				
Marketable securities (debt securities):				
Government bonds	¥ 57	¥ -	¥ -	¥ 57
Derivative contracts:				
Forward foreign exchange contracts	-	1,202	-	1,202
Currency swap contracts	-	1,352	-	1,352
Interest rate swap contracts	-	124	-	124
Commodity forward contracts	-	150	-	150
Investments (Debt securities):				
Commercial papers	-	103	-	103
Public-utility bonds	0	-	-	0
Investments (Equity securities):				
Manufacturing companies	2,991	-	8,716	11,707
Other	2,272	-	-	2,272
Investments (Mutual funds)	1,146	-	-	1,146
Rabbi trust investments	6,192	-	-	6,192
Total	¥ 12,658	¥ 2,931	¥ 8,716	¥ 24,305
Liabilities:				
Derivative contracts:				
Forward foreign exchange contracts	¥ -	¥ 1,220	¥ -	¥ 1,220
Currency swap contracts	-	29	-	29
Total	¥ -	¥ 1,249	¥ -	¥ 1,249

As of June 30, 2019	Yen (Millions)			
	Level 1	Level 2	Level 3	Total
Assets:				
Marketable securities (Debt securities):				
Government bonds	¥ 55	¥ -	¥ -	¥ 55
Derivative contracts:				
Forward foreign exchange contracts	-	2,448	-	2,448
Currency swap contracts	-	800	-	800
Interest rate swap contracts	-	41	-	41
Commodity forward contracts	-	74	-	74
Investments (Debt securities):				
Commercial papers	-	99	-	99
Public-utility bonds	0	-	-	0
Investments (Equity securities):				
Stock	4,743	-	8,464	13,207
Mutual funds	1,154	-	-	1,154
Rabbi trust investments	6,136	-	-	6,136
Total	¥ 12,088	¥ 3,462	¥ 8,464	¥ 24,014
Liabilities:				
Derivative contracts:				
Forward foreign exchange contracts	¥ -	¥ 585	¥ -	¥ 585
Currency swap contracts	-	31	-	31
Total	¥ -	¥ 616	¥ -	¥ 616

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, 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.

Fair value of Level 3 investments are based on discounted cash flow method.

The changes in the carrying amount of assets measured at fair value on a recurring basis that was classified as Level 3 as of June 30, 2018 and June 30, 2019 are as follows:

	Yen (Millions)	Yen (Millions)
	June 30, 2018	June 30, 2019
Opening Balance	¥ -	¥ 8,716
Reclassification*	1,186	-
Net income (loss) (Realized or unrealized):		
Other Comprehensive Income(loss)	48	(252)
Ending Balance	¥ 1,234	¥ 8,464

* Certain investments (equity securities without readily determinable fair values) were measured at fair value on a recurring basis and classified as Level 3.

9. Lease

Right-of-use assets of finance leases are included in net property, plant and equipment of the consolidated balance sheet and the amount is ¥4,007 million as of June 30, 2019.

Finance lease obligations are included in current installments of long-term debt and long-term debt, excluding current installments of the consolidated balance sheet and the amounts are ¥586 million and ¥5,328 million, respectively, as of June 30, 2019.

10. Goodwill and Other Intangible Assets

The components of acquired intangible assets excluding goodwill as of March 31, 2019 and June 30, 2019 are as follows:

As of March 31, 2019	Yen (Millions)		Net Amount
	Gross Carrying Amount	Accumulated Amortization	
Amortizable intangible assets:			
Patent	¥ 26,578	¥ 9,088	¥ 17,490
Customer relationships	24,243	19,852	4,391
Software	41,391	17,893	23,498
Unpatented technologies	56,642	26,024	30,618
Other	12,198	3,541	8,657
Total	¥ 161,052	¥ 76,398	¥ 84,654
Nonamortizable intangible assets:			
Trademark	¥ 3,452		¥ 3,452
In-process research and development	355		355
Other	232		232
Total	¥ 4,039		¥ 4,039
As of June 30, 2019	Yen (Millions)		Net Amount
	Gross Carrying Amount	Accumulated Amortization	
Amortizable intangible assets:			
Patent	¥ 27,359	¥ 9,806	¥ 17,553
Customer relationships	24,194	19,938	4,256
Software	41,745	17,817	23,928
Unpatented technologies	55,490	26,612	28,878
Other	11,754	3,569	8,185
Total	¥ 160,542	¥ 77,742	¥ 82,800
Nonamortizable intangible assets:			
Trademark	¥ 3,452		¥ 3,452
In-process research and development	344		344
Other	232		232
Total	¥ 4,028		¥ 4,028

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, 2019 was ¥3,242 million.

There are no significant changes in the carrying amount of goodwill for the three-month ended June 30, 2019.

11. Equity

The changes in the carrying amount of stockholders' equity, noncontrolling interests and total equity for the three-month ended June 30, 2018 and June 30, 2019 are as follows:

	Yen (Millions)		
	Stockholders' equity	Noncontrolling Interests	Total equity
March 31, 2018	¥ 824,634	¥ 6,598	¥ 831,232
Cumulative-effect from adoption of ASU 2014-09	181	-	181
Cumulative-effect from adoption of ASU 2016-01	-	-	-
Cumulative-effect from adoption of ASU 2016-16	(6,374)	-	(6,374)
Equity transaction of consolidated subsidiaries and other	16	250	266
Comprehensive income:			
Net income	16,197	101	16,298
Other comprehensive income (loss), net of taxes:			
Foreign currency translation adjustments	8,093	(42)	8,051
Pension liability adjustments	991	(1)	990
Net unrealized gains (losses) on securities	(3)	-	(3)
Total other comprehensive income (loss)	9,081	(43)	9,038
Comprehensive income	25,278	58	25,336
Dividends	(8,837)	(8)	(8,845)
June 30, 2018	¥ 834,898	¥ 6,898	¥ 841,796

	Yen (Millions)		
	Stockholders' equity	Noncontrolling Interests	Total equity
March 31, 2019	¥ 877,290	¥ 6,466	¥ 883,756
Equity transaction of consolidated subsidiaries and other	191	(109)	82
Comprehensive income:			
Net income	15,588	67	15,655
Other comprehensive income (loss), net of taxes:			
Foreign currency translation adjustments	(37,855)	(203)	(38,058)
Pension liability adjustments	1,007	0	1,007
Net unrealized gains (losses) on securities	(14)	-	(14)
Total other comprehensive income (loss)	(36,862)	(203)	(37,065)
Comprehensive income (loss)	(21,274)	(136)	(21,410)
Dividends	(10,103)	(67)	(10,170)
June 30, 2019	¥ 846,104	¥ 6,154	¥ 852,258

Net income attributable to TDK and transfers (to) from noncontrolling interests for the three-month ended June 30, 2018 and June 30, 2019 are as follows:

	Yen (Millions)	
	Three-month ended	
	June 30,	
	2018	2019
Net income attributable to TDK	¥ 16,197	¥ 15,588
Decrease in TDK's additional paid-in capital for purchase of Guangdong TDK Rising Rare Earth High Technology Material Co., Ltd.'s common shares from third parties	(27)	-
Increase (decrease) in TDK's additional paid-in capital for purchase of SolidGear Corporation's common shares from third parties	3	(4)
Net transfers (to) from noncontrolling interests	(24)	(4)
Changes arising from net income attributable to TDK and transfers (to) from noncontrolling interests	¥ 16,173	¥ 15,584

12. Other Comprehensive Income (Loss)

The changes in the carrying amount of accumulated other comprehensive income (loss) for the three-month ended June 30, 2018 and June 30, 2019 are as follows:

	Yen (Millions)			
	Foreign currency translation adjustments	Pension liability adjustments	Net unrealized gains (losses) on securities	Total
March 31, 2018	¥ (53,448)	¥ (69,292)	¥ 3,248	¥ (119,492)
Cumulative-effect from adoption of ASU 2016-01 (Note 1)	-	-	(3,083)	(3,083)
Equity transaction of consolidated subsidiaries and other	4	-	-	4
Other comprehensive income (loss) before reclassifications	8,078	-	(3)	8,075
Amounts reclassified from accumulated other comprehensive income (loss)	(27)	990	-	963
Other comprehensive income (loss)	8,051	990	(3)	9,038
Other comprehensive income (loss) attributable to noncontrolling interests	(42)	(1)	-	(43)
June 30, 2018	¥ (45,351)	¥ (68,301)	¥ 162	¥ (113,490)

	Yen (Millions)			
	Foreign currency translation adjustments	Pension liability adjustments	Net unrealized gains (losses) on securities	Total
March 31, 2019	¥ (48,905)	¥ (75,640)	¥ 110	¥ (124,435)
Equity transaction of consolidated subsidiaries and other	-	-	-	-
Other comprehensive income (loss) before reclassifications	(38,058)	(109)	(14)	(38,181)
Amounts reclassified from accumulated other comprehensive income (loss)	0	1,116	-	1,116
Other comprehensive income (loss)	(38,058)	1,007	(14)	(37,065)
Other comprehensive income (loss) attributable to noncontrolling interests	(203)	0	-	(203)
June 30, 2019	¥ (86,760)	¥ (74,633)	¥ 96	¥ (161,297)

The reclassifications out of accumulated other comprehensive income (loss) for the three-month ended June 30, 2018 and June 30, 2019 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
	2018	2019	
Foreign currency translation:			
	¥ 27	¥ -	Selling and general administrative expense
	-	0	Other - net of other income (deductions)
	-	-	Tax (expense) or benefit
	<u>27</u>	<u>0</u>	Net of tax
Pension liability adjustments:			
	¥ (1,226)	¥ (1,352)	Other - net of other income (deductions)
	236	236	Tax (expense) or benefit
	<u>(990)</u>	<u>(1,116)</u>	Net of tax
Total amount reclassified, net of tax	<u>¥ (963)</u>	<u>¥ (1,116)</u>	

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

Tax effects allocated to each component of other comprehensive income (loss) and reclassification adjustments for the three-month ended June 30, 2018 and June 30, 2019 are as follows:

For the three-month ended June 30, 2018	Yen (Millions)		
	Before tax Amount	Tax (expense) or benefit	Net-of-tax Amount
Foreign currency translation adjustments:			
Gross foreign currency translation adjustments	¥ 6,361	¥ 1,717	¥ 8,078
Amount arising during the period from reclassification adjustment realized from liquidation of foreign entities	(27)	-	(27)
Net foreign currency translation adjustments	6,334	1,717	8,051
Pension liability adjustments:			
Amount arising during the period	-	-	-
Reclassification adjustments for amortization	1,226	(236)	990
Net pension liability adjustments	1,226	(236)	990
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the period	(3)	-	(3)
Reclassification adjustment	-	-	-
Net unrealized gains (losses)	(3)	-	(3)
Other comprehensive income (loss)	¥ 7,557	¥ 1,481	¥ 9,038

For the three-month ended June 30, 2019	Yen (Millions)		
	Before tax Amount	Tax (expense) or benefit	Net-of-tax Amount
Foreign currency translation adjustments:			
Gross foreign currency translation adjustments	¥ (38,370)	¥ 312	¥ (38,058)
Amount arising during the period from reclassification adjustment realized from liquidation of foreign entities	0	-	0
Net foreign currency translation adjustments	(38,370)	312	(38,058)
Pension liability adjustments:			
Amount arising during the period	(116)	7	(109)
Reclassification adjustments for amortization	1,352	(236)	1,116
Net pension liability adjustments	1,236	(229)	1,007
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the period	(14)	-	(14)
Reclassification adjustment	-	-	-
Net unrealized gains (losses)	(14)	-	(14)
Other comprehensive income (loss)	¥ (37,148)	¥ 83	¥ (37,065)

13. 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, 2018		Three-month ended June 30, 2019	
	Basic	Diluted	Basic	Diluted
Net income attributable to TDK	¥ 16,197	¥ 16,197	¥ 15,588	¥ 15,588
	Number of shares (Thousands)			
Weighted average common shares outstanding	126,248	126,248	126,290	126,290
Incremental shares arising from the exercise of stock option	-	352	-	291
Weighted average common shares outstanding – Total	126,248	126,600	126,290	126,581
	Yen			
Per common share:				
Net income attributable to TDK	¥ 128.29	¥ 127.94	¥ 123.43	¥ 123.15

The stock options issued by TDK Corporation that are vested when a certain performance condition is achieved were excluded from the diluted per share calculation of net income attributable to TDK for the three-month ended June 30, 2018 and June 30, 2019 as it was not probable that the performance condition would be achieved as of June 30, 2018 and June 30, 2019.

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 TDK Electronics 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, of which realized or realizable portion is recognized in other operating expense (income) of consolidated statement of income for the three month ended June 30, 2019. The remaining common shares (49%) of RF360 Holdings is recognized in consolidated balance sheet as investments in affiliates.

15. Subsequent Events

In the Board of Directors held on July 31, 2019, TDK has resolved to exercise the option to sell 49 percent of the common shares of RF360, which is held by TDK Electronics AG. The date of option exercise is planned on August 30, 2019. This option was granted based on the business alliance agreement involving the establishment of the joint venture concluded with Qualcomm on January 13, 2016. The sales price is U.S.\$1.15 billion as stated in the option and it does not have a material impact on the consolidated statements of income.

Detailed information of RF360 and the option is presented in Note 14.

16. Revenue

TDK disaggregates revenue by industry segment, product and geographic segment based on contracts with customers. The following table presents disaggregation of revenue. In accordance with the redefinition of product portfolio in the three-month ended June 30, 2019, certain products of Inductive Devices were reclassified into Other Passive Components. The prior year's sales are also reclassified to conform to the new classification.

Detailed information of geographic segment is presented in Note 18.

	Yen (millions)					
	Three-month ended June 30, 2018					
	Japan	Americas	Europe	China	Asia and others	Total
Capacitors	¥ 3,943	¥ 7,539	¥ 12,273	¥ 14,264	¥ 6,442	¥ 44,461
Inductive Devices	4,963	4,467	11,913	13,217	4,378	38,938
Other Passive Components	2,870	2,075	7,821	12,493	4,064	29,323
Passive Components	11,776	14,081	32,077	39,974	14,884	112,722
Sensor Application Products	3,265	1,965	5,786	6,666	1,187	18,869
Magnetic Application Products	5,044	3,585	2,368	28,473	31,006	70,476
Energy Application Products	5,429	6,676	3,189	104,520	5,773	125,587
Other	2,663	2,051	376	9,273	1,051	15,414
Net Sales Total	¥ 28,177	¥ 28,358	¥ 43,726	¥ 188,906	¥ 53,901	¥ 343,068

	Yen (millions)					
	Three-month ended June 30, 2019					
	Japan	Americas	Europe	China	Asia and others	Total
Capacitors	¥ 4,439	¥ 6,974	¥ 9,820	¥ 11,808	¥ 6,238	¥ 39,279
Inductive Devices	4,884	3,582	10,241	11,623	3,819	34,149
Other Passive Components	2,700	2,139	6,416	10,017	3,569	24,841
Passive Components	12,023	12,695	26,477	33,448	13,626	98,269
Sensor Application Products	3,057	2,172	4,802	5,736	2,375	18,142
Magnetic Application Products	4,492	2,282	1,537	11,804	35,414	55,529
Energy Application Products	4,748	7,672	3,662	111,388	17,043	144,513
Other	2,056	973	665	15,624	1,044	20,362
Net Sales Total	¥ 26,376	¥ 25,794	¥ 37,143	¥ 178,000	¥ 69,502	¥ 336,815

TDK sells passive components, sensor application products, magnetic application products and energy application products to global ICT related companies, manufacturers of automobile and automotive components, manufacturers of home electrical appliances and industrial equipment. For those product sales, TDK recognizes revenue when products are transferred to the customers as the customers will gain control over the products and performance obligation is satisfied accordingly.

Transaction price that TDK receives in exchange for products transferred may include

variable consideration such as sales discounts, customer privileges, and rebates based on sales volume. Variable consideration is included in the transaction price when uncertainty over the variable consideration is resolved to the extent that a significant reversal in the amount of revenue is not expected. Variable consideration is estimated based on past trend or other elements which are already known as of the transaction date, and is updated on a regular basis.

For products sales based on each contract, TDK recognizes the consideration received from customers for which the performance obligation to transfer goods or services has not been satisfied as advance receipt. Amounts of advance received as of March 31, 2019 and June 30, 2019 were ¥910 million and ¥802 million, respectively, and included in other current liabilities in the balance sheets. Out of the advance received as of March 31, 2019, ¥546 million was recognized as revenue in the income statements for the three-month ended June 30, 2019. The amount of revenue recognized from performance obligations for the three-month ended June 30, 2019 that had been satisfied in previous periods was not material.

There are no unsatisfied or partially unsatisfied performance obligations as of June 30, 2019. Furthermore, there is no balance of contract assets as of June 30, 2019.

17. Other operating expense (income)

Other operating expense (income) for the three-month ended June 30, 2018 and 2019 are as follows:

	Yen (Millions)	
	Three-month ended June 30, 2018	Three-month ended June 30, 2019
Gain on sale of business (Note 14)	¥ (963)	¥ (867)
Other operating expense (income) total	¥ (963)	¥ (867)

18. 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 Energy Application Products segment. Operating segments which are not reportable segments are included in Other.

Principal businesses of each segment are as follows:

Segment	Principal businesses
Passive Components	Ceramic Capacitors, Aluminum Electrolytic Capacitors, Film Capacitors, Inductive Devices (Coils/Ferrite Cores/Transformers), High-Frequency Devices, Piezoelectric Material Products, Circuit Protection Components
Sensor Application Products	Temperature and Pressure Sensors, Magnetic Sensors, MEMS Sensors
Magnetic Application Products	HDD Heads, HDD Suspension Assemblies, Magnets
Energy Application Products	Energy Devices (Rechargeable Batteries), Power Supplies
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, 2018 and June 30, 2019 are as follows:

Net sales

	Yen (Millions)	
	Three-month ended June 30,	
	2018	2019
Passive Components:		
External customers	¥ 112,722	¥ 98,269
Intersegment	801	764
	<u>113,523</u>	<u>99,033</u>
Sensor Application Products:		
External customers	18,869	18,142
Intersegment	33	15
	<u>18,902</u>	<u>18,157</u>
Magnetic Application Products:		
External customers	70,476	55,529
Intersegment	23	2,782
	<u>70,499</u>	<u>58,311</u>
Energy Application Products:		
External customers	125,587	144,513
Intersegment	7	-
	<u>125,594</u>	<u>144,513</u>
Other:		
External customers	15,414	20,362
Intersegment	6,811	6,638
	<u>22,225</u>	<u>27,000</u>
Intersegment eliminations	(7,675)	(10,199)
Total	<u>¥ 343,068</u>	<u>¥ 336,815</u>

Segment profit (loss)

	Yen (Millions)	
	Three-month ended June 30,	
	2018	2019
Passive Components	¥ 14,022	¥ 10,339
Sensor Application Products	(4,941)	(7,021)
Magnetic Application Products	3,468	3,298
Energy Application Products	21,025	26,469
Other	(1,040)	315
Sub total	<u>32,534</u>	<u>33,400</u>
Corporate and eliminations	(7,114)	(8,420)
Operating income	<u>25,420</u>	<u>24,980</u>
Other income (deductions), net	(1,685)	(277)
Income before income taxes	<u>¥ 23,735</u>	<u>¥ 24,703</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, 2018 and June 30, 2019 are as follows:

Net sales

	Yen (Millions)	
	Three-month ended June 30,	
	2018	2019
Japan	¥ 28,177	¥ 26,376
Americas	28,358	25,794
Europe	43,726	37,143
China	188,906	178,000
Asia and others	53,901	69,502
Total	¥ 343,068	¥ 336,815

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 Philippines, Thailand, Vietnam, Korea