



Consolidated Financial Statements
for the six-month ended and as of September 30, 2020 (in English)

On November 13, 2020, 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: | 2-5-1, Nihonbashi, Chuo-ku, Tokyo, Japan |
| Telephone number: | +81-3-6778-1055 |
| Contact person: | Kazushige Atsumi, Corporate Communications Group General Manager |
| Place of contact: | 2-5-1, Nihonbashi, Chuo-ku, Tokyo, Japan |
| Telephone number: | +81-3-6778-1055 |
| Contact person: | Kazushige Atsumi, Corporate Communications Group General Manager |
| 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, 2020 | September 30, 2020 |
| Current assets: | | |
| Cash and cash equivalents | ¥ 332,717 | ¥ 342,572 |
| Short-term investments | 32,494 | 39,803 |
| Marketable securities (Note 2 and 7) | 56 | 54 |
| Net trade receivables | 310,142 | 379,442 |
| Inventories (Note 3) | 236,453 | 246,209 |
| Other current assets (Note 6) | 54,620 | 50,423 |
| Total current assets | 966,482 | 1,058,503 |
| Investments in affiliates (Note 2) | 14,888 | 12,639 |
| Other investments in securities (Note 2 and 7) | 18,341 | 20,594 |
| Net property, plant and equipment (Note 9) | 611,150 | 664,363 |
| Right-of-use assets of operating leases | 39,215 | 37,574 |
| Goodwill (Note 10) | 160,945 | 158,002 |
| Intangible assets (Note 10) | 79,748 | 76,166 |
| Other assets (Note 7) | 52,610 | 53,773 |
| Total assets | ¥ 1,943,379 | ¥ 2,081,614 |

See accompanying notes to consolidated financial statements.

| LIABILITIES AND EQUITY | Yen (Millions) | |
|--|--------------------|--------------------|
| | March 31, 2020 | September 30, 2020 |
| Current liabilities: | | |
| Short-term debt | ¥ 216,601 | ¥ 141,374 |
| Current installments of long-term debt (Note 7 and 9) | 68,028 | 144,983 |
| Current portion of operating lease obligations | 7,252 | 7,994 |
| Trade payables | 201,825 | 238,073 |
| Accrued expenses | 201,591 | 220,937 |
| Other current liabilities (Note 6) | 23,608 | 24,633 |
| Total current liabilities | 718,905 | ¥ 777,994 |
| Long-term debt, excluding current installments (Note 7 and 9) | 140,061 | 189,433 |
| Long-term operating lease obligations, excluding current installments | 28,824 | 26,310 |
| Retirement and severance benefits | 142,958 | 139,632 |
| Other noncurrent liabilities | 64,067 | 72,056 |
| Total noncurrent liabilities | 375,910 | 427,431 |
| Total liabilities | 1,094,815 | 1,205,425 |
| TDK stockholders' equity: | | |
| Common stock | | |
| Authorized 480,000,000 shares; issued 129,590,659 shares at March 31, 2020 and September 30, 2020 outstanding 126,319,133 shares at March 31, 2020 and 126,323,277 shares at September 30, 2020 | 32,641 | 32,641 |
| Additional paid-in capital | 1,783 | - |
| Legal reserve | 45,254 | 46,308 |
| Retained earnings | 971,140 | 998,357 |
| Accumulated other comprehensive income (loss) (Note 11 and 12) | (190,055) | (187,863) |
| Treasury stock at cost; 3,271,526 shares at March 31, 2020 and 3,267,382 shares at September 30, 2020 | (16,806) | (16,786) |
| Total TDK stockholders' equity | 843,957 | 872,657 |
| Noncontrolling interests (Note 11 and 12) | 4,607 | 3,532 |
| Total equity | 848,564 | 876,189 |
| Total liabilities and equity | ¥ 1,943,379 | ¥ 2,081,614 |

2) Consolidated statements of income

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

For the Six-month ended September 30, 2019 and 2020

Consolidated statements of income

| | Yen (Millions) | |
|---|---------------------------------------|---------------------------------------|
| | Six-month ended September 30, 2019 | Six-month ended September 30, 2020 |
| Net sales (Note 15) | ¥ 707,029 | ¥ 691,111 |
| Cost of sales (Note 4 and 6) | 494,888 | 482,727 |
| Gross profit | 212,141 | 208,384 |
| Selling, general and administrative expenses (Note 4) | 144,641 | 145,834 |
| Other operating expense (income) (Note 16) | (1,343) | 144 |
| Operating income | 68,843 | 62,406 |
| Other income (deductions): | | |
| Interest and dividend income | 4,735 | 4,509 |
| Interest expense | (1,998) | (1,616) |
| Foreign exchange gain (loss) (Note 6) | (703) | (1,540) |
| Other - net (Note 4 and 6) | (2,229) | (596) |
| Total other income (deductions) | (195) | 757 |
| Income before income taxes | 68,648 | 63,163 |
| Income taxes | 23,610 | 20,805 |
| Net income | 45,038 | 42,358 |
| Less: Net income attributable to noncontrolling interests | 100 | 133 |
| Net income attributable to TDK | ¥ 44,938 | ¥ 42,225 |

Amounts per share:

| | Yen | |
|---|---------------------------------------|---------------------------------------|
| | Six-month ended September 30, 2019 | Six-month ended September 30, 2020 |
| Net income attributable to TDK per share (Note 13): | | |
| Basic | ¥ 355.81 | ¥ 334.27 |
| Diluted | 355.01 | 333.58 |
| Cash dividends paid during the period | ¥ 80.00 | ¥ 90.00 |

Consolidated statements of comprehensive income (loss)

| | Yen (Millions) | |
|--|---------------------------------------|---------------------------------------|
| | Six-month ended September 30, 2019 | Six-month ended September 30, 2020 |
| Net income | ¥ 45,038 | ¥ 42,358 |
| Other comprehensive income (loss), net of taxes | | |
| Foreign currencies translation adjustments | (54,339) | (1,173) |
| Pension liability adjustments | 2,081 | 3,368 |
| Net unrealized gains (losses) on securities | (36) | 59 |
| Total other comprehensive income (loss) (Note 12): | (52,294) | 2,254 |
| Comprehensive income (loss) (Note 11) | (7,256) | 44,612 |
| Comprehensive income (loss) attributable to noncontrolling interests | (168) | 128 |
| Comprehensive income (loss) attributable to TDK | ¥ (7,088) | ¥ 44,484 |

See accompanying notes to consolidated financial statements.

For the Three-month ended September 30, 2019 and 2020
Consolidated statements of income

| | Yen (Millions) | |
|--|---|---|
| | Three-month ended September 30, 2019 | Three-month ended September 30, 2020 |
| Net sales (Note 15) | ¥ 370,214 | ¥ 381,718 |
| Cost of sales (Note 4 and 6) | 254,068 | 262,904 |
| Gross profit | 116,146 | 118,814 |
| Selling, general and administrative expenses (Note 4) | 72,759 | 74,848 |
| Other operating expense (income) (Note 16) | (476) | - |
| Operating income | 43,863 | 43,966 |
| Other income (deductions): | | |
| Interest and dividend income | 2,215 | 2,029 |
| Interest expense | (881) | (797) |
| Foreign exchange gain (loss) (Note 6) | 257 | (1,214) |
| Other - net (Note 4 and 6) | (1,509) | (1,532) |
| Total other income (deductions) | 82 | (1,514) |
| Income before income taxes | 43,945 | 42,452 |
| Income taxes | 14,562 | 13,349 |
| Net income | 29,383 | 29,103 |
| Less: Net income attributable to noncontrolling interests | 33 | 70 |
| Net income attributable to TDK | ¥ 29,350 | ¥ 29,033 |

Amounts per share:

| | Yen | |
|---|---|---|
| | Three-month ended September 30, 2019 | Three-month ended September 30, 2020 |
| Net income attributable to TDK per share (Note 13): | | |
| Basic | ¥ 232.37 | ¥ 229.83 |
| Diluted | 231.87 | 229.36 |
| Cash dividends paid during the period | - | - |

Consolidated statements of comprehensive income

| | Yen (Millions) | |
|--|---|---|
| | Three-month ended September 30, 2019 | Three-month ended September 30, 2020 |
| Net income | ¥ 29,383 | ¥ 29,103 |
| Other comprehensive income (loss), net of taxes | | |
| Foreign currencies translation adjustments | (16,281) | 4,155 |
| Pension liability adjustments | 1,074 | 1,688 |
| Net unrealized gains (losses) on securities | (22) | 19 |
| Total other comprehensive income (loss) (Note 12): | (15,229) | 5,862 |
| Comprehensive income (Note 11) | 14,154 | 34,965 |
| Comprehensive income (loss) attributable to noncontrolling interests | (32) | 82 |
| Comprehensive income attributable to TDK | ¥ 14,186 | ¥ 34,883 |

See accompanying notes to consolidated financial statements.

3) Consolidated statements of cash flows (Unaudited)

Yen (Millions)

| | Six-month ended September 30, 2019 | Six-month ended September 30, 2020 |
|--|---------------------------------------|---------------------------------------|
| Cash flows from operating activities: | | |
| Net income | ¥ 45,038 | ¥ 42,358 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 59,684 | 64,727 |
| Deferred income taxes | 5,183 | 6,336 |
| Changes in assets and liabilities: | | |
| Decrease (increase) in trade receivables | (80,268) | (69,556) |
| Decrease (increase) in inventories | (6,103) | (9,455) |
| Increase (decrease) in trade payables | 30,203 | 33,349 |
| Increase (decrease) in accrued expenses | 2,189 | 981 |
| Decrease (increase) in other assets and liabilities, net | 3,645 | 642 |
| Other - net | 301 | 3,748 |
| Net cash provided by operating activities | 59,872 | 73,130 |
| Cash flows from investing activities: | | |
| Capital expenditures | (90,847) | (97,129) |
| Proceeds from sales of tangible and intangible assets | 1,764 | 1,417 |
| Proceeds from sale and maturity of short-term investments | 56,284 | 44,864 |
| Payment for purchase of short-term investments | (26,940) | (52,424) |
| Proceeds from sale and maturity of securities | 712 | 7 |
| Payment for purchase of securities | (373) | (1,439) |
| Proceeds from sale of business, net of cash transferred | - | 3,717 |
| Proceeds from sale of investments in affiliates | 124,484 | 2,502 |
| Other - net | (489) | 50 |
| Net cash provided (used) in investing activities | 64,595 | (98,435) |
| Cash flows from financing activities: | | |
| Proceeds from debt with maturities longer than three months | 808 | 155,494 |
| Repayment of debt with maturities longer than three months | (76,026) | (24,322) |
| Net increase (decrease) in debt with maturities of three months or less | 13,977 | (78,239) |
| Dividends paid | (10,901) | (11,368) |
| Acquisition of noncontrolling interests | (4,879) | (5,678) |
| Other - net | (13) | (490) |
| Net cash provided (used) by financing activities | (77,034) | 35,397 |
| Effect of exchange rate changes on cash and cash equivalents | (16,236) | (237) |
| Net increase in cash and cash equivalents | 31,197 | 9,855 |
| Cash and cash equivalents at beginning of period | 289,175 | 332,717 |
| Cash and cash equivalents at end of period | ¥ 320,372 | ¥ 342,572 |

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) Use of Estimates

Accounting assumptions in making estimates relating to the impacts of COVID-19

In the previous fiscal year, based on the external information that TDK had the ability to access, for the year ending March 31, 2021, TDK expected that due to the stagnation in global economic activity caused by the spread of COVID-19, production volume of automobiles and smartphones would decrease year on year and a downturn in demand for electronic components could not be avoided, but, from the second half of the year ending March 31, 2021, TDK expected that the demand would recover to a certain extent. However, in the year ending March 31, 2021, social and economic activities that were curtailed due to the continuing COVID-19 pandemic gradually resumed and demand for electronics started to recover earlier than expected.

Based on the assumptions, TDK has made accounting estimates relating to the valuation of goodwill and other intangible assets, long-lived assets and so on. Despite the change in the situation, it did not have a material impact on the estimates.

However, the impacts from the spread of COVID-19 has many uncertain elements. When there are changes in the assumptions above, it could have a significant impact on the consolidated financial position or result of operations of TDK in the year ending March 31, 2021 onward.

(d) Adoption of New Accounting Standards

Amendments of fair value measurement disclosure requirements

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-13 "Amendments of fair value measurement disclosure requirements". This ASU eliminates, amends and adds some of disclosure requirements for fair value measurement. TDK adopted this ASU from April 1, 2020.

The adoption of this ASU did not have an impact on TDK's results of operations and financial position because this ASU is related to disclosure.

(e) Subsequent Events

TDK has evaluated the subsequent events through November 12, 2020, 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 six-month and the three-month ended September 30, 2020.

2. Marketable Securities and Investments in Securities

Marketable securities and investments in securities as of March 31, 2020 and September 30, 2020, are as follows:

| | Yen (Millions) | |
|--|-----------------|--------------------|
| | March 31, 2020 | September 30, 2020 |
| Marketable securities | | |
| Debt securities | ¥ 56 | ¥ 54 |
| Total Marketable securities | 56 | 54 |
| Investments in affiliates | 14,888 | 12,639 |
| Other investments in securities: | | |
| Debt securities | 42 | 47 |
| Equity securities with readily determinable fair values | 4,745 | 6,113 |
| Equity securities without readily determinable fair values | 13,554 | 14,434 |
| Total other investments in securities | 18,341 | 20,594 |
| Total | ¥ 33,285 | ¥ 33,287 |

Debt securities include available-for-sale securities. Information with respect to such securities as of March 31, 2020 and September 30, 2020 is as follows:

| As of March 31, 2020 | Yen (Millions) | | | |
|--|--------------------------------|---------------------------------|---------------------------------|--------------|
| | Cost | Gross Unrealized Holding Gains | Gross Unrealized Holding Losses | Fair Value |
| Marketable securities (Debt securities): | | | | |
| Government bonds | ¥ 56 | ¥ 0 | ¥ - | ¥ 56 |
| Investments (Debt securities): | | | | |
| Commercial papers | 0 | 42 | - | 42 |
| Public-utility bonds | 0 | - | - | 0 |
| Total | ¥ 56 | ¥ 42 | ¥ - | ¥ 98 |
| As of September 30, 2020 | Yen (Millions) | | | |
| Cost | Gross Unrealized Holding Gains | Gross Unrealized Holding Losses | Fair Value | |
| Marketable securities (Debt securities): | | | | |
| Government bonds | ¥ 54 | ¥ 0 | ¥ - | ¥ 54 |
| Investments (Debt securities): | | | | |
| Commercial papers | 0 | 47 | - | 47 |
| Public-utility bonds | 0 | - | - | 0 |
| Total | ¥ 54 | ¥ 47 | ¥ - | ¥ 101 |

The proceeds from sale and maturity of debt securities classified as available-for-sale securities was ¥3 million for the six-month and the three-month ended September 30, 2019. The proceeds from sale and maturity of debt securities classified as available-for-sale securities were ¥7 million and ¥4 million for the six-month ended and the three-month ended September 30, 2020, respectively. 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 September 30, 2020, 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, in principle, at cost minus impairment. If TDK can identify observable price changes in orderly transactions for the identical or a similar investment of the same issuer, TDK measures the equity securities at fair value as of the date that the observable transaction occurred. The book value of such investments amounted to ¥2,367 million as of September 30, 2020. TDK recorded an impairment loss of ¥254 million for the six-month ended September 30, 2020.

Net gains and losses recognized during the period on equity securities and unrealized gains and losses recognized during the period on equity securities for the six-month ended September 30, 2019 and September 30, 2020 are as follows:

| | Yen (Millions) Six-month ended September 30, 2019 | Yen (Millions) Six-month ended September 30, 2020 |
|---|---|---|
| Unrealized gains and losses recognized during the period on equity securities held as of September 30 | ¥ (316) | ¥ 1,034 |
| Net gains and losses recognized on equity securities sold during the period | 168 | 0 |
| Net gains and losses recognized during the period on equity securities | ¥ (148) | ¥ 1,034 |

Note: () of amount means net losses.

Net gains and losses recognized during the period on equity securities and unrealized gains and losses recognized during the period on equity securities for the three-month ended September 30, 2019 and September 30, 2020 are as follows:

| | Yen (Millions) Three-month ended September 30, 2019 | Yen (Millions) Three-month ended September 30, 2020 |
|---|---|---|
| Unrealized gains and losses recognized during the period on equity securities held as of September 30 | ¥ 9 | ¥ 408 |
| Net gains and losses recognized on equity securities sold during the period | 168 | 0 |
| Net gains and losses recognized during the period on equity securities | ¥ 177 | ¥ 408 |

Note: () of amount means net losses.

3. Inventories

Inventories as of March 31, 2020 and September 30, 2020, are summarized as follows:

| | Yen (Millions) | |
|-----------------|----------------|--------------------|
| | March 31, 2020 | September 30, 2020 |
| Finished goods | ¥ 87,721 | ¥ 94,323 |
| Work in process | 56,697 | 59,676 |
| Raw materials | 92,035 | 92,210 |
| Total | ¥ 236,453 | ¥ 246,209 |

4. Cost for Retirement and Severance Benefits

Net periodic benefit cost for TDK's employee retirement and severance defined benefit plans for the six-month ended September 30, 2019 and September 30, 2020 consist of the following components:

| | Yen (Millions) | |
|--|---------------------------------------|---------------------------------------|
| | Six-month ended September 30, 2019 | Six-month ended September 30, 2020 |
| Service cost-benefits earned during the period | ¥ 4,384 | ¥ 4,402 |
| Interest cost on projected benefit obligation | 1,505 | 1,798 |
| Expected return on plan assets | (2,458) | (2,413) |
| Amortization of actuarial loss | 2,702 | 3,474 |
| Amortization of prior service cost (benefit) | (155) | 62 |
| Net periodic benefit cost | ¥ 5,978 | ¥ 7,323 |

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).

Net periodic benefit cost for TDK's employee retirement and severance defined benefit plans for the three-month ended September 30, 2019 and September 30, 2020 consist of the following components:

| | Yen (Millions) | |
|--|---|---|
| | Three-month ended September 30, 2019 | Three-month ended September 30, 2020 |
| Service cost-benefits earned during the period | ¥ 2,217 | ¥ 2,199 |
| Interest cost on projected benefit obligation | 755 | 875 |
| Expected return on plan assets | (1,226) | (1,139) |
| Amortization of actuarial loss | 1,265 | 1,737 |
| Amortization of prior service cost (benefit) | (68) | 31 |
| Net periodic benefit cost | ¥ 2,943 | ¥ 3,703 |

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, 2020 and September 30, 2020, are as follows:

| | Yen (Millions) | |
|--|----------------|--------------------|
| | March 31, 2020 | September 30, 2020 |
| Guarantees to third parties on bank loans of employees | ¥ 469 | ¥ 407 |

As of September 30, 2020, 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. Claims include class action raised in the United States of America and Canada for violation of antitrust law and damage suit raised by several customers; both cases are associated with HDD suspension assemblies. For these claims, it is not possible to make a reasonable estimate of impact at this time. In the opinion of TDK management, 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 is no ineffective portion and 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 six-month ended September 30, 2019 and September 30, 2020 are as follows:

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

| | Yen (Millions) | |
|------------------------------------|---|--|
| | Six-month ended September 30, 2019 | |
| | Gains (losses) recognized in other comprehensive income (loss) on derivatives and other | Gains (losses) reclassified from other comprehensive income (loss) into income (loss) Other income (deductions), Other - net |
| Forward foreign exchange contracts | ¥ (227) | ¥ (2,563) |
| Borrowings in local currency | 1,831 | - |
| Total | ¥ 1,604 | ¥ (2,563) |

The effect of hedges of net investment in foreign operations and other hedging instruments for the six-month ended September 30, 2020 is nil.

(2) Derivatives not designated as hedging instruments

| | | Yen (Millions) | |
|------------------------------------|-------------------------------------|------------------------------------|---|
| | | Six-month ended September 30, 2019 | Six-month ended September 30, 2020 |
| Forward foreign exchange contracts | Foreign exchange gain (loss) | ¥ 1,240 | ¥ 4,596 |
| Currency swap contracts | Foreign exchange gain (loss) | (731) | (932) |
| Interest rate swap contracts | Other income (deductions)-Other-net | (124) | - |
| Currency option contracts | Foreign exchange gain (loss) | (52) | 53 |
| Commodity forward contracts | Cost of sales | 31 | - |
| Total | | ¥ 364 | ¥ 3,717 |

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 September 30, 2019 and September 30, 2020 are as follows:

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

| | Yen (Millions) | |
|------------------------------------|---|---|
| | Three-month ended September 30, 2019 | |
| | Gains (losses) recognized in other comprehensive income (loss) on derivatives and other | Gains (losses) reclassified from other comprehensive income (loss) into income (loss) Other income (deductions), Other - net |
| Forward foreign exchange contracts | ¥ (1,736) | ¥ (2,563) |
| Borrowings in local currency | (89) | - |
| Total | ¥ (1,825) | ¥ (2,563) |

The effect of hedges of net investment in foreign operations and other hedging instruments for the three-month ended September 30, 2020 is nil.

(2) Derivatives not designated as hedging instruments

| | | Yen (Millions) | |
|------------------------------------|-------------------------------------|---|---|
| | | Three-month ended September 30, 2019 | Three-month ended September 30, 2020 |
| Forward foreign exchange contracts | Foreign exchange gain (loss) | ¥ (1,295) | ¥ 2,777 |
| Currency swap contracts | Foreign exchange gain (loss) | (153) | - |
| Interest rate swap contracts | Other income (deductions)-Other-net | (41) | - |
| Currency option contracts | Foreign exchange gain (loss) | (45) | 36 |
| Commodity forward contracts | Cost of sales | 14 | - |
| Total | | ¥ (1,520) | ¥ 2,813 |

Notional amounts and fair value of derivative financial instruments and other hedging instruments as of March 31, 2020 and September 30, 2020 are as follows:

| Yen (Millions) | | | | | |
|--|------------------|-------------------|--------------------------------------|-----------------------|--------------------------------------|
| March 31, 2020 | | | | | |
| 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 | ¥ 118,414 | ¥ 124 | Other current assets | ¥ 1,359 | Other current liabilities |
| Currency swap contracts | 13,051 | 1,102 | Other current assets | - | - |

| Yen (Millions) | | | | | |
|--|------------------|-------------------|--------------------------------------|-----------------------|--------------------------------------|
| September 30, 2020 | | | | | |
| 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 | ¥ 250,036 | ¥ 1,403 | Other current assets | ¥ 576 | 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, 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, 2020 and September 30, 2020 are summarized as follows:

| As of March 31, 2020 | Yen (Millions) | |
|--|-----------------|----------------------|
| | Carrying amount | Estimated fair value |
| Assets: | | |
| Marketable securities | ¥ 56 | ¥ 56 |
| Other investments in securities and other assets | 32,771 | 32,771 |
| Liability: | | |
| Long-term debt, including current portion (excluding finance lease obligation) | (202,207) | (202,389) |
| | | |
| As of September 30, 2020 | Yen (Millions) | |
| | Carrying amount | Estimated fair value |
| Assets: | | |
| Marketable securities | ¥ 54 | ¥ 54 |
| Other investments in securities and other assets | 34,278 | 34,278 |
| Liability: | | |
| Long-term debt, including current portion (excluding finance lease obligation) | (328,880) | (329,374) |

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, 2020 and September 30, 2020 are as follows:

| As of March 31, 2020 | Yen (Millions) | | | |
|--|----------------|---------|----------|----------|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Marketable securities (debt securities): | | | | |
| Government bonds | ¥ 56 | ¥ - | ¥ - | ¥ 56 |
| Derivative contracts: | | | | |
| Forward foreign exchange contracts | - | 124 | - | 124 |
| Currency swap contracts | - | 1,102 | - | 1,102 |
| Investments (Debt securities): | | | | |
| Commercial papers | - | 42 | - | 42 |
| Public-utility bonds | 0 | - | - | 0 |
| Investments (Equity securities): | | | | |
| Manufacturing companies | 3,743 | - | 12,282 | 16,025 |
| Investments (Mutual funds) | 1,002 | - | - | 1,002 |
| Rabbi trust investments | 5,799 | - | - | 5,799 |
| Total | ¥ 10,600 | ¥ 1,268 | ¥ 12,282 | ¥ 24,150 |
| Liabilities: | | | | |
| Derivative contracts: | | | | |
| Forward foreign exchange contracts | ¥ - | ¥ 1,359 | ¥ - | ¥ 1,359 |
| Total | ¥ - | ¥ 1,359 | ¥ - | ¥ 1,359 |
| As of September 30, 2020 | | | | |
| | Yen (Millions) | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Marketable securities (Debt securities): | | | | |
| Government bonds | ¥ 54 | ¥ - | ¥ - | ¥ 54 |
| Derivative contracts: | | | | |
| Forward foreign exchange contracts | - | 1,403 | - | 1,403 |
| Investments (Debt securities): | | | | |
| Commercial papers | - | 47 | - | 47 |
| Public-utility bonds | 0 | - | - | 0 |
| Investments (Equity securities): | | | | |
| Stock | 4,928 | - | 12,067 | 16,995 |
| Mutual funds | 1,185 | - | - | 1,185 |
| Rabbi trust investments | 6,491 | - | - | 6,491 |
| Total | ¥ 12,658 | ¥ 1,450 | ¥ 12,067 | ¥ 26,175 |
| Liabilities: | | | | |
| Derivative contracts: | | | | |
| Forward foreign exchange contracts | ¥ - | ¥ 576 | ¥ - | ¥ 576 |
| Total | ¥ - | ¥ 576 | ¥ - | ¥ 576 |

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 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 mainly based on comparable multiple valuation method.

With respect to the recurring fair value measurements categorized within Level 3, the significant unobservable input used in the fair value measurement of the equity securities in assets, is mainly PER (price earnings ratio). The weighted average of PER as of March 31, 2020 and June 30, 2020 are both 8.9 times.

The changes in the carrying amount of assets measured at fair value on a recurring basis that was categorized within Level 3 for the six-month ended September 30, 2019 and September 30, 2020 are as follows:

| | Yen (Millions) | |
|--|---------------------------------------|---------------------------------------|
| | Six-month ended September 30, 2019 | Six-month ended September 30, 2020 |
| Opening Balance | ¥ 8,716 | ¥ 12,282 |
| Purchase | 791 | - |
| Net income (loss) (Realized or unrealized): | | |
| Other Comprehensive Income(loss) | (701) | (215) |
| Ending Balance | <u>¥ 8,806</u> | <u>¥ 12,067</u> |

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

As of September 30, 2019 and September 30, 2020, there are no unrealized gains (losses) on securities included in other comprehensive income (loss).

The changes in the carrying amount of assets measured at fair value on a recurring basis that was classified as Level 3 for the three-month ended September 30, 2019 and September 30, 2020 are as follows:

| | Yen (Millions) | |
|--|---|---|
| | Three-month ended September 30, 2019 | Three-month ended September 30, 2020 |
| Opening Balance | ¥ 8,464 | ¥ 12,176 |
| Purchase | 791 | - |
| Net income (loss) (Realized or unrealized): | | |
| Other Comprehensive Income(loss) | (449) | (109) |
| Ending Balance | <u>¥ 8,806</u> | <u>¥ 12,067</u> |

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 ¥3,790 million as of March 31, 2020, and ¥3,527 million as of September 30, 2020.

Finance lease obligations is included in current installments of long-term debt and long-term debt, excluding current installments of the consolidated balance sheet. Finance lease obligations included in current installments of long-term debt is ¥558 million as of March 31, 2020, and ¥545 million as of September 30, 2020. Finance lease obligations included in long-term debt, excluding current installments is ¥5,324 million as of March 31, 2020, and ¥4,991 million as of September 30, 2020.

10. Goodwill and Other Intangible Assets

The components of acquired intangible assets excluding goodwill as of March 31, 2020 and September 30, 2020 are as follows:

| As of March 31, 2020 | Yen (Millions) | | Net Amount |
|-------------------------------------|-----------------------|--------------------------|------------|
| | Gross Carrying Amount | Accumulated Amortization | |
| Amortizable intangible assets: | | | |
| Patent | ¥ 26,259 | ¥ 10,858 | ¥ 15,401 |
| Customer relationships | 15,991 | 12,566 | 3,425 |
| Software | 41,836 | 17,775 | 24,061 |
| Unpatented technologies | 48,772 | 23,352 | 25,420 |
| Other | 10,890 | 3,437 | 7,453 |
| Total | ¥ 143,748 | ¥ 67,988 | ¥ 75,760 |
| Nonamortizable intangible assets: | | | |
| Trademark | ¥ 3,452 | | ¥ 3,452 |
| In-process research and development | 347 | | 347 |
| Other | 189 | | 189 |
| Total | ¥ 3,988 | | ¥ 3,988 |
| As of September 30, 2020 | Yen (Millions) | | Net Amount |
| | Gross Carrying Amount | Accumulated Amortization | |
| Amortizable intangible assets: | | | |
| Patent | ¥ 25,900 | ¥ 12,346 | ¥ 13,554 |
| Customer relationships | 15,982 | 13,068 | 2,914 |
| Software | 43,785 | 19,547 | 24,238 |
| Unpatented technologies | 48,815 | 25,214 | 23,601 |
| Other | 11,948 | 3,731 | 8,217 |
| Total | ¥ 146,430 | ¥ 73,906 | ¥ 72,524 |
| Nonamortizable intangible assets: | | | |
| Trademark | ¥ 3,452 | | ¥ 3,452 |
| In-process research and development | - | | - |
| Other | 190 | | 190 |
| Total | ¥ 3,642 | | ¥ 3,642 |

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 six-month ended September 30, 2020 was ¥7,076 million.

There are no significant changes in the carrying amount of goodwill for the six-month ended September 30, 2020.

11. Equity

The changes in the carrying amount of stockholders' equity, noncontrolling interests and total equity for the six-month ended September 30, 2019 and September 30, 2020 are as follows:

| | Yen (Millions) | | |
|---|----------------------|--------------------------|------------------|
| | Stockholders' equity | Noncontrolling Interests | Total equity |
| March 31, 2019 | ¥ 877,290 | ¥ 6,466 | ¥ 883,756 |
| Equity transaction of consolidated subsidiaries and other | (3,828) | (896) | (4,724) |
| Comprehensive income: | | | |
| Net income | 44,938 | 100 | 45,038 |
| Other comprehensive income (loss), net of taxes: | | | |
| Foreign currency translation adjustments | (54,071) | (268) | (54,339) |
| Pension liability adjustments | 2,081 | 0 | 2,081 |
| Net unrealized gains (losses) on securities | (36) | - | (36) |
| Total other comprehensive income (loss) | (52,026) | (268) | (52,294) |
| Comprehensive income (loss) | (7,088) | (168) | (7,256) |
| Dividends | (10,103) | (105) | (10,208) |
| September 30, 2019 | ¥ 856,271 | ¥ 5,297 | ¥ 861,568 |
| | | | |
| | Yen (Millions) | | |
| | Stockholders' equity | Noncontrolling Interests | Total equity |
| March 31, 2020 | ¥ 843,957 | ¥ 4,607 | ¥ 848,564 |
| Equity transaction of consolidated subsidiaries and other | (4,415) | (1,112) | (5,527) |
| Comprehensive income: | | | |
| Net income | 42,225 | 133 | 42,358 |
| Other comprehensive income (loss), net of taxes: | | | |
| Foreign currency translation adjustments | (1,168) | (5) | (1,173) |
| Pension liability adjustments | 3,368 | 0 | 3,368 |
| Net unrealized gains (losses) on securities | 59 | - | 59 |
| Total other comprehensive income (loss) | 2,259 | (5) | 2,254 |
| Comprehensive income | 44,484 | 128 | 44,612 |
| Dividends | (11,369) | (91) | (11,460) |
| September 30, 2020 | ¥ 872,657 | ¥ 3,532 | ¥ 876,189 |

Net income attributable to TDK and transfers (to) from noncontrolling interests for the six-month ended September 30, 2019 and September 30, 2020 are as follows:

| | Yen (Millions) | |
|---|-----------------|-----------------|
| | Six-month ended | |
| | September 30, | |
| | 2019 | 2020 |
| Net income attributable to TDK | ¥ 44,938 | ¥ 42,225 |
| Decrease in TDK's additional paid-in capital for purchase of Amperex Technology Ltd.'s common shares from third parties | (4,075) | (4,497) |
| Decrease in TDK's additional paid-in capital for purchase of SolidGear Corporation's common shares from third parties | (4) | (3) |
| Net transfers (to) from noncontrolling interests | (4,079) | (4,500) |
| Changes arising from net income attributable to TDK and transfers (to) from noncontrolling interests | ¥ 40,859 | ¥ 37,725 |

12. Other Comprehensive Income (Loss)

The changes in the carrying amount of accumulated other comprehensive income (loss) for the six-month ended September 30, 2019 and September 30, 2020 are as follows:

| | 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 | (19) | - | - | (19) |
| Other comprehensive income (loss) before reclassifications | (59,310) | (109) | (33) | (59,452) |
| Amounts reclassified from accumulated other comprehensive income (loss) | 4,971 | 2,190 | (3) | 7,158 |
| Other comprehensive income (loss) | (54,339) | 2,081 | (36) | (52,294) |
| Other comprehensive income (loss) attributable to noncontrolling interests | (268) | 0 | - | (268) |
| September 30, 2019 | ¥ (102,995) | ¥ (73,559) | ¥ 74 | ¥ (176,480) |
| | Yen (Millions) | | | |
| | Foreign currency translation adjustments | Pension liability adjustments | Net unrealized gains (losses) on securities | Total |
| March 31, 2020 | ¥ (94,369) | ¥ (95,709) | ¥ 23 | ¥ (190,055) |
| Equity transaction of consolidated subsidiaries and other | (67) | - | - | (67) |
| Other comprehensive income (loss) before reclassifications | (1,194) | (5) | 66 | (1,133) |
| Amounts reclassified from accumulated other comprehensive income (loss) | 21 | 3,373 | (7) | 3,387 |
| Other comprehensive income (loss) | (1,173) | 3,368 | 59 | 2,254 |
| Other comprehensive income (loss) attributable to noncontrolling interests | (5) | 0 | - | (5) |
| September 30, 2020 | ¥ (95,604) | ¥ (92,341) | ¥ 82 | ¥ (187,863) |

The reclassifications out of accumulated other comprehensive income (loss) for the six-month ended September 30, 2019 and September 30, 2020 are as follows:

| For the six-month ended September 30, | Yen (Millions) | | Affected line items in consolidated statements of income |
|--|---|-----------|--|
| | Amount reclassified from accumulated other comprehensive income (loss) *1 | | |
| | 2019 | 2020 | |
| Foreign currency translation: | | | Other - net of other income (deductions) |
| | (5,744) | (19) | Tax (expense) or benefit Net of tax |
| | 773 | (2) | |
| | (4,971) | (21) | |
| Pension liability adjustments: | | | Other - net of other income (deductions)*2 |
| | (2,550) | (3,540) | Tax (expense) or benefit Net of tax |
| | 360 | 167 | |
| | (2,190) | (3,373) | |
| Net unrealized gains (losses) on securities: | | | Other - net of other income (deductions) |
| | 3 | 7 | Tax (expense) or benefit Net of tax |
| | - | - | |
| | 3 | 7 | |
| Total amount reclassified, net of tax | ¥ (7,158) | ¥ (3,387) | |

*1 Increase in amount indicate increase in profit and amount in parentheses indicate loss 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.

The reclassifications out of accumulated other comprehensive income (loss) for the three-month ended September 30, 2019 and September 30, 2020 are as follows:

| For the three-month ended September 30, | Yen (Millions) | | Affected line items in consolidated statements of income |
|--|--|-----------------------|--|
| | Amount reclassified from accumulated other comprehensive income (loss) *1 | | |
| | 2019 | 2020 | |
| Foreign currency translation: | | | Other - net of other income (deductions) |
| | ¥ (5,744) | ¥ - | Tax (expense) or benefit |
| | 773 | - | Net of tax |
| | <u>(4,971)</u> | <u>-</u> | |
| Pension liability adjustments: | | | Other - net of other income (deductions)*2 |
| | (1,198) | (1,772) | Tax (expense) or benefit |
| | 124 | 84 | Net of tax |
| | <u>(1,074)</u> | <u>(1,688)</u> | |
| Net unrealized gains (losses) on securities: | | | Other - net of other income (deductions) |
| | 3 | 4 | Tax (expense) or benefit |
| | - | - | Net of tax |
| | <u>3</u> | <u>4</u> | |
| Total amount reclassified, net of tax | ¥ (6,042) | ¥ (1,684) | |

*1 Increase in amount indicate increase in profit and amount in parentheses indicate loss 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.

Tax effects allocated to each component of other comprehensive income (loss) and reclassification adjustments for the six-month ended September 30, 2019 and September 30, 2020 are as follows:

| For the six-month ended September 30, 2019 | Yen (Millions) | | |
|---|----------------------|--------------------------------|----------------------|
| | Before tax Amount | Tax (expense) or benefit | Net-of-tax Amount |
| Foreign currency translation adjustments: | | | |
| Gross foreign currency translation adjustments | ¥ (60,742) | ¥ 1,432 | ¥ (59,310) |
| Amount arising during the period from reclassification adjustment realized from liquidation of foreign entities | 5,744 | (773) | 4,971 |
| Net foreign currency translation adjustments | (54,998) | 659 | (54,339) |
| Pension liability adjustments: | | | |
| Amount arising during the period | (116) | 7 | (109) |
| Reclassification adjustments for amortization | 2,550 | (360) | 2,190 |
| Net pension liability adjustments | 2,434 | (353) | 2,081 |
| Unrealized gains (losses) on securities: | | | |
| Unrealized holding gains (losses) arising during the period | (33) | - | (33) |
| Reclassification adjustment | (3) | - | (3) |
| Net unrealized gains (losses) | (36) | - | (36) |
| Other comprehensive income (loss) | ¥ (52,600) | ¥ 306 | ¥ (52,294) |

| For the six-month ended September 30, 2020 | Yen (Millions) | | |
|---|----------------------|--------------------------------|----------------------|
| | Before tax Amount | Tax (expense) or benefit | Net-of-tax Amount |
| Foreign currency translation adjustments: | | | |
| Gross foreign currency translation adjustments | ¥ (716) | ¥ (478) | ¥ (1,194) |
| Amount arising during the period from reclassification adjustment realized from liquidation of foreign entities | 19 | 2 | 21 |
| Net foreign currency translation adjustments | (697) | (476) | (1,173) |
| Pension liability adjustments: | | | |
| Amount arising during the period | (5) | - | (5) |
| Reclassification adjustments for amortization | 3,540 | (167) | 3,373 |
| Net pension liability adjustments | 3,535 | (167) | 3,368 |
| Unrealized gains (losses) on securities: | | | |
| Unrealized holding gains (losses) arising during the period | 66 | - | 66 |
| Reclassification adjustment | (7) | - | (7) |
| Net unrealized gains (losses) | 59 | - | 59 |
| Other comprehensive income (loss) | ¥ 2,897 | ¥ (643) | ¥ 2,254 |

Tax effects allocated to each component of other comprehensive income (loss) and reclassification adjustments for the three-month ended September 30, 2019 and September 30, 2020 are as follows:

| For the three-month ended September 30, 2019 | Yen (Millions) | | |
|---|----------------------|--------------------------------|----------------------|
| | Before tax Amount | Tax (expense) or benefit | Net-of-tax Amount |
| Foreign currency translation adjustments: | | | |
| Gross foreign currency translation adjustments | ¥ (22,372) | ¥ 1,120 | ¥ (21,252) |
| Amount arising during the period from reclassification adjustment realized from liquidation of foreign entities | 5,744 | (773) | 4,971 |
| Net foreign currency translation adjustments | (16,628) | 347 | (16,281) |
| Pension liability adjustments: | | | |
| Amount arising during the period | - | - | - |
| Reclassification adjustments for amortization | 1,198 | (124) | 1,074 |
| Net pension liability adjustments | 1,198 | (124) | 1,074 |
| Unrealized gains (losses) on securities: | | | |
| Unrealized holding gains (losses) arising during the period | (19) | - | (19) |
| Reclassification adjustment | (3) | - | (3) |
| Net unrealized gains (losses) | (22) | - | (22) |
| Other comprehensive income (loss) | ¥ (15,452) | ¥ 223 | ¥ (15,229) |

| For the three-month ended September 30, 2020 | Yen (Millions) | | |
|---|----------------------|--------------------------------|----------------------|
| | Before tax Amount | Tax (expense) or benefit | Net-of-tax Amount |
| Foreign currency translation adjustments: | | | |
| Gross foreign currency translation adjustments | ¥ 4,326 | ¥ (171) | ¥ 4,155 |
| Amount arising during the period from reclassification adjustment realized from liquidation of foreign entities | - | - | - |
| Net foreign currency translation adjustments | 4,326 | (171) | 4,155 |
| Pension liability adjustments: | | | |
| Amount arising during the period | - | - | - |
| Reclassification adjustments for amortization | 1,772 | (84) | 1,688 |
| Net pension liability adjustments | 1,772 | (84) | 1,688 |
| Unrealized gains (losses) on securities: | | | |
| Unrealized holding gains (losses) arising during the period | 23 | - | 23 |
| Reclassification adjustment | (4) | - | (4) |
| Net unrealized gains (losses) | 19 | - | 19 |
| Other comprehensive income (loss) | ¥ 6,117 | ¥ (255) | ¥ 5,862 |

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) | | | |
|--|---|----------|---|----------|
| | Six-month ended September 30, 2019 | | Six-month ended September 30, 2020 | |
| | Basic | Diluted | Basic | Diluted |
| Net income attributable to TDK | ¥ 44,938 | ¥ 44,938 | ¥ 42,225 | ¥ 42,225 |
| | Number of shares (Thousands) | | | |
| Weighted average common shares outstanding | 126,298 | 126,298 | 126,321 | 126,321 |
| Incremental shares arising from the exercise of stock option | - | 283 | - | 262 |
| Weighted average common shares outstanding – Total | 126,298 | 126,581 | 126,321 | 126,583 |
| | Yen | | | |
| Per common share: | | | | |
| Net income attributable to TDK | ¥ 355.81 | ¥ 355.01 | ¥ 334.27 | ¥ 333.58 |
| | Yen (Millions) | | | |
| | Three-month ended September 30, 2019 | | Three-month ended September 30, 2020 | |
| | Basic | Diluted | Basic | Diluted |
| Net income attributable to TDK | ¥ 29,350 | ¥ 29,350 | ¥ 29,033 | ¥ 29,033 |
| | Number of shares (Thousands) | | | |
| Weighted average common shares outstanding | 126,306 | 126,306 | 126,323 | 126,323 |
| Incremental shares arising from the exercise of stock option | - | 275 | - | 260 |
| Weighted average common shares outstanding – Total | 126,306 | 126,581 | 126,323 | 126,583 |
| | Yen | | | |
| Per common share: | | | | |
| Net income attributable to TDK | ¥ 232.37 | ¥ 231.87 | ¥ 229.83 | ¥ 229.36 |

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 six-month and the three-month ended September 30, 2019 and September 30, 2020 as it was not probable that the performance condition would be achieved as of September 30, 2019 and September 30, 2020. For the six-month and the three-month ended September 30, 2020, restricted stock units and 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.

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. Contingent consideration to be recognized over several years is included in the total consideration amount, and realized or realizable portion are recognized in other operating expense (income) of consolidated statement of income for the six-month ended September 30, 2019. An option to put and call the remaining common shares of RF360 (49%) after 30 months after the closing date was granted to TDK and QGT, respectively. TDK exercised the option on August 30, 2019 and sold 49% of the common shares on September 16, 2019. The sales price was U.S.\$1.15 billion as stated in the option and the sales did not have a material impact on the consolidated statements of income for the year ended March 31, 2020 and March 31, 2021.

15. Revenue

TDK disaggregates revenue by industry segment, product and geographic segment based on contracts with customers. The following table presents disaggregation of revenue. Detailed information of geographic segment is presented in Note 17.

| | Yen (millions) | | | | | |
|----------------------------------|---------------------------------------|----------|----------|-----------|--------------------|-----------|
| | Six-month ended September 30, 2019 | | | | | |
| | Japan | Americas | Europe | China | Asia and others | Total |
| Capacitors | ¥9,187 | ¥ 13,889 | ¥ 19,312 | ¥ 23,828 | ¥ 12,706 | ¥ 78,922 |
| Inductive Devices | 9,879 | 7,436 | 20,172 | 24,569 | 7,755 | 69,811 |
| Other Passive Components | 5,303 | 4,590 | 12,807 | 20,980 | 7,727 | 51,407 |
| Passive Components | 24,369 | 25,915 | 52,291 | 69,377 | 28,188 | 200,140 |
| Sensor Application Products | 6,626 | 4,279 | 9,582 | 13,146 | 5,286 | 38,919 |
| Magnetic Application Products | 8,720 | 4,086 | 3,282 | 22,200 | 71,706 | 109,994 |
| Energy Application Products | 9,142 | 13,797 | 7,092 | 259,844 | 28,302 | 318,177 |
| Other | 4,808 | 1,797 | 1,467 | 29,627 | 2,100 | 39,799 |
| Net Sales Total | ¥ 53,665 | ¥ 49,874 | ¥ 73,714 | ¥ 394,194 | ¥ 135,582 | ¥ 707,029 |
| | Six-month ended September 30, 2020 | | | | | |
| | Japan | Americas | Europe | China | Asia and others | Total |
| Capacitors | ¥ 8,149 | ¥ 9,568 | ¥ 15,966 | ¥ 26,957 | ¥ 11,279 | ¥ 71,919 |
| Inductive Devices | 8,269 | 6,001 | 15,892 | 24,347 | 7,488 | 61,997 |
| Other Passive Components | 4,175 | 5,113 | 10,730 | 21,856 | 8,006 | 49,880 |
| Passive Components | 20,593 | 20,682 | 42,588 | 73,160 | 26,733 | 183,796 |
| Sensor Application Products | 5,936 | 3,156 | 8,205 | 13,338 | 3,856 | 34,491 |
| Magnetic Application Products | 8,858 | 2,450 | 3,817 | 19,539 | 54,037 | 88,701 |
| Energy Application Products | 11,287 | 12,729 | 9,104 | 286,118 | 38,279 | 357,517 |
| Other | 5,833 | 3,673 | 855 | 13,946 | 2,299 | 26,606 |
| Net Sales Total | ¥ 52,507 | ¥ 42,690 | ¥ 64,569 | ¥ 406,101 | ¥ 125,244 | ¥ 691,111 |

| Yen (millions) | | | | | | |
|---|----------|----------|----------|-----------|--------------------|-----------|
| Three-month ended September 30, 2019 | | | | | | |
| | Japan | Americas | Europe | China | Asia and others | Total |
| Capacitors | ¥ 4,748 | ¥ 6,915 | ¥ 9,492 | ¥ 12,020 | ¥ 6,468 | ¥ 39,643 |
| Inductive Devices | 4,995 | 3,854 | 9,931 | 12,946 | 3,936 | 35,662 |
| Other Passive Components | 2,603 | 2,451 | 6,391 | 10,963 | 4,158 | 26,566 |
| Passive Components | 12,346 | 13,220 | 25,814 | 35,929 | 14,562 | 101,871 |
| Sensor Application Products | 3,569 | 2,107 | 4,780 | 7,410 | 2,911 | 20,777 |
| Magnetic Application Products | 4,228 | 1,804 | 1,745 | 10,396 | 36,292 | 54,465 |
| Energy Application Products | 4,394 | 6,125 | 3,430 | 148,456 | 11,259 | 173,664 |
| Other | 2,752 | 824 | 802 | 14,003 | 1,056 | 19,437 |
| Net Sales Total | ¥ 27,289 | ¥ 24,080 | ¥ 36,571 | ¥ 216,194 | ¥ 66,080 | ¥ 370,214 |
| Three-month ended September 30, 2020 | | | | | | |
| | Japan | Americas | Europe | China | Asia and others | Total |
| Capacitors | ¥ 4,169 | ¥ 5,374 | ¥ 9,197 | ¥ 13,706 | ¥ 6,139 | ¥ 38,585 |
| Inductive Devices | 4,349 | 3,707 | 9,364 | 13,019 | 4,181 | 34,620 |
| Other Passive Components | 2,006 | 2,650 | 5,887 | 11,154 | 4,537 | 26,234 |
| Passive Components | 10,524 | 11,731 | 24,448 | 37,879 | 14,857 | 99,439 |
| Sensor Application Products | 3,071 | 1,974 | 4,624 | 7,968 | 2,151 | 19,788 |
| Magnetic Application Products | 4,598 | 1,043 | 2,465 | 9,299 | 33,018 | 50,423 |
| Energy Application Products | 5,784 | 8,428 | 4,901 | 155,934 | 25,615 | 200,662 |
| Other | 3,044 | 1,663 | 618 | 5,063 | 1,018 | 11,406 |
| Net Sales Total | ¥ 27,021 | ¥ 24,839 | ¥ 37,056 | ¥ 216,143 | ¥ 76,659 | ¥ 381,718 |

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 recognized 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, 2020 and September 30, 2020 were ¥970 million and ¥1,105 million, respectively, and included in other current liabilities in the balance sheets. Out of the advance received as of March 31, 2020, ¥584 million was recognized as revenue in the statements for the six-month ended September 30, 2020, and ¥136 million was recognized as revenue in the statements for the three-month ended September 30, 2020. The amounts of revenue recognized from performance obligations for the six-month and the three-month ended September 30, 2020 that had been satisfied in previous periods were not material.

There are no unsatisfied or partially unsatisfied performance obligations as of September 30, 2020. Furthermore, there is no balance of contract assets as of September 30, 2020.

16. Other operating expense (income)

Other operating expense (income) for the six-month ended September 30, 2019 and 2020 are as follows:

| | Yen (Millions) | |
|--|---------------------------------------|---------------------------------------|
| | Six-month ended September 30, 2019 | Six-month ended September 30, 2020 |
| Gain on sale of business (Note 14) | ¥ (1,585) | ¥- |
| Impairment of long-lived assets | 242 | 144 |
| Other operating expense (income) total | ¥ (1,343) | ¥ 144 |

Other operating expense (income) for the three-month ended September 30, 2019 and 2020 are as follows:

| | Yen (Millions) | |
|--|---|---|
| | Three-month ended September 30, 2019 | Three-month ended September 30, 2020 |
| Gain on sale of business (Note 14) | ¥ (718) | - |
| Impairment of long-lived assets | 242 | - |
| Other operating expense (income) total | ¥ (476) | - |

17. 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 six-month ended September 30, 2019 and September 30, 2020 are as follows:

Net sales

| | Yen (Millions) | |
|--------------------------------|-------------------------------|------------------|
| | Six-month ended September 30, | |
| | 2019 | 2020 |
| Passive Components: | | |
| External customers | ¥ 200,140 | ¥ 183,796 |
| Intersegment | 1,456 | 1,828 |
| | <u>201,596</u> | <u>185,624</u> |
| Sensor Application Products: | | |
| External customers | 38,919 | 34,491 |
| Intersegment | 58 | 154 |
| | <u>38,977</u> | <u>34,645</u> |
| Magnetic Application Products: | | |
| External customers | 109,994 | 88,701 |
| Intersegment | 3,358 | 405 |
| | <u>113,352</u> | <u>89,106</u> |
| Energy Application Products: | | |
| External customers | 318,177 | 357,517 |
| Intersegment | - | - |
| | <u>318,177</u> | <u>357,517</u> |
| Other: | | |
| External customers | 39,799 | 26,606 |
| Intersegment | 13,853 | 10,689 |
| | <u>53,652</u> | <u>37,295</u> |
| Intersegment eliminations | (18,725) | (13,076) |
| Total | <u>¥ 707,029</u> | <u>¥ 691,111</u> |

Segment profit (loss)

| | Yen (Millions) | |
|--------------------------------|-------------------------------|-----------------|
| | Six-month ended September 30, | |
| | 2019 | 2020 |
| Passive Components | ¥ 21,759 | ¥ 17,386 |
| Sensor Application Products | (12,549) | (12,320) |
| Magnetic Application Products | 6,748 | (2,486) |
| Energy Application Products | 68,950 | 79,570 |
| Other | (319) | (4,711) |
| Sub total | <u>84,589</u> | <u>77,439</u> |
| Corporate and eliminations | (15,746) | (15,033) |
| Operating income | 68,843 | 62,406 |
| Other income (deductions), net | (195) | 757 |
| Income before income taxes | <u>¥ 68,648</u> | <u>¥ 63,163</u> |

The business segment information for the three-month ended September 30, 2019 and September 30, 2020 are as follows:

Net sales

| | Yen (Millions) | |
|--------------------------------|---------------------------------|------------------|
| | Three-month ended September 30, | |
| | 2019 | 2020 |
| Passive Components: | | |
| External customers | ¥ 101,871 | ¥ 99,439 |
| Intersegment | 692 | 911 |
| | <u>102,563</u> | <u>100,350</u> |
| Sensor Application Products: | | |
| External customers | 20,777 | 19,788 |
| Intersegment | 43 | 64 |
| | <u>20,820</u> | <u>19,852</u> |
| Magnetic Application Products: | | |
| External customers | 54,465 | 50,423 |
| Intersegment | 576 | 97 |
| | <u>55,041</u> | <u>50,520</u> |
| Energy Application Products: | | |
| External customers | 173,664 | 200,662 |
| Intersegment | - | - |
| | <u>173,664</u> | <u>200,662</u> |
| Other: | | |
| External customers | 19,437 | 11,406 |
| Intersegment | 7,215 | 4,960 |
| | <u>26,652</u> | <u>16,366</u> |
| Intersegment eliminations | (8,526) | (6,032) |
| Total | <u>¥ 370,214</u> | <u>¥ 381,718</u> |

Segment profit (loss)

| | Yen (Millions) | |
|--------------------------------|---------------------------------|-----------------|
| | Three-month ended September 30, | |
| | 2019 | 2020 |
| Passive Components | ¥ 11,420 | ¥ 9,652 |
| Sensor Application Products | (5,528) | (5,055) |
| Magnetic Application Products | 3,450 | 1,358 |
| Energy Application Products | 42,481 | 48,311 |
| Other | (634) | (2,834) |
| Sub total | <u>51,189</u> | <u>51,432</u> |
| Corporate and eliminations | (7,326) | (7,466) |
| Operating income | <u>43,863</u> | <u>43,966</u> |
| Other income (deductions), net | 82 | (1,514) |
| Income before income taxes | <u>¥ 43,945</u> | <u>¥ 42,452</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 six-month ended September 30, 2019 and September 30, 2020 are as follows:

Net sales

| | Yen (Millions) | |
|-----------------|-------------------------------|------------------|
| | Six-month ended September 30, | |
| | 2019 | 2020 |
| Japan | ¥ 53,665 | ¥ 52,507 |
| Americas | 49,874 | 42,690 |
| Europe | 73,714 | 64,569 |
| China | 394,194 | 406,101 |
| Asia and others | 135,582 | 125,244 |
| Total | ¥ 707,029 | ¥ 691,111 |

The geographic segment information for the three-month ended September 30, 2019 and September 30, 2020 are as follows:

Net sales

| | Yen (Millions) | |
|-----------------|---------------------------------|------------------|
| | Three-month ended September 30, | |
| | 2019 | 2020 |
| Japan | ¥ 27,289 | ¥ 27,021 |
| Americas | 24,080 | 24,839 |
| Europe | 36,571 | 37,056 |
| China | 216,194 | 216,143 |
| Asia and others | 66,080 | 76,659 |
| Total | ¥ 370,214 | ¥ 381,718 |

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, India, Thailand, Vietnam

18. Significant Subsequent Events

TDK decided to establish a subsidiary in Singapore in a meeting of its Board of Directors meeting held on October 30, 2020. The subsidiary falls into the category of specific subsidiaries because the amount of its common stock is more than 10% of the amount of the common stock of TDK.

(1) Purpose of establishing the subsidiary

While TDK positions the electronic components business based on magnetic materials technology as its core business, it is working hard to develop its businesses to enhance its corporate value sustainably, responding to new market trends centered on DX (Digital Transformation) and EX (Energy Transformation) that have emerged in recent years. Above all, demand for rechargeable batteries is expected to continue to increase, given global needs for renewable energy and greater energy efficiency. TDK has decided to establish a subsidiary in Singapore to expand the market in Asia, and in step with this further expand its business in Asia where the market for rechargeable batteries is expected to grow.

(2) Profile of the subsidiary

| | |
|------------------------|---|
| Name | : Amperex Technology (Singapore) Pte. Ltd. |
| Location | : Singapore, Eunos |
| Representative | : Rick Thong |
| Business | : Financial center, procurement center, investment of Amperex Technology Ltd. group in Asia |
| Capital | : U.S.\$ 200 million |
| Date of Establishment: | January 2021 (planned) |
| Investment ratio | : TDK Corporation 100% |