

# Analysis of operating results and financial situation

## Review of fiscal 2017

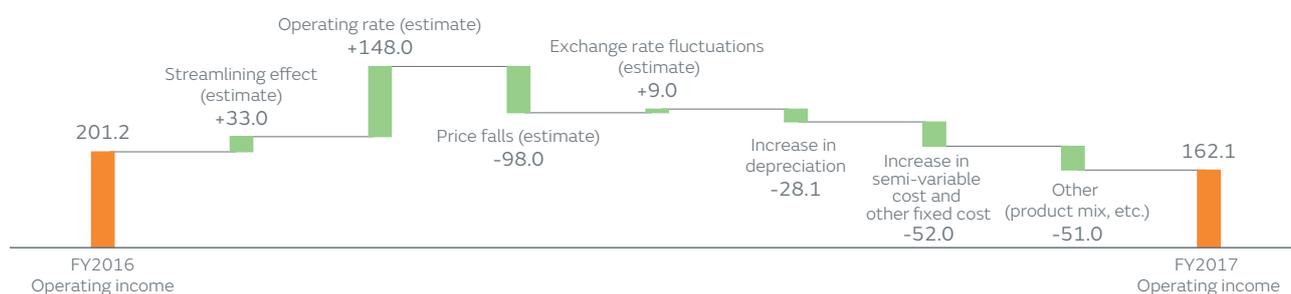
In fiscal 2017, while some products for the smartphone market suffered from lower shipments in China, the increasing functional sophistication of terminals led to higher added value for components and steady growth in the number of components used per phone, especially in high-end models. Furthermore, in the automotive electronics market, there was a sharp increase in the amount of electrical equipment installed in vehicles due to improvements in vehicle environmental performance and safety, generating significantly higher demand for electronic components.

Under such circumstances, by focusing on promising markets, Murata increased net sales by 20.8% year-on-year to 1,371.8 billion yen in fiscal 2017. This was primarily due to the consolidation of the lithium-ion battery business, whose acquisition process from Sony

Corporation was completed on September 1, 2017, as well as the effect of the exchange rate (the yen's depreciation of 2.44 yen against the dollar compared with the previous fiscal year).

An increase in the production of capacitors, etc., for which demand is expanding in various applications, and high operation capacity boosted profits. However, this was offset by negative factors such as the decline in product prices and the increases in depreciation and investment expenses, mainly in buildings and production facilities related to the expansion of production of new products. As a result, operating income was 162.1 billion yen, down 19.4%, income before income taxes was 167.8 billion yen, down 16.3%, and net income attributable to the Murata Corporation was 146.1 billion yen, down 6.4% from the previous fiscal year.

### ● Actual increase/decrease in operating income (Billion yen)



### Sales by product

(Billion yen, %)

	FY2016 results	FY2017 results	Increase/decrease	Reasons for increase/decrease
Capacitors	369.5	449.8	+80.3 (+21.7%)	Compact large-capacity chip multilayer ceramic capacitors for new smartphone models grew substantially. Products for automotive electronics where vehicle electrification is progressing, and those for PCs were also strong, generating a significant sales increase.
Piezoelectric Components	170.0	152.0	-18.0 (-10.6%)	SAW filters suffered from sluggish sales due to lower production of smartphones in China.
Other Components	222.3	322.3	+100.1 (+45.0%)	Substantial sales growth was achieved as demand for coils for automotive electronics increased, and sales in the lithium-ion battery business acquired in September 2017 were added.
Communication Modules	325.7	395.0	+69.3 (+21.3%)	Short-range wireless communication modules and MetroCirc™ for high-end smartphones substantially grew and increased sales.
Power Supplies and Other Modules	45.1	48.9	+3.8 (+8.3%)	Sales increased as products for industrial electrical equipment posted solid growth.
Total Product Net Sales	1,132.6	1,368.0	+235.4 (+20.8%)	

## Consolidated Balance Sheets

(Millions of yen)

	End of FY2016 March 31, 2017	End of FY2017 March 31, 2018
<b>Assets</b>		
<b>Current assets</b>	871,431	810,260
Cash	170,929	168,902
Short-term investments	173,401	30,747
Marketable securities	53,043	20,790
Trade notes receivable	271	2,895
Trade accounts receivable	209,596	256,140
Allowance for doubtful notes and accounts	(905)	(1,159)
Inventories	211,447	290,257
Deferred income taxes	25,890	—
Prepaid expenses and other	27,759	41,688
<b>Property, plant and equipment</b>	507,969	705,229
Land	50,761	64,772
Buildings	394,239	467,427
Machinery and equipment	950,280	1,104,592
Construction in progress	40,035	97,090
Accumulated depreciation	(927,346)	(1,028,652)
<b>Investments and other assets</b>	255,599	281,524
Investments	103,468	87,288
Intangible assets	48,883	54,347
Goodwill	62,102	76,914
Deferred income taxes	5,259	36,346
Other	35,887	26,629
<b>Total assets</b>	1,634,999	1,797,013
<b>Liabilities</b>		
<b>Current liabilities</b>	208,734	261,812
Short-term borrowings	46,118	13,500
Trade accounts payable	57,918	94,074
Accrued payroll and bonuses	34,075	38,041
Income taxes payable	7,240	24,968
Accrued expenses and other	63,383	91,229
<b>Long-term liabilities</b>	70,931	77,985
Long-term debt	545	742
Termination and retirement benefits	59,324	67,843
Deferred income taxes	9,677	7,675
Other	1,385	1,725
<b>Total liabilities</b>	279,665	339,797
<b>Equity</b>		
<b>Murata Corporation's Shareholders' equity</b>	1,354,819	1,456,600
Common stock	69,377	69,444
Capital surplus	114,290	120,596
Retained earnings	1,241,180	1,336,208
Accumulated other comprehensive loss	(14,219)	(16,052)
Unrealized gains on securities	6,127	7,576
Pension liability adjustments	(15,652)	(16,995)
Foreign currency translation adjustments	(4,694)	(6,633)
Treasury stock, at cost	(55,809)	(53,596)
<b>Noncontrolling interests</b>	515	616
<b>Total equity</b>	1,355,334	1,457,216
<b>Total liabilities and equity</b>	1,634,999	1,797,013

## Consolidated Statements of Income

(Millions of yen)

	FY2016 April 1, 2016 - March 31, 2017	FY2017 April 1, 2017 - March 31, 2018
Net sales	1,135,524	1,371,842
Cost of sales	703,129	926,929
Selling, general and administrative	149,371	187,602
Research and development	81,809	94,056
<b>Operating income</b>	201,215	163,255
Interest and dividend income	2,449	2,854
Interest expense	(272)	(581)
Foreign currency exchange loss	(4,815)	(7,299)
Gain on bargain purchase	—	6,442
Other - net	1,841	3,130
<b>Income before income taxes</b>	200,418	167,801
Income taxes	44,342	21,749
<Current income tax>	<39,813>	<48,538>
<Deferred income tax>	<4,529>	<(26,789)>
<b>Net income</b>	156,076	146,052
Less: Net income (loss) attributable to noncontrolling interests	16	(34)
<b>Net income attributable to Murata Corporation</b>	156,060	146,086

## Consolidated Statements of Comprehensive Income

(Millions of yen)

	FY2016 April 1, 2016 - March 31, 2017	FY2017 April 1, 2017 - March 31, 2018
Net income	156,076	146,052
Other comprehensive income (loss), net of tax		
Unrealized gains on securities	3,141	1,449
Pension liability adjustments	8,822	(1,343)
Foreign currency translation adjustments	(9,895)	(1,925)
<b>Other comprehensive income (loss)</b>	2,068	(1,819)
<b>Comprehensive income</b>	158,144	144,233
Less: Comprehensive loss attributable to noncontrolling interests	(2)	(20)
<b>Comprehensive income attributable to Murata Corporation</b>	158,146	144,253

## Consolidated Statements of Shareholders' Equity

(Unit: shares, millions of yen)

	Number of common shares issued						Controlling interests	Noncontrolling interests	Total equity
		Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive loss	Treasury stock			
Balance at March 31, 2016	225,263,592	69,377	103,865	1,131,809	(15,532)	(60,360)	1,229,159	14,820	1,243,979
Purchases of treasury stock at cost						(88)	(88)		(88)
Disposal of treasury stock			3			2	5		5
Net income				156,060			156,060	16	156,076
Cash dividends				(46,689)			(46,689)		(46,689)
Other comprehensive income, net of tax					2,086		2,086	(18)	2,068
Equity transaction with noncontrolling interests and other			10,422		(773)	4,637	14,286	(14,303)	(17)
Balance at March 31, 2017	225,263,592	69,377	114,290	1,241,180	(14,219)	(55,809)	1,354,819	515	1,355,334
Purchases of treasury stock at cost						(53)	(53)		(53)
Disposal of treasury stock			6,272			2,266	8,538		8,538
Net income				146,086			146,086	(34)	146,052
Cash dividends				(51,058)			(51,058)		(51,058)
Other comprehensive loss, net of tax					(1,833)		(1,833)	14	(1,819)
Restricted stock compensation	7,835	67	34				101		101
Equity transaction with noncontrolling interests and other								121	121
Balance at March 31, 2018	225,271,427	69,444	120,596	1,336,208	(16,052)	(53,596)	1,456,600	616	1,457,216

## Consolidated Statements of Cash Flows

(Millions of yen)

	FY2016	FY2017
	April 1, 2016 - March 31, 2017	April 1, 2017 - March 31, 2018
Operating activities		
Net income	156,076	146,052
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	113,523	141,625
Losses on sales and disposals of property, plant and equipment	1,867	1,620
Provision for termination and retirement benefits, less payments	(1,040)	(771)
Deferred income taxes	4,529	(26,789)
Gain on bargain purchase	—	(6,442)
Changes in assets and liabilities		
Increase in trade notes and accounts receivable	(14,317)	(30,135)
(Increase) decrease in inventories	5,032	(47,268)
Increase in prepaid expenses and other	(4,916)	(11,970)
Increase in trade notes and accounts payable	650	24,873
Increase (decrease) in accrued payroll and bonuses	(2,394)	970
Increase (decrease) in income taxes payable	(22,678)	17,784
Increase in accrued expenses and other	7,586	10,433
Other - net	2	5,267
Net cash provided by operating activities	243,920	225,249
Investing activities		
Capital expenditures	(158,579)	(306,608)
Payment for purchases of marketable securities, investments and other	(58,967)	(13,016)
Maturities and sales of marketable securities, investments and other	45,192	57,131
(Increase) decrease in long-term deposits	(22,591)	1,081
Decrease in short-term investments	5,982	98,424
Acquisition of businesses, net of cash acquired	(14,725)	(33,648)
Other - net	991	2,471
Net cash used in investing activities	(202,697)	(194,165)
Financing activities		
Net increase (decrease) in short-term borrowings	39,673	(32,618)
Proceeds from long-term debt	—	403
Repayment of long-term debt	(4,662)	(353)
Dividends paid	(46,689)	(51,058)
Other - net	(51)	41
Net cash used in financing activities	(11,729)	(83,585)
Effect of exchange rate changes on cash and cash equivalents	(2,880)	1,227
Net increase (decrease) in cash and cash equivalents	26,614	(51,274)
Cash and cash equivalents at beginning of year	212,570	239,184
Cash and cash equivalents at end of year	239,184	187,910
Additional cash and cash equivalents information		
Cash	170,929	168,902
Short-term investments	173,401	30,747
Short-term investments with the original maturities over 3 months	(105,146)	(11,739)
Cash and cash equivalents at end of year	239,184	187,910