

BUSINESS REPORT

FOR THE 81ST FISCAL TERM

FROM APRIL 1, 2016
TO MARCH 31, 2017

10-1, Higashikotari 1-chome, Nagaokakyo-shi, Kyoto, Japan
Murata Manufacturing Co., Ltd.
Tsuneo Murata
President and Representative Director
Member of the Board of Directors

Business Report

From April 1, 2016
to March 31, 2017

1. Matters Concerning Status of the Corporate Group

(1) Main business areas

The Murata Manufacturing Co., Ltd. (the "Company") and its subsidiaries (collectively, the "Group") are electronic component manufacturers that primarily engage in manufacturing and sales of electronic components and related products primarily of ceramic material, Components (such as capacitors and piezoelectric products) and Modules (communications modules and power supplies), and conducts vertically integrated technological development and manufacturing, from inorganic and organic materials, to ceramics and electronic components. Through the creation of original products that utilize a technological base featuring uniquely developed and accumulated materials development, process development, product design, manufacturing technology, and software, analysis, and evaluation to support the above, the Group conducts sales for various electronic components that are used in products such as AV devices, communications devices, computers and peripheral devices, automotive electronics, and domestic electric devices.

(2) Business progress and results

1) Business conditions

For the period under review, the global economic environment showed slow recovery as a whole: the economic situation in the U.S. developed steadily due to improvements in employment and private income. Europe continued its slow economic recovery, bolstered by an easing of credit. China showed a pause in its economic slowdown owing to various government measures. On the other hand, there were no clear signs of full recovery, primarily due to concerns over possible reductions in trade resulting from protectionism and political uncertainties in Europe.

In the electronics market, while the growth rate in the number of smartphones sold decreases, improvements in the functions of smartphones contributed to an increased number of electronic components per terminal, so continued growth is expected. In car electronics, the growing number of electric components installed in vehicles for safety and convenience increased demand for electronic components.

For the period under review, the Group achieved net sales of 1,135,524 million yen, a 6.2% year-on-year decrease. While the Group focused on promising markets, achieving growth in the sales volumes of components and primarily of general-purpose products, net sales of these products only represented a slight increase due to price declines and the yen's appreciation of 11.72 yen against the dollar compared with the previous fiscal year. A further negative impact came as modules suffered a substantial reduction in net sales.

Operating income was 201,215 million yen, down 26.9%, income before income taxes was 200,418 million yen, down 28.2%, and net income attributable to Murata Corporation was 156,060 million yen, down 23.4% from the previous fiscal year. Positive contributions such as cost reduction initiatives and the ongoing introduction of new products were more than offset by negative factors including price declines, higher depreciation and amortization, and the stronger yen.

2) Sales by product category

Net sales by product category for the period under review are as follows.

(Orders and sales by product category)

	81st Fiscal Term (From April 1, 2016 to March 31, 2017)			
	Orders received	Net sales		
	Amount	Amount	Component ratio as a percentage of net sales	Year-on-year change
	Millions of yen	Millions of yen	%	%
Capacitors	397,343	369,488	32.6	100.6
Piezoelectric Components	153,817	170,012	15.0	105.0
Other Components	226,041	222,259	19.7	96.2
Components total	777,201	761,759	67.3	100.2
Communication Modules	333,141	325,736	28.7	82.4
Power Supplies and Other Modules	46,177	45,100	4.0	87.3
Modules total	379,318	370,836	32.7	83.0
Total	1,156,519	1,132,595	100.0	93.8

<Components>

Sales of Components for the period under review increased by 0.2% year-on-year to 761,759 million yen.

[Capacitors]

The Capacitors category includes multilayer ceramic capacitors (MLCCs).

For the period under review, sales of MLCCs for communication equipment, the main product in this category, decreased in yen terms due to the stronger yen and price declines, while they increased in quantity sold because of improvements in the functions of smartphones. In addition, sales of components for car electronics increased substantially as a result of the progress in the electrification of vehicles. Products for computers and peripherals equipment were also very successful.

As a result, overall net sales increased by 0.6% year-on-year to 369,488 million yen.

[Piezoelectric Components]

The Piezoelectric Components category includes SAW (surface acoustic wave) filters, ceramic resonators, piezoelectric sensors, and ceramic filters.

For the period under review, sales of SAW filters increased as a result of the penetration of multiband smartphones. Ultrasonic sensors for automotive safety equipment grew in sales, as did actuators for hard disk drives.

As a result, overall net sales increased by 5.0% year-on-year to 170,012 million yen.

[Other Components]

Other Components include inductors (coils), EMI (electro-magnetic interference) suppression filters, connectors, sensors and thermistors.

For the period under review, RF coils for smartphones increased in sales, while connectors for smartphones suffered a sales decline due to a reduction in the number of connectors used in the smartphone models the Companies cater to.

As a result, overall net sales decreased by 3.8% year-on-year to 222,259 million yen.

<Modules>

Sales of Modules for the period under review decreased by 17.0% year-on-year to 370,836 million yen.

[Communication Modules]

The Communication Modules category includes short-range wireless communication modules, RF sub modules, circuit modules, and multilayer ceramic devices.

For the period under review, short-range wireless communication modules, RF sub modules, and circuit modules for high-end smartphones suffered from substantial declines in sales. This was due to the stronger yen, reductions in the manufacturing of smartphones integrating Company's components, and a reduction in the Company's share of orders won from a specific customer.

As a result, overall net sales decreased by 17.6% year-on-year to 325,736 million yen.

[Power Supplies and Other Modules]

This product category includes power supplies.

For the period under review, net sales of power supplies for car electronics and office automation equipment suffered declines.

As a result, overall net sales decreased by 12.7% year-on-year to 45,100 million yen.

(3) Issues to be addressed

The global electronics market is expected to grow in the medium to long-term, driven by new demand for sophisticated and multifunctional electronic components and increased demand for consumer electronics market centering on smartphones. The automotive market is also certain to grow due to its advance electrification. Additionally, it is expected that future demand for electronics components will expand and shift to new applications, which will become the next primary market, such as energy and healthcare/medical.

For rapidly growing markets, the Group intends to strengthen its sales and marketing abilities, and enhance manufacturing capacity, launch new, high value-added products earlier than its competitors and contribute to the trend of reduced size and thickness of electronic devices, add more manifold functions, and also create new business models and customer value.

To keep up with the market demands for price reductions, the Group will not only reduce manufacturing costs, it will also increase manufacturing at overseas factories in China, Thailand, Malaysia and the Philippines. The aim is to reduce costs and mitigate foreign exchange fluctuation risk to improve corporate value.

By completing the transfer of Sony Group's battery business in July 2017, the Company will take over the successful division of Sony, which is known for its high technological abilities and global business experience. The battery business will be positioned at the core of our energy business, contributing to its

growth and expansion.

In regard to corporate social responsibility, the Group will develop its business with equal emphasis on environmental preservation (E), social responsibility (S), and corporate governance (G).

The Group defines corporate governance as one of the most important principles of management. While taking all stakeholders into consideration, we commit ourselves to always keeping an optimal management structure in place to ensure the sound growth and development of the Group. In June 2016, the Company succeeded in transitioning to a “Company with a Board with Audit Committee Structure.” With this change, we will make an even stronger commitment towards ensuring faster decisions, more flexible operations, and even stronger supervisory functions of the Board of Directors.

(4) Status of capital expenditures

During the period under review, the Group had capital expenditures totaling 158,579 million yen.

Primary components were 88,869 million yen in reinforcement and rationalization of manufacturing facilities of the Group, 35,096 million yen in the acquisition of land and buildings, and 12,888 million yen in reinforcement of research and development facilities.

No eliminations or sales were carried out that had a significant effect on manufacturing capabilities.

(5) Status of property and profits

1) Status of property and profits of Murata Corporation

	(Millions of yen, %)						
	78th Fiscal Term From April 1, 2013 to March 31, 2014	79th Fiscal Term From April 1, 2014 to March 31, 2015		80th Fiscal Term From April 1, 2015 to March 31, 2016		81st Fiscal Term From April 1, 2016 to March 31, 2017	
	Amount	Amount	Year-on-year change	Amount	Year-on-year change	Amount	Year-on-year change
Net sales	846,716	1,043,542	123.2	1,210,841	116.0	1,135,524	93.8
Income before Income taxes	132,336	238,400	180.1	279,173	117.1	200,418	71.8
Net income attributable to Murata Corporation	93,191	167,711	180.0	203,776	121.5	156,060	76.6
Total assets	1,243,687	1,431,303	115.1	1,517,784	106.0	1,634,999	107.7
Shareholders' equity	955,760	1,123,090	117.5	1,229,159	109.4	1,354,819	110.2
Basic earnings attributable to Murata Corporation per share	Yen 440.63	Yen 792.19	-	Yen 962.55	-	Yen 733.87	-
Shareholders' equity ratio	% 76.8	% 78.5	-	% 81.0	-	% 82.9	-

- (Notes)
1. The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America.
 2. The basic earnings attributable to Murata Corporation per share are calculated based on “Accounting Standards Codification (ASC) 260: Earnings Per Share” published by the Financial Accounting Standards Board (FASB) of the United States of America.
 3. Amounts of less than one million yen are rounded to the nearest million yen.

2) Status of property and profits of the Company

	(Millions of yen, %)						
	78th Fiscal Term From April 1, 2013 to March 31, 2014	79th Fiscal Term From April 1, 2014 to March 31, 2015		80th Fiscal Term From April 1, 2015 to March 31, 2016		81st Fiscal Term From April 1, 2016 to March 31, 2017	
	Amount	Amount	Year-on-year change	Amount	Year-on-year change	Amount	Year-on-year change
Net sales	635,028	752,660	118.5	889,121	118.1	831,136	93.5
Income before income taxes and extraordinary items	57,892	120,840	208.7	95,732	79.2	73,134	76.4
Net income	51,231	98,694	192.6	80,721	81.8	75,754	93.8
Total assets	714,395	855,498	119.8	840,658	98.3	942,873	112.2
Net assets	430,671	499,356	115.9	533,022	106.7	580,270	108.9
Basic earnings per share	Yen 242.23	Yen 466.18	-	Yen 381.29	-	Yen 356.23	-
Shareholders' equity ratio	% 60.3	% 58.4	-	% 63.4	-	% 61.5	-

(Note) Amounts of less than one million yen are rounded to the nearest million yen.

(6) Primary sites and status of significant subsidiaries of the Company

1) The Company (As of March 31, 2017)

Name	Location
Head Office	Nagaokakyo-shi, Kyoto
Tokyo Branch	Shibuya-ku, Tokyo
Yokaichi Plant	Higashiomi-shi, Shiga
Yasu Division	Yasu-shi, Shiga
Yokohama Technical Center	Yokohama-shi, Kanagawa
Nagaoka Plant	Nagaokakyo-shi, Kyoto

2) Subsidiaries (As of March 31, 2017)

Company name	Capital	Share of voting rights held by the Company	Primary business areas	Head office location
Fukui Murata Manufacturing Co., Ltd.	Millions of yen 300	100 %	Manufacturing of components	Echizen-shi, Fukui
Izumo Murata Manufacturing Co., Ltd.	430	100	Manufacturing of components	Izumo-shi, Shimane
Toyama Murata Manufacturing Co., Ltd.	450	100	Manufacturing of components and modules	Toyama-shi, Toyama
Komatsu Murata Manufacturing Co., Ltd.	300	100	Manufacturing of modules	Komatsu-shi, Ishikawa
Kanazawa Murata Manufacturing Co., Ltd.	480	100	Manufacturing of components	Hakusan-shi, Ishikawa
Okayama Murata Manufacturing Co., Ltd.	480	100	Manufacturing of components and modules	Setouchi-shi, Okayama
TOKO, INC.	100	100	Development of components	Tsurugashima-shi, Saitama
Komoro Murata Manufacturing Co., Ltd.	100	100	Manufacturing of modules	Komoro-shi, Nagano
Murata Electronics North America, Inc.	Thousands of US\$ 14,406	100	Sales of products of the Company and its subsidiaries	United States of America
Murata Company Limited	Thousands of HK\$ 1,900,000	100	Sales of products of the Company and its subsidiaries	People's Republic of China
Murata (China) Investment Co., Ltd.	Thousands of US\$ 145,000	100	Marketing and engineering activities in Greater China, General management of Chinese sales companies	People's Republic of China
Murata Electronics Trading (Shanghai) Co., Ltd.	Thousands of US\$ 23,400	100 (Note)	Sales of products of the Company and its subsidiaries	People's Republic of China
Wuxi Murata Electronics Co., Ltd.	Thousands of US\$ 282,000	100 (Note)	Manufacturing of components	People's Republic of China
Shenzhen Murata Technology Co., Ltd.	Thousands of US\$ 58,100	100 (Note)	Manufacturing of modules	People's Republic of China
Murata Electronics Europe B.V.	Thousands of EURO 220,000	100	Sales of products of the Company and its subsidiaries	Kingdom of the Netherlands
Korea Murata Electronics Company, Limited	Thousands of WON 1,500,000	100	Sales of products of the Company and its subsidiaries	Republic of Korea
Philippine Manufacturing Co. of Murata, Inc.	Thousands of PHP 6,300,000	100	Manufacturing of components	Republic of the Philippines

(Note) Ratio includes indirect holdings.

3) Progress and results of business combinations

1. Based on a share exchange agreement concluded between the Company and TOKO, INC., the latter became a wholly owned subsidiary of the Company on May 1, 2016.
2. Following acquisition of shares of IPDiA S.A. on October 17, 2016, Murata Electronics Europe B.V. made it a wholly owned subsidiary, with an aim to strengthen and expand its condenser business by adding silicon passive components to the product lineup.
3. The Company acquired shares of Primatec Inc. on November 1, 2016, and made it a wholly owned subsidiary to strengthen technologies on highly functional polymer and other advanced materials.
4. The number of consolidated subsidiaries is 96, including 17 significant subsidiaries above. The results of business combinations are as stated in "1. Matters concerning status of the corporate group (2) Business progress and results."

(7) Employees

1) Employees of the Group

Number of employees	
As of March 31, 2017	Year-on-year change
Persons	Persons
59,985	5,311

(Note) The number of employees is the number of persons in regular employment at the Company (excluding persons seconded outside of the Group), and does not include seasonal, part-time, or temporary employees (1,531 persons).

2) Employees of the Company

Number of employees		Average age	Average length of service
As of March 31, 2017	Year-on-year change		
Persons	Persons	Years old	Years
7,899	331	40.1	14.6

(Note) The number of employees is the number of persons in regular employment at the Company (excluding persons seconded to subsidiaries, etc., but including persons seconded from subsidiaries, etc.), and does not include seasonal, part-time, or temporary employees (162 persons).

(8) Source of borrowings (As of March 31, 2017)

(Millions of yen)

Counterparty	Balance of borrowings
Sumitomo Mitsui Banking Corporation	36,577
Mizuho Bank, Ltd.	9,537
Other	892
Total	47,006

2. Matters Concerning Stock (As of March 31, 2017)

- (1) Total number of authorized shares 581,000,000 shares (Share unit: 100 shares)
- (2) Total number of issued shares 225,263,592 shares (Includes 12,525,306 shares of treasury stock)
- (3) Number of shareholders 56,576 persons
- (4) Major shareholders (Top 10)

Shareholder name	Number of shares held (Thousands of shares)	Ownership ratio (%)
JP Morgan Chase Bank 380055	18,541	8.7
Japan Trustee Services Bank, Ltd. (Trust Account)	11,389	5.4
The Master Trust Bank of Japan, Ltd. (Trust Account)	7,699	3.6
Nippon Life Insurance Company	7,361	3.5
State Street Bank and Trust Company	6,977	3.3
The Bank of Kyoto, Ltd.	5,260	2.5
Meiji Yasuda Life Insurance Company	5,240	2.5
JPMC OPPENHEIMER JASDEC LENDING ACCOUNT	4,836	2.3
Japan Trustee Services Bank, Ltd. (Trust Account 5)	3,854	1.8
The Shiga Bank, Ltd.	3,551	1.7

(Note) Ownership ratio is calculated after subtracting treasury stock (12,525 thousand shares) from the number of issued shares.

3. Matters Concerning Corporate Officers of the Company

(1) Members of the Board of Directors (As of March 31, 2017)

Post	Positions and responsibilities	Name	Significant concurrent positions	
President	Representative Director	Tsuneo Murata	Murata Science Foundation	Chairman
Executive Deputy President	Representative Director	Yoshitaka Fujita	The Murata (China) Investment Co., Ltd.	President
Member of the Board of Directors	Executive Vice President Director of Components Business Unit	Toru Inoue	Fukui Murata Manufacturing Co., Ltd. Izumo Murata Manufacturing Co., Ltd. Toyama Murata Manufacturing Co., Ltd.	President and Representative Director President and Representative Director President and Representative Director
Member of the Board of Directors	Executive Vice President Director of Communication & Sensor Business Unit	Norio Nakajima	Kanazawa Murata Manufacturing Co., Ltd. Okayama Murata Manufacturing Co., Ltd.	President and Representative Director President and Representative Director
Member of the Board of Directors	Director of Energy Business Unit Executive Vice President Director of Corporate Technology & Business Development Unit	Hiroshi Iwatsubo		
Member of the Board of Directors	Senior Vice President General Manager of Accounting, Finance, and Corporate Planning Group	Yoshito Takemura		
Member of the Board of Directors	Senior Vice President Director of Healthcare Business Division Director of New Business Unit	Satoshi Ishino		
Member of the Board of Directors		Takashi Shigematsu	FUJITSU TEN LIMITED. Bando Chemical Industries, Ltd.	Chairman and Representative Director Outside Director who is an Audit & Supervisory Committee Member
Member of the Board of Directors	Audit and Supervisory Committee Member (Standing)	Junichi Tanaka		
Member of the Board of Directors	Audit and Supervisory Committee Member	Hiroaki Yoshihara	Hitachi, Ltd.	Outside Director who is an Audit Committee Member
Member of the Board of Directors	Audit and Supervisory Committee Member	Masakazu Toyoda	The Institute of Energy Economics, Japan Nitto Denko Corporation CANON ELECTRONICS INC.	Chairman & CEO Outside Statutory Auditor Outside Director
Member of the Board of Directors	Audit and Supervisory Committee Member	Hiroshi Ueno		

- (Notes)
1. Based on a resolution at the 80th Ordinary General Meeting of Shareholders held on June 29, 2016, the Company transitioned to a Company with Audit and Supervisory Committee. In line with the above, Member of the Board of Directors Mr. Hiroaki Yoshihara and Statutory Auditors Messrs. Junichi Tanaka, Kiyoshi Iwai, Masakazu Toyoda, Shizuo Nakanishi, and Kazuto Nishikawa retired due to expiration of their respective terms of office. Additionally, on the same date, Messrs. Junichi Tanaka, Hiroaki Yoshihara, Masakazu Toyoda, and Hiroshi Ueno were each newly elected as Members of the Board of Directors and Audit and Supervisory Committee Members, and assumed their positions.
 2. Members of the Board of Directors Messrs. Takashi Shigematsu, Hiroaki Yoshihara, Masakazu Toyoda, and Hiroshi Ueno are Outside Directors as stipulated by Article 2, Paragraph 15 of the Companies Act.
 3. Member of the Board of Directors and Audit and Supervisory Committee Member Mr. Junichi Tanaka has experience in finance and accounting operations at the Company, and possesses adequate knowledge in the fields of finance and accounting.

Member of the Board of Directors and Audit and Supervisory Committee Member Mr. Hiroaki Yoshihara was involved in operations regarding accounting, etc. at the KPMG Group for many years, and possesses adequate knowledge in the fields of finance and accounting. Member of the Board of Directors and Audit and Supervisory Committee Member Mr. Hiroshi Ueno has experience in important positions at the Ministry of Finance and National Tax Agency, and possesses adequate knowledge in the fields of finance and accounting.

4. Member of the Board of Directors and Audit and Supervisory Committee Member Mr. Junichi Tanaka is a Standing Audit and Supervisory Committee Member.

The Company designates a Standing Audit and Supervisory Committee Member to improve the effectiveness of audits and supervision of the Audit and Supervisory Committee through collecting information by attending important internal meetings on a daily basis and deep cooperation with the Independent Auditor and Internal Audit Department, etc.

5. There are no special interests between the Group and companies, etc. at which Member of the Board of Directors Mr. Takashi Shigematsu and Members of the Board of Directors and Audit and Supervisory Committee Members Messrs. Hiroaki Yoshihara and Masakazu Toyoda hold concurrent positions.
6. The Company has designated Member of the Board of Directors Mr. Takashi Shigematsu and Members of the Board of Directors and Audit and Supervisory Committee Members Messrs. Hiroaki Yoshihara, Masakazu Toyoda and Hiroshi Ueno as Independent Directors/Auditors as specified in the regulations of the Tokyo Stock Exchange and notified the exchange accordingly.
7. The Company has a total of 20 Vice Presidents. Aside from Members of the Board of Directors above that hold concurrent positions as Director, the Company has 15 Vice Presidents.

(2) Summary of liability limitation agreements

The Company has entered into liability limitation agreements with Directors (excluding those who are the executive officers) to restrict liabilities for damages as stipulated by Article 423, Paragraph 1 of the Companies Act based on the provisions of Article 427, Paragraph 1 of the Companies Act. The liability limit under these agreements is the minimum liability amount stipulated in Article 425, Paragraph 1 of the Companies Act.

(3) Compensation, etc., of Members of the Board of Directors and Statutory Auditors

Category	Persons	Amount of compensation, etc.
Directors (excluding those who are not Audit and Supervisory Committee Members)	Persons 9	Millions of yen 420
Directors who are Audit and Supervisory Committee Members	4	51
Statutory Auditors	5	18
Total	18	489

- (Notes) 1. The above number includes Members of the Board of Directors and Statutory Auditors who retired during the fiscal year ended March 31, 2017. Additionally, the Company transitioned to a Company with Audit and Supervisory Committee on June 29, 2016 (hereinafter the "Transition").
2. The total number of persons receiving compensation is cumulative. The actual number of persons eligible for compensation is 15.
3. Of the above, the cumulative total number of Outside Officers is 8, and the actual number of persons eligible for compensation is 6.
4. Amounts of compensation, etc., for Statutory Auditors concern the period prior to the Transition, and amounts of compensation, etc., for Directors who are Audit and Supervisory Committee Members concern the period subsequent to the Transition.
5. Amounts of compensation, etc. for Directors who are not Audit and Supervisory Committee Members do not include employee compensation provided to Members of the Board of Directors concurrently serving as employees.
6. Total compensation, etc., provided to Outside Officers, is 52 million yen.
7. Prior to the Transition, the maximum amount of compensation (per annum) was 600 million yen for Members of the Board of Directors (resolved at the Ordinary General Meeting of Shareholders in June 2007). Additionally, subsequent to the Transition, the maximum amount of compensation (per annum) is 700 million yen for Directors (excluding those who are Audit and Supervisory Committee Members) (resolved at the Ordinary General Meeting of Shareholders in June 2016). However, this does not include employee compensation and bonuses provided to Members of the Board of Directors concurrently serving as Vice Presidents.
8. The maximum amount of compensation (per annum) is 100 million yen for Directors who are Audit and Supervisory Committee Members (resolved at the Ordinary General Meeting of Shareholders in June 2016).
9. The maximum amount of compensation (per annum) is 80 million yen for Statutory Auditors (resolved at the Ordinary General Meeting of Shareholders in June 1998).

(4) Key activities of Outside Officers

Category	Name	Attendance at meetings of the Board of Directors	Attendance at meetings of the Audit and Supervisory Committee and Board of Statutory Auditors	Key activities
Outside Director	Takashi Shigematsu	11/12	—	Mr. Takashi Shigematsu made comments on overall management based on his extensive knowledge as a corporate manager and abundant experience in the automotive industry.
	Hiroaki Yoshihara	2/2	—	Mr. Hiroaki Yoshihara made comments on overall management based on his abundant experience in consulting for global companies and extensive knowledge as an accounting specialist.
Outside Director who is Audit and Supervisory Committee Member	Hiroaki Yoshihara	10/10	8/8	Mr. Hiroaki Yoshihara made comments on overall management based on his abundant experience in consulting for global companies and extensive knowledge as an accounting specialist.
	Masakazu Toyoda	10/10	7/8	Mr. Masakazu Toyoda made comments on overall management based on his views and abundant experience as a specialist in the field of industrial economics.
	Hiroshi Ueno	10/10	8/8	Mr. Hiroshi Ueno made comments on overall management based on his views and abundant experience as a specialist in government administration of such fields as tax and finance, as well as the Antimonopoly Act.
Outside Statutory Auditor	Masakazu Toyoda	2/2	3/3	Mr. Masakazu Toyoda made comments on overall management based on his views and abundant experience as a specialist in the field of industrial economics.

(Note) Attendance of each “Outside Director who is Audit and Supervisory Committee Member” at meetings of the Board of Directors and meetings of the Audit and Supervisory Committee concern the period subsequent to transition to a Company with Audit and Supervisory Committee, and attendance of “Outside Director” Mr. Hiroaki Yoshihara at meetings of the Board of Directors and attendance of “Outside Statutory Auditor” Mr. Masakazu Toyoda at meetings of the Board of Directors and meetings of the Board of Statutory Auditors concern the period prior to transition to a Company with Audit and Supervisory Committee.

4. Matters Concerning the Independent Auditor

(1) Name of Independent Auditor

Deloitte Touche Tohmatsu LLC

(2) Independent Auditor Compensation, etc., for the period under review

	Category	Amount of compensation, etc.
(1)	Compensation, etc., as Independent Auditor	Millions of yen 186
(2)	Total amount of cash and other beneficial property payable by the Company and its subsidiaries	223

- (Notes)
- The Audit and Supervisory Committee has given its consent to the amount of compensation, etc. for the Independent Auditor for the fiscal year under review upon receiving explanation on quotation of compensation from the Independent Auditor and internal related departments, and conducting necessary verification on the content of the Independent Auditor's audit plans, the performance status of its accounting audit duties, and whether the calculation basis, etc. of quotation of compensation is appropriate.
 - In the audit agreement between the Company and the Independent Auditor, audits based on the Companies Act and audits based on the Financial Instruments and Exchange Act are not distinguished, and as they are not distinguishable in practice, the amount in (1) is the total of these amounts.
 - Other than operations stipulated in Article 2, Paragraph 1 of the Certified Public Accountants Act, the Company makes payment to the Independent Auditor for advisory operations on accounting operations.
 - Of the Company's significant subsidiaries, Murata Electronics North America, Inc., Murata Company Limited, Murata (China) Investment Co., Ltd., Murata Electronics Trading (Shanghai) Co., Ltd., Wuxi Murata Electronics Co., Ltd., Shenzhen Murata Technology Co., Ltd., Murata Electronics Europe B.V., Korea Murata Electronics Company, Limited, and Philippine Manufacturing Co. of Murata, Inc. are audited (as defined by the Companies Act or the Financial Instruments and Exchange Act [including corresponding foreign laws and regulations]) by certified public accountants or Independent Auditors (including parties that hold corresponding foreign certifications) other than the Independent Auditor serving the Company.

(3) Policy for dismissal or nonrenewal of the Independent Auditor

If the Audit and Supervisory Committee determines that any of the items in Article 340, Paragraph 1 of the Companies Act apply to the Independent Auditor and that dismissal is appropriate, the Independent Auditor shall be dismissed upon unanimous approval of the Audit and Supervisory Committee. Additionally, if the Audit and Supervisory Committee determines that the Independent Auditor cannot appropriately fulfill its duties, the Audit and Supervisory Committee shall determine the content of a proposal to be submitted to a General Meeting of Shareholders regarding the dismissal or nonrenewal for the Independent Auditor.

5. Systems to Secure the Appropriateness of Company Operations

The Company's Board of Directors has defined a basic policy regarding the maintenance of a system to secure the appropriateness of company operations (internal control system), as shown below. Based on this, the Company works to appropriately maintain and operate the internal control system. Additionally, as of the Ordinary General Meeting of Shareholders held on June 29, 2016, the Company has transitioned to a Company with Audit and Supervisory Committee, and the following reflects contents subsequent to the transition. However, a similar system was maintained and operated by Statutory Auditors prior to the transition as well.

[Systems to Secure the Appropriateness of Company Operations]

(1) System to secure compatibility between execution of duties of Members of the Board of Directors and employees with laws and regulations and the Articles of Incorporation

- The Company shall appoint Outside Directors to strengthen operational execution decisions of the Board of Directors and monitoring functions of business execution by Members of the Board of Directors.
- The Company shall establish an organizational committee to evaluate the maintenance and operational conditions of the internal control system, and work to maintain and continuously improve the internal control system.
- In order to fulfill corporate social responsibilities (CSR), the Company shall establish an organizational committee regarding CSR areas such as compliance, risk management, and the environment, continuously and systematically promoting unified CSR management of the Group.
- The Company shall establish an organization responsible for promotion of CSR activities. This organization will work in tandem with organizational committees related to CSR, and act as a central group to spread CSR within the Company and handle issues with the outside of the Company.
- In order for Members of the Board of Directors, Vice Presidents, and employees to adhere to laws and regulations and conduct business activities based on high ethical standards, the Company shall define and work to spread regulations regarding corporate ethical standards, action guidelines, and compliance.
- In order to appropriately deal with issues related to compliance, the Company shall establish a reporting hotline within and outside of the Company, and ensure that measures are in place such that there is no detriment to reporters.
- The Company shall clearly define within its Corporate Ethics Policy and Code of Conduct to firmly refuse correspondence and contact with anti-social activities and organizations and to not resolve unreasonable requests received from anti-social forces via the use of cash, etc., and will appropriately deal with such events based on the standards and guidelines.
- The Company shall establish an independent internal auditing department to evaluate and monitor the effectiveness of the internal control system.

(2) System to store and manage information regarding the execution of duties by Members of the Board of Directors

- Minutes and group approval documents of the Board of Directors and other important documents concerning the execution of duties by Members of the Board of Directors shall be stored based upon internal regulations of the Company, and shall be suitably made available for viewing by Members of the Board of Directors and Audit and Supervisory Committee Members.
- Basic items regarding storing and managing documents shall be defined within the internal regulations of the Company, and documents contained in the above item shall be appropriately stored and managed.
- A meeting structure shall be established to deliberate the necessity and content of timely disclosure of company information, and company information shall be disclosed in a timely and appropriate manner.

- (3) Regulations and other systems regarding management of risks of loss
 - 1) Regulations shall be defined regarding risk management, and the division that supervises each business function shall conduct risk management.
 - 2) Deliberations regarding the Group's risk management structure and operational status shall be conducted at an organizational committee regarding risk management. Additionally, evaluations will be made regarding countermeasures against significant risks, driving forward the activities of the Group.
- (4) System to secure efficient execution of duties by Members of the Board of Directors
 - 1) The Company shall formulate long and medium term policies and based on these policies, yearly policies, budgets, and action plans, and manage progress and confirm status of achievement.
 - 2) The Company shall implement a Vice President system, and by separating decision making for management policies and important business execution with daily business execution, strengthen monitoring functions and business execution functions.
 - 3) To conduct appropriate decision making, approval regarding matters that are defined in the internal regulations of the Company shall be conducted via group approval procedures utilizing information technology (IT), with deliberation from concerned Members of the Board of Directors, Vice Presidents, and significant employees.
 - 4) As a deliberation body to supplement decision making by the Board of Directors and Statutory Representative Directors, the Company shall establish a management Executive Committee composed of executive Members of the Board of Directors and Members of the Board of Directors who concurrently serve as Vice Presidents. The management Executive Committee shall receive reports and deliberate on matters that are defined in the internal regulations of the Company.
 - 5) Various information regarding the status of business execution shall be periodically and as required provided to concerned Members of the Board of Directors, Vice Presidents, and employees, and a system to share information shall be established via the use of IT.
- (5) System to secure appropriate business in the Group, composed of the Company and its subsidiaries
 - 1) The Group, shall share corporate policy that acts as a fundamental management policy, in addition to strictly enforcing and sharing regulations regarding the corporate ethical standards, action guidelines, and compliance.
 - 2) The Group shall establish regulations and procedures regarding decision making. Based on these, deliberations will be made with subsidiaries regarding the business operations of subsidiaries, in addition to sharing various information regarding business operations of the Group.
 - 3) Divisions that supervise the various business functions of the Company shall define frameworks, processing procedures, and judgment standards for duties to ensure that duties within the Group are performed appropriately and efficiently, in addition to providing appropriate direction to subsidiaries as required.
 - 4) The Internal Audit Department shall evaluate and monitor whether or not duties within the Group are conducted appropriately and efficiently, adhering to laws and regulations and the internal regulations of the Company, etc.
 - 5) Members of the Board of Directors, Vice Presidents, and employees of subsidiaries shall report to the Company matters defined in items 2) through 4) above, and other items regarding the execution of duties.
 - 6) The Company shall direct each subsidiary to establish and operate internal control systems that are appropriate for the content and scale of each business.
- (6) Matters regarding Members of the Board of Directors and employees who assist the duties of the Audit and Supervisory Committee, matters regarding the independence of these employees from Members of the Board of Directors who are executive officers, and matters regarding securing the ability to execute orders given to these employees
 - 1) The Company shall station an appropriate number of dedicated employees to assist the duties of Audit and Supervisory Committee Members.
 - 2) These employees shall not receive supervision or orders from Members of the Board of Directors who are executive officers. Additionally, for matters regarding human resources of these employees, Members of the Board of Directors who are executive officers must consult with and obtain permission from the Audit and Supervisory Committee.
- (7) System for reporting to the Audit and Supervisory Committee and system to ensure that parties that report to the Audit and Supervisory Committee do not receive detrimental treatment as a result of reporting
 - 1) Members of the Board of Directors who are executive officers, Vice Presidents, and employees shall submit to the Audit and Supervisory Committee minutes and materials from management execution meetings, etc., group approval documents of the Group, and periodic reports of business reports, etc., and also report on facts that may conflict with the Corporate Ethics Policy and Code of Conduct, status of risks and risk management, status and content of reports to the internal reporting hotline, and audit results of external public institutions.
 - 2) In the event that facts are discovered regarding the business execution of the Group that conflict with laws and regulations, the corporate ethical standards, action guidelines, or other internal regulations of the Company, or may cause significant harm to the Group, Members of the Board of Directors who are executive officers, Vice Presidents, and employees shall immediately report to the Audit and Supervisory Committee.
 - 3) In the event that facts are discovered regarding the business execution of the Group that conflict with laws and regulations, the corporate ethical standards, action guidelines, or other internal regulations of the Company, or may cause significant harm to the Group, Members of the Board of Directors, Vice Presidents, and employees of subsidiaries or parties that received such reports shall report to the Audit and Supervisory Committee.
 - 4) Apart from the previous items, if requested by the Audit and Supervisory Committee, Members of the Board of Directors who are executive officers, Vice Presidents, and employees shall submit requested documents, etc., or report as required.
 - 5) Regarding the previous items, the Company shall not give detrimental treatment to reporters as a result of reporting.
- (8) Other systems to secure the effectiveness of audits by the Audit and Supervisory Committee
 - 1) Members of the Board of Directors who are executive officers shall maintain an environment that allows for Audit and Supervisory Committee Members designated by the Audit and Supervisory Committee to attend important meetings.
 - 2) Members of the Board of Directors who are executive officers and employees shall conform to the "Audit Plan" as formulated on a yearly basis by the Audit and Supervisory Committee, and cooperate to allow for effective audits.
 - 3) Members of the Board of Directors who are executive officers and employees shall cooperate with and fulfill the requests of the Audit and Supervisory Committee in the event that evaluation hearings are required with lawyers or the Independent Auditor.
 - 4) Fees, etc., incurred as a result of the execution of duties by Audit and Supervisory Committee Members shall be borne by the Company.
 - 5) Members of the Board of Directors who are executive officers and employees shall cooperate with and fulfill the requests of the Audit and Supervisory Committee during the course of cooperation between the Audit and Supervisory Committee and the Independent Auditor.
 - 6) The Internal Audit Department shall work to cooperate with the Audit and Supervisory Committee.
 - 7) Statutory Representative Directors, etc., shall hold periodic meetings with the Audit and Supervisory Committee and work to exchange information.

[Operational Conditions of Systems to Secure the Appropriateness of Company Operations]

- (1) System to secure compatibility between business execution of Members of the Board of Directors and employees with laws and regulations and the Articles of Incorporation
 - Based on internal regulations such as "Regulations of the Board of Directors," the Board of Directors conducts monitoring of decision making of

management policies and important business executions as well as the execution of duties of Members of the Board of Directors.

- “Independent Outside Director Appointment Standards” have been established based on which a number of Outside Directors are elected who give their opinions based on their specialized views and abundant experience to the Board of Directors and conduct vigorous discussions.
- The “Compliance Promotion Committee,” “Risk Management Committee,” “Environmental Committee,” “Global Warming Prevention Special Committee,” and “Social & Community Contributions Committee” have been established, as well as a “CSR Management Committee” that acts as a controlling committee. A full-time organization responsible for promoting CSR activities has also been established.
- An Internal Control Committee has been established to develop the internal control system, evaluate and investigate operational conditions, and periodically report such content to the Board of Directors.
- Compliance-related regulations are formulated such as “Compliance Program Regulations” and “Corporate Ethics Policy and Code of Conduct,” and through measures such as selecting compliance promotion leaders in each division, an appropriate compliance system is maintained and continued while actions for further improvement are also taken. Also, regarding the Compliance Promotion Committee, the status of its activities and others are periodically reported to the Board of Directors.
- The Company has established a reporting hotline both within and outside of the Company that receives anonymous, pseudonymous, and identifiable reports. A systematic approach is taken with regards to the treatment of reporters so that they are not subject to detrimental treatment and efforts are taken toward appropriate responses.
- A response manual regarding anti-social forces is distributed to all offices and related companies.
- Through establishing an Internal Audit Department independent from executive divisions and implementing third-party assessment regarding the effectiveness of internal control systems at the department, the Company works to enhance transparency and effectiveness of operations.

(2) System to store and manage information regarding the execution of duties by Members of the Board of Directors

- Based on internal regulations such as “Regulations on Document Storage and Preservation Management,” efforts are being made to construct a system to appropriately store and manage information. Also, “Information Security Management Regulations” and others have been established and a commitment has been made to educating employees and others in an effort toward thoroughly appropriate information management.
- Regarding important decisions, an “Information Disclosure Committee” was established and creates a system to deliberate on the necessity of disclosing individual items and the content of disclosure in an effort toward realizing timely and appropriate disclosure.

(3) Regulations and other systems regarding management of risks of loss

- In addition to developing internal regulations such as “Risk Management Basic Regulations,” each department responsible for each business function periodically surveys and evaluates the existence, content, etc. of Company-wide risks, and a system has been created to report these to the Risk Management Committee. Regarding the individual risks received in these reports, a system has been created where the Risk Management Committee deliberates on countermeasures and verifies the state of implementation of those measures.

(4) System to secure efficient execution of duties by Members of the Board of Directors

- A Mid-term Direction (three years) has been formulated and progress reports are periodically given at the Board of Directors. Additionally, an in-company Intranet is used to share the status of progress. Yearly policies are decided upon based on multiple deliberations of the Board of Directors and are then shared within the Company.
- By implementing a Vice President system and having Vice Presidents conduct daily business execution, the Company aims to realize efficient decision making.
- Regarding decision making in the Company and the Group, a group approval system has been established that is used to carry out decision making. A dedicated information system is also being used to not only realize efficient deliberations, but also to record both the results and progress of decision making through a framework to visualize the process.
- The Management Execution Committee deliberates on management items provided by internal regulations such as important management policies, plans, business execution, etc., and also receives reports on the status of policies and budgets, evaluates them, and works on their improvement.
- In addition to constructing a system where the Board of Directors periodically receives reports on the status of business execution, a dedicated information system is used that allows related Members of the Board of Directors, Vice Presidents, and employees to share periodic reports and others.

(5) System to secure appropriate business in the Group, composed of the Company and its subsidiaries

- Efforts are made to share the management policy including the corporate policy by posting them on the Intranet site as well as in internal company reports, and measures such as incorporating them in the education system. Additionally, similar efforts to spread awareness of Corporate Ethics Policy and Code of Conduct are being taken.
- As stated earlier, a group approval system has been established in both the Company and the Group. The Company also operates a system where advice and approval is given on certain matters for decisions by subsidiaries.
- Divisions that supervise the various functions of the Company maintain regulations so that operations within the Group are carried out in a standardized, efficient, and appropriate manner and appropriately guide operations and other measures taken in the course of operations.
- The Internal Audit Department evaluates and monitors the Company and the Group regarding the effectiveness and efficiency of operations, the credibility of financial statements, the development status of important compliance items, and the status of operations, and works to increase transparency and effectiveness. Additionally, proposals are implemented through internal control evaluations of operation process levels.

(6) Matters regarding Members of the Board of Directors and employees who assist the duties of the Audit and Supervisory Committee, matters regarding the independence of these employees from Members of the Board of Directors who are executive officers, and matters regarding securing the ability to execute orders given to these employees

- The Company has stationed an appropriate number of dedicated employees to assist the duties of the Audit and Supervisory Committee.
- These employees receive direction regarding their duties directly from Standing Audit and Supervisory Committee Members, and the appointment, transfer, and other personnel evaluations of these employees are made by Statutory Representative Directors upon discussion with Standing Audit and Supervisory Committee Members in a system where consent is received from the Audit and Supervisory Committee.

(7) System for reporting to the Audit and Supervisory Committee and system to ensure that parties that report to the Audit and Supervisory Committee do not receive detrimental treatment as a result of reporting

- Minutes and materials from the Management Executive Committee, etc., group approval documents, and periodic business reports are available for inspection as necessary by Standing Audit and Supervisory Committee Members. Additionally, a system is in place where Standing Audit and Supervisory Committee Members may attend meeting bodies such as the Management Executive Committee, CSR Management Committee, Internal Control Committee, Compliance Promotion Committee, and Risk Management Committee at any time, and their minutes, audit results from internal and external bodies, and others are delivered and reported to Standing Audit and Supervisory Committee Members. Additionally, documents, information, etc., requested by the Audit and Supervisory Committee as needed are individually submitted and reported.

- In the event that Members of the Board of Directors who are executive officers, Vice Presidents, and employees of the Company, as well as Members of the Board of Directors, Statutory Auditors, Vice Presidents, and employees of subsidiaries of the Company discover facts regarding the business execution of the Group that conflict with laws and regulations, the Articles of Incorporation, Corporate Ethics Policy and Code of Conduct, or other internal regulations, or that may cause significant harm to the Group, a system is developed where reports can be made to the Audit and Supervisory Committee, and reporters are not given detrimental treatment as a result of reporting. Furthermore, a hotline allowing for direct reports and consultations with Standing Audit and Supervisory Committee Members has been established as a reporting and consultation hotline for compliance violations.

(8) Other systems to secure the effectiveness of audits by the Audit and Supervisory Committee

- As noted above, Standing Audit and Supervisory Committee Members are allowed to attend important meetings such as the Management Executive Committee.
- Audit plans formulated by the Audit and Supervisory Committee are reported to the Board of Directors and shared with Members of the Board of Directors. Members of the Board of Directors actively cooperate with audits by the Audit and Supervisory Committee and hearings from lawyers and the Independent Auditor.
- A system is in place so that fees, etc., actually incurred as a result of the execution of duties by Audit and Supervisory Committee Members are borne by the Company by securing required budget.
- The Audit and Supervisory Committee, the Independent Auditor, and the Internal Audit Department periodically meet, and a sufficient level of cooperation is realized.
- Statutory Representative Directors periodically meet with the Audit and Supervisory Committee and share the status and results of the Audit and Supervisory Committee's audits and actively work to exchange opinions.

Consolidated Balance Sheets

(As of March 31, 2017)

(Millions of yen)

Item	Amount	Item	Amount
Assets	1,634,999	Liabilities	279,665
Current assets	871,431	Current liabilities	208,734
Cash	170,929	Short-term borrowings	46,118
Short-term investments	173,401	Trade accounts payable	57,918
Marketable securities	53,043	Accrued payroll and bonuses	34,075
Trade notes receivable	271	Income taxes payable	7,240
Trade accounts receivable	209,596	Accrued expenses and other	63,383
Allowance for doubtful notes and accounts	(905)	Long-term liabilities	70,931
Inventories	211,447	Long-term debt	545
Deferred income taxes	25,890	Termination and retirement benefits	59,324
Prepaid expenses and other	27,759	Deferred income taxes	9,677
Property, plant and equipment	507,969	Other	1,385
Land	50,761	Equity	1,355,334
Buildings	394,239	Murata Corporation's Shareholders' equity	1,354,819
Machinery and equipment	950,280	Common stock	69,377
Construction in progress	40,035	Capital surplus	114,290
Accumulated depreciation	(927,346)	Retained earnings	1,241,180
Investments and other assets	255,599	Accumulated other comprehensive income	(14,219)
Investments	103,468	Unrealized gains on securities	6,127
Intangible assets	48,883	Pension liability adjustments	(15,652)
Goodwill	62,102	Foreign currency translation adjustments	(4,694)
Deferred income taxes	5,259	Treasury stock, at cost	(55,809)
Other	35,887	Noncontrolling interests	515
Total assets	1,634,999	Total liabilities and total equity	1,634,999

Consolidated Statements of Income

(From April 1, 2016
to March 31, 2017)

(Millions of yen)

Item	Amount	
Net sales		1,135,524
Operating expenses		
Cost of sales	703,129	
Selling, general and administrative	149,371	
Research and development	81,809	934,309
Operating income		201,215
Other income		
Interest and dividend income	2,449	
Interest expense	(272)	
Foreign currency exchange gain (loss)	(4,815)	
Other - net	1,841	(797)
Income before income taxes		200,418
Income taxes		
Current income tax	39,813	
Deferred income tax	4,529	44,342
Net income		156,076
Net income attributable to noncontrolling interests		16
Net income attributable to Murata Corporation		156,060

Consolidated Statements of Shareholders' Equity

(From April 1, 2016
to March 31, 2017)

(Shares, millions of yen)

Item	Number of common shares issued						Controlling interests	Non-controlling interests	Total equity
		Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income	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 loss, 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

Notes to the Consolidated Financial Statements

(Basis of Preparation of Consolidated Financial Statements)

1. Scope of consolidation and application of the equity method

1) Number of consolidated subsidiaries: 96

Major consolidated subsidiaries:

Fukui Murata Manufacturing Co., Ltd.
Izumo Murata Manufacturing Co., Ltd.
Toyama Murata Manufacturing Co., Ltd.
Komatsu Murata Manufacturing Co., Ltd.
Kanazawa Murata Manufacturing Co., Ltd.
Okayama Murata Manufacturing Co., Ltd.
TOKO, INC.
Komoro Murata Manufacturing Co., Ltd.
Murata Electronics North America, Inc.
Murata Company Limited
Murata (China) Investment Co., Ltd.
Murata Electronics Trading (Shanghai) Co., Ltd.
Wuxi Murata Electronics Co., Ltd.
Shenzhen Murata Technology Co., Ltd.
Murata Electronics Europe B.V.
Korea Murata Electronics Company, Limited
Philippine Manufacturing Co. of Murata, Inc.

2) Number of unconsolidated subsidiaries

None

3) Number of affiliated companies

1 (All companies are accounted for by equity method.)

2. Changes in scope of consolidation and application of the equity method

(Consolidated subsidiaries)

Five companies were newly consolidated.

Murata Shizuki FC Solutions Co., Ltd.

Two subsidiaries of the IPDiA S.A. Group

Primatec Inc., and others

Ten companies were excluded from consolidation.

RF Monolithics, Inc.

Murata Elettronica S. p. A.

Four subsidiaries of the TOKO, INC. Group

Morioka Tokyo Denpa Co., Ltd., and others

3. Significant Accounting Policies

(1) Standards for preparation of consolidated financial statements

The consolidated financial statements of the Company, pursuant to the regulations of Article 120-3, Paragraph 1 of the Company Accounting Ordinance, are prepared in accordance with terminology, style, and preparation method based on generally accepted corporate accounting standards in the United States of America (hereinafter "US Accounting Principles"). However, based on regulations in the latter segment of the Article 120, Paragraph 1 of the said Ordinance by applying Paragraph 3 of Article 120-3 mutatis mutandis, a portion of content and notes required by US Accounting Principles are omitted.

(2) Inventories

Inventories are stated at the lower of cost, which is determined principally by the average cost method, or market.

(3) Marketable securities and investments

Under ASC320, "Investments - Debt and Equity Securities", and ASC825 "Financial Instruments", the Companies classify debt securities and marketable equity securities as available-for-sale and carry them at fair value with a corresponding recognition of the net unrealized holding gain or loss (net of tax) as a separate component of shareholders' equity, except investments whose unrealized holding gain and loss are included in income by electing the fair value option. Gains and losses on sales of investments are computed on an average cost basis. Equity securities that do not have a readily determinable fair value are recorded at average cost.

(4) Depreciation of property, plant and equipment

Depreciation of property, plant and equipment has been principally computed using the declining-balance method.

(5) Goodwill and other intangible assets

The Companies account for goodwill and other intangible assets in accordance with ASC350, "Intangibles - Goodwill and Other".

In accordance with this statement, goodwill is not amortized and is instead tested at least annually for impairment.

Intangible assets that have finite useful lives will continue to be amortized over their useful lives.

Also, this statement requires that an intangible asset that is determined to have an indefinite useful life is not amortized but is instead tested at least annually for impairment until its useful life is determined to be no longer indefinite.

(6) Termination and retirement benefits

Termination and retirement benefits, accounted for in accordance with ASC715, "Compensation - Retirement benefits", are provided at the amount incurred during the period, which is based on the estimated present value of the projected benefit obligation less the fair value of plan assets at the end of the period. The overfunded or underfunded status of a defined benefit postretirement plan is recognized as an asset or liability in its statement of financial position, with an adjustment to accumulated other comprehensive income or loss.

The unrecognized prior service expenses due to certain plan amendments is being amortized on a straight-line basis over the average remaining service period of employees.

The unrecognized actuarial gains and losses in excess of ten percent of the larger of the projected benefit obligation or plan assets are being amortized over five years.

(7) Accounting for consumption taxes

Consumption taxes are separately accounted for, and are excluded from the amounts of the underlying income and expense transactions.

(Notes to Consolidated Balance Sheet)

Amounts of less than one million yen are shown rounded to the nearest million yen.

(Marketable securities and investment securities)

The cost and amortized cost, gross unrealized gains, gross unrealized losses and fair value for available-for sale securities by major security type

(Millions of yen)

Type	Cost and amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Governmental debt securities	1,000	2	-	1,002
Private debt securities	122,000	469	130	122,339
Equity securities	9,481	8,332	-	17,813
Investment trusts	2,000	-	48	1,952
Total	134,481	8,803	178	143,106

The aggregate carrying amount of non-listed shares that do not have a readily determinable fair value that are valued at cost is 13,405 million yen. Of this, 13,393 million yen is not subject to events or environmental changes that would have a significant effect on the fair value, and as the fair value is not readily determinable from a practical standpoint, impairment evaluations have not been made.

Maturity dates of fair value of available-for-sale securities (governmental debt securities, private debt securities, and investment trusts)

(Millions of yen)

Maturity date	Available-for-sale securities Governmental debt securities, private debt securities, and investment trusts
Within 1 year	53,043
Over 1 year, within 5 years	68,877
Over 5 years	3,373
Total	125,293

Sales amount, realized gains, and realized losses for available-for-sale securities

(Millions of yen)

	Amount
Sale amount	2,908
Realized gains	50
Realized losses	0

(Financial instruments and concentration of risk)

During the course of normal business, the Group records various types of financial assets and liabilities.

1. Assets and liabilities

(1) Financial instruments, short-term borrowings, trade accounts payable, and long-term debt contained within cash, short-term investments, trade notes receivable, and other noncurrent assets

The fair value of these financial instruments approximate the amounts carried on the consolidated balance sheet.

(2) Marketable securities and investment securities

Fair values are primarily calculated based on discounted present value computed using market value or the most recent market interest rate of products traded under similar terms. Fair values of marketable securities and investment securities are stated in (Marketable securities and investment securities).

2. Financial derivatives

In order to hedge market risk arising from fluctuations in the foreign exchange market, the Group enters into forward exchange contracts and currency option transactions, and for hedging risk in fluctuations of interest rates regarding borrowings, enters into interest rate swap transactions. Additionally, the Group does not hold any forward exchange contracts, currency option transactions or interest rate swap transactions for trading purposes. Counterparties are large-scale financial institutions, and as such, the credit risk is negligible. Furthermore, the Group does not foresee any defaults with regard to the counterparties.

The Group records changes in fair value of forward exchange contracts, currency option transactions and interest rate swap transactions as gains or losses upon their occurrence.

Estimated principal on forward exchange contracts, currency option transactions and interest rate swap transactions
(Millions of yen)

	Estimated principal
Forward exchange contracts	139,971

Fair value of forward exchange contracts, currency option transactions and interest rate swap transactions

(Millions of yen)

	Assets		Liabilities	
	Item	Fair value	Item	Fair value
Forward exchange contracts	Prepaid expenses and other current assets	1,188	Accrued expenses and other current liabilities	1,283

3. Concentration of credit risk

The Group conducts sales in the global electronic device market.

In general, the Group grants credit to its customers, and the recovery possibility of these trade receivables is affected by conditions in the electronics industry. However, the Group is strict in granting credit, and has not experienced any large losses in the past.

(Notes to amounts per share)

1. Shareholders' equity per share	6,368.48 yen
2. Basic earnings attributable to Murata Corporation per share	733.87 yen

Balance Sheets

(As of March 31, 2017)

(Millions of yen)

Item	Amount	Item	Amount
Assets	942,873	Liabilities	362,602
Current assets	496,019	Current liabilities	337,936
Cash	144,909	Trade accounts payable	70,952
Trade notes receivable	21	Short-term borrowings	172,077
Trade accounts receivable	209,859	Current portion of long-term borrowings	61,319
Marketable securities	53,043	Other accounts payable	13,739
Merchandise and finished goods	6,385	Accrued expenses	16,456
Raw materials and supplies	15,470	Accrued income tax	1,223
Work in process	12,799	Other	2,168
Accounts receivable	29,416	Long-term liabilities	24,666
Income taxes receivable	6,332	Long-term borrowings	1,719
Deferred tax assets	7,133	Termination and retirement benefits	20,438
Other	10,758	Other	2,509
Allowance for doubtful notes and accounts	(111)		
Noncurrent assets	446,853	Net assets	580,270
Property, plant and equipment	75,747	Murata Corporation's Shareholders' equity	575,029
Buildings	29,020	Common stock	69,376
Structures	3,680	Capital surplus	119,982
Machinery	16,736	Legal capital surplus	107,666
Vehicles	43	Other capital surplus	12,316
Equipment	5,976	Retained earnings	441,478
Land	17,443	Legal retained earnings	7,899
Construction in progress	2,845	Other retained earnings	433,578
Intangible assets	25,895	Reserve for reduction entry of land	13
Investments and other assets	345,210	Reserve for special depreciation	321
Investment securities	89,456	Reserve for reduction entry of replaced property	50
Shares of subsidiaries and associates	203,745	General reserve	162,707
Investments in capital of subsidiaries and associates	17,129	Retained earnings brought forward	270,485
Long-term loans receivable	14,182	Treasury stock	(55,808)
Deferred tax assets	6,262	Valuation and translation adjustments	5,241
Other	14,459	Valuation difference on other marketable securities	5,241
Allowance for doubtful notes and accounts	(25)		
Total assets	942,873	Total liabilities and total net assets	942,873

Income Statements

(From April 1, 2016
to March 31, 2017)

(Millions of yen)

Description	Amount	
Net sales		831,136
Cost of sales		651,014
Gross profit		180,122
Selling, general and administrative		146,596
Operating income		33,525
Non-operating income		
Interest and dividend income	48,418	
Other	2,677	51,095
Non-operating expenses		
Interest expense	377	
Foreign currency exchange gain (loss)	6,668	
Product replacement and repair costs	3,039	
Other	1,401	11,487
Ordinary income		73,134
Income before income taxes		73,134
Current income tax	(3,158)	
Deferred income tax	538	(2,620)
Net income		75,754

Statements of Shareholders' Equity

(From April 1, 2016
to March 31, 2017)

(Millions of yen)

	Murata Corporation's Shareholders' equity							
	Common stock	Capital surplus			Retained earnings			
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		
						Reserve for reduction entry of land	Reserve for special depreciation	Reserve for reduction entry of replaced property
Balance at April 1, 2016	69,376	107,666	1,536	109,203	7,899	13	426	50
Changes of items during period								
Cash dividends								
Net income								
Purchases of treasury stock at cost								
Disposal of treasury stock			10,779	10,779				
Reversal of reserve for special depreciation							(104)	
Net changes of items other than shareholders' equity								
Total changes of items during period	-	-	10,779	10,779	-	-	(104)	-
Balance at March 31, 2017	69,376	107,666	12,316	119,982	7,899	13	321	50

	Murata Corporation's Shareholders' equity					Valuation and translation adjustments		Total net assets
	Retained earnings			Treasury stock	Total Murata Corporation's Shareholders' equity	Valuation difference on other marketable securities	Total valuation and translation adjustments	
	Other retained earnings		Total retained earnings					
	General reserve	Retained earnings brought forward						
Balance at April 1, 2016	162,707	241,313	412,412	(60,359)	530,631	2,391	2,391	533,022
Changes of items during period								
Cash dividends		(46,688)	(46,688)		(46,688)			(46,688)
Net income		75,754	75,754		75,754			75,754
Purchases of treasury stock at cost				(87)	(87)			(87)
Disposal of treasury stock				4,638	15,418			15,418
Reversal of reserve for special depreciation		104	-		-			-
Net changes of items other than shareholders' equity						2,850	2,850	2,850
Total changes of items during period	-	29,171	29,066	4,551	44,397	2,850	2,850	47,247
Balance at March 31, 2017	162,707	270,485	441,478	(55,808)	575,029	5,241	5,241	580,270

Notes to Unconsolidated Financial Statements

(Notes to significant accounting policies)

1. Valuation standards and valuation methods of assets

(1) Valuation standards and valuation methods of marketable securities

Stock of subsidiaries and affiliated companies	Moving-average method
Other marketable securities	
With market value	Market value method based on market prices (Valuation differences are reported as a component of net assets, and the cost of securities sold is calculated using the moving-average method)
Without market value	At cost based on the moving-average method

(2) Valuations standards and valuation methods of derivatives

Derivatives	Market value method
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(3) Valuation standards and valuation methods of inventories

Finished goods	At cost based on the moving-average method (balance sheet amounts are calculated by writing down the book value of assets that have decreased in profitability)
Products, work in process	At cost based on the weighted-average method (balance sheet amounts are calculated by writing down the book value of assets that have decreased in profitability)
Raw materials and supplies	At cost based on the weighted-average method (balance sheet amounts are calculated by writing down the book value of assets that have decreased in profitability)

2. Depreciation method for noncurrent assets

(1) Property, plant and equipment

Declining balance method	
Primary useful lives are as follows.	
Buildings	10 to 50 years
Machinery and equipment	4 to 17 years

(2) Intangible assets

Straight-line method
Furthermore, software for internal use is amortized by the straight-line method based on an estimated useful life of 3 to 10 years.

3. Standards for recording of allowances

(1) Allowance for doubtful notes and accounts

To provide for possible losses resulting from uncollectible receivables such as trade accounts and loans, the estimated uncollectible amount is recorded based on historical default rate with regard to general accounts, and by individually assessing possible collectability for certain receivables such as loans with default possibility.

(2) Termination and retirement benefits

To provide for retirement benefits to employees, benefits are recorded based on the estimated amount of termination and retirement liabilities and pension assets as of the closing date.

Prior service cost is recorded as expenses using the straight-line method based on the average remaining years of service of employees as of the time of occurrence. Actuarial differences are amortized using the straight-line method over the period of 5 years within the average remaining years of service of employees commencing the following fiscal year after incurrence.

4. Other significant matters concerning the preparation of unconsolidated financial statements

(1) Method of treatment for consumption tax, etc.

Amounts are exclusive of consumption tax.

(2) Application of consolidated taxation system

The consolidated taxation system is applied.

(3) Amounts of less than one million yen are rounded down.

(Notes to changes in presentation methods)

Balance sheets

“Income taxes receivable,” which had been included in “Accounts receivable” until the previous fiscal year, is now presented as a separate item as its significance has increased.

(Additional information)

Application of Implementation Guidance on Recoverability of Deferred Tax Assets

The “Implementation Guidance on Recoverability of Deferred Tax Assets” (Accounting Standards Board of Japan (“ASBJ”) Guidance No. 26, March 28, 2016) has been applied from the fiscal year under review.

(Notes to unconsolidated balance sheets)

1. Accumulated depreciation of property, plant and equipment	179,553 million yen
2. Short-term monetary claims with affiliated companies	209,306 million yen
Long-term monetary claims with affiliated companies	15,911 million yen
Short-term monetary liabilities with affiliated companies	240,390 million yen
Long-term monetary liabilities with affiliated companies	1,719 million yen

(Notes to the unconsolidated income statements)

1. Transactions with affiliated companies	
Business transactions	
Net sales	755,853 million yen
Purchase turnover	608,722 million yen
Non-business transactions	
Interest income	118 million yen
Dividend income	47,269 million yen
Asset transfer	2,517 million yen
Interest expense	153 million yen
Asset purchase	5,646 million yen
2. Research and development expenses	74,935 million yen

(Notes to statements of shareholders' equity)

1. Type and total number of issued shares as of March 31, 2017	
Common stock	225,263,592 shares
2. Type and number of treasury stock as of March 31, 2017	
Common stock	12,525,306 shares

3. Matters concerning dividends

(1) Amount of dividends paid

Resolution	Type of stock	Total amount of dividends (Millions of yen)	Dividends per share (yen)	Record date	Effective date
June 29, 2016 Ordinary General Meeting of Shareholders	Common stock	23,287	110	March 31, 2016	June 30, 2016
October 31, 2016 Meeting of the Board of Directors	Common stock	23,401	110	September 30, 2016	December 5, 2016

(2) Of dividends with a record date during the period under review, and with an effective date during the following period

As a proposal at the Ordinary General Meeting of Shareholders on June 29, 2017, the Company plans to propose the following concerning dividends for common stock.

1) Total amount of dividends	23,401 million yen
2) Dividends per share	110 yen
3) Record date	March 31, 2017
4) Effective date	June 30, 2017

Source of funds for dividends are scheduled to be used as retained earnings.

(Notes to tax effect accounting)

1. Breakdown of primary causes for occurrence of deferred tax assets and liabilities

(1) Current

Deferred tax assets		Deferred tax liabilities	
Accrued bonuses	2,422 million yen	Other marketable securities	
Inventories	1,677 million yen	valuation adjustment	11 million yen
Accrued expenses	1,577 million yen	Total deferred tax liabilities	<u>11 million yen</u>
Accounts payable - other	635 million yen	Elimination with deferred tax assets	(11) million yen
Accrued enterprise tax	141 million yen	Net deferred tax liabilities	<u>-</u>
Other	<u>691 million yen</u>		
Total deferred tax assets	7,145 million yen		
Elimination with deferred tax liabilities	<u>(11) million yen</u>		
Net deferred tax assets	<u>7,133 million yen</u>		

(2) Noncurrent

Deferred tax assets		Deferred tax liabilities	
Termination and retirement benefits	6,261 million yen	Other marketable securities	
Stock of affiliated companies	3,520 million yen	valuation adjustment	2,020 million yen
Tangible and intangible assets	2,129 million yen	Reserve for special depreciation	141 million yen
Long-term liabilities - other	603 million yen	Other	<u>78 million yen</u>
Deferred tax adjustment	389 million yen	Total deferred tax liabilities	2,239 million yen
Investment securities	345 million yen	Elimination with deferred tax assets	<u>(2,239) million yen</u>
Other	<u>188 million yen</u>	Net deferred tax liabilities	<u>-</u>
Deferred tax assets subtotal	13,438 million yen		
Valuation allowance	<u>(4,936) million yen</u>		
Total deferred tax assets	8,502 million yen		
Elimination with deferred tax liabilities	<u>(2,239) million yen</u>		
Net deferred tax assets	<u>6,262 million yen</u>		

2. Effective statutory tax rate and difference in income tax, etc., after application of tax effect accounting

Effective statutory tax rate	30.7 %
(Adjustments)	
Exemption for dividend income	(19.8) %
Tax exemption for R&D promotion tax system	(14.4) %
Other	<u>(0.1) %</u>
Income tax rate after application of tax effect accounting	<u>(3.6) %</u>

(Notes to transactions with related parties)

1. Subsidiaries and affiliated companies, etc.

(Millions of yen)

Type	Name of company, etc.	Percentage ownership of voting rights held	Relationship with related parties	Summary of transactions	Transaction amount	Item	Balance at period end
Subsidiary	Fukui Murata Manufacturing Co., Ltd.	Direct holdings 100%	Manufacturing of the Company's products Concurrently serving officers	Procurement of products, etc. (Note 1)	93,868 (Note 2)	Trade accounts payable	6,504 (Note 2)
				Borrowing of funds Payment of interest (Note 3)	38,180 50	Short-term borrowings Current position of long-term borrowings	37,963
Subsidiary	Izumo Murata Manufacturing Co., Ltd.	Direct holdings 100%	Manufacturing of the Company's products Concurrently serving officers	Procurement of products, etc. (Note 1)	117,946 (Note 2)	Trade accounts payable	6,363 (Note 2)
				Borrowing of funds Payment of interest (Note 3)	15,733 5	Short-term borrowings	16,954
Subsidiary	Kanazawa Murata Manufacturing Co., Ltd.	Direct holdings 100%	Manufacturing of the Company's products Concurrently serving officers	Procurement of products, etc. (Note 1)	88,017 (Note 2)	Trade accounts payable	6,191 (Note 2)
				Borrowing of funds Payment of interest (Note 3)	32,465 20	Short-term borrowings Current position of long-term borrowings	28,276
Subsidiary	Okayama Murata Manufacturing Co., Ltd.	Direct holdings 100%	Manufacturing of the Company's products Concurrently serving officers	Procurement of products, etc. (Note 1)	85,993 (Note 2)	Trade accounts payable	4,686 (Note 2)
				Borrowing of funds Payment of interest (Note 3)	23,598 29	Short-term borrowings Current position of long-term borrowings	31,237
Subsidiary	Murata Company Limited	Direct holdings 100%	Sales of products of the Company and subsidiaries	Sales of products, etc. (Note 1)	218,011	Trade accounts receivable	50,900
Subsidiary	Murata Electronics Trading (Shanghai) Co., Ltd.	Indirect holdings 100%	Sales of products of the Company and subsidiaries Concurrently serving officers	Sales of products, etc. (Note 1)	114,850	Trade accounts receivable	47,265
Subsidiary	Korea Murata Electronics Company, Limited	Direct holdings 100%	Sales of products of the Company and subsidiaries Concurrently serving officers	Sales of products, etc. (Note 1)	131,369	Trade accounts receivable	22,066

Transaction conditions and standard for determining transaction conditions

(Note 1) Determined via the same method as general transactions, in consideration of market prices.

(Note 2) Transaction amounts do not include consumption tax. Balance at period end includes consumption tax.

(Note 3) Borrowing of funds includes transactions via the cash management system (CMS), and is determined in consideration of market interest rates.

As fund the management operations business for Japanese subsidiaries is concentrated within the Company, there are borrowings from each company.

Furthermore, transaction amounts are the average balance over the course of the period under review.

2. Officers and primary shareholders, etc.

(Millions of yen)

Type	Name of company, etc.	Percentage ownership of voting rights held	Relationship with related parties	Summary of transactions	Transaction amount	Item	Balance at period end
Officer and related parties	Tsuneo Murata	Direct holdings 0.7%	President and Representative Director of the Company	Transactions with the Murata Science Foundation, for which he serves as Chairman * Donation of cash	300	-	-

* For a third party.

(Notes to amounts per share)

Net assets per share	2,727.62 yen
Net income per share	356.23 yen

(Other notes)

Accounting for termination and retirement benefits

(1) Summary of termination and retirement benefit system utilized by the Company

As a defined benefit plan, the Company has established a fund-type defined benefit corporate pension plan and a lump-sum retirement pension plan. It also operates a defined contribution pension plan.

(2) Matters concerning the defined-benefit type termination and retirement benefit liabilities (As of March 31, 2017)

a. Termination and retirement benefit liabilities	95,588 million yen
b. Pension assets	70,273 million yen
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c. Termination and retirement benefit liabilities in excess of pension assets (a – b)	25,314 million yen
d. Unrecognized actuarial differences	8,783 million yen
e. Unrecognized prior service cost	(3,829) million yen
<hr/>	
f. Prepaid pension cost	(77) million yen
g. Termination and retirement benefits (c – d – e – f)	20,438 million yen

(3) Matters concerning the defined-benefit type termination and retirement expenses (From April 1, 2016 to March 31, 2017)

a. Service cost	4,660 million yen
b. Interest expenses	479 million yen
c. Expected operational profit	(1,420) million yen
d. Recorded amount of actuarial difference expenses	3,882 million yen
e. Recorded amount of prior service cost	(1,502) million yen
<hr/>	
f. Termination and retirement expenses (a + b + c + d + e)	6,099 million yen

(4) Matters concerning calculation of the defined-benefit type termination and retirement benefits

a. Distribution period method for expected termination and retirement benefits	Benefit formula standard
b. Discount rate	0.7 %
c. Expected operational profit rate	2.2 %
d. Number of years for evaluating prior service cost	16 to 20 years (Amortized using the straight-line method based on the average remaining years of service of employees as of the time of occurrence)
e. Number of years for evaluating actuarial differences	5 years (Amortized using the straight-line method over a certain number of years within the average remaining years of service commencing the following fiscal year after incurrence.)

(5) Matters concerning defined contribution pension plans (From April 1, 2016 to March 31, 2017)

The Company converted part of its lump-sum retirement pension plans to defined contribution pension plans in April 2015.

Total assets converted as a result of this change to defined contribution pension plans are 8,986 million yen and will be converted within four years of June 2015. Total unconverted assets as of March 31, 2017 are 3,962 million yen.

Recognized costs involved in contributions to defined contribution pension plans during the fiscal year under review are 757 million yen.