

BUSINESS REPORT

FOR THE 82ND FISCAL TERM

FROM APRIL 1, 2017
TO MARCH 31, 2018

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

Business Report

From April 1, 2017
to March 31, 2018

1. Matters Concerning Status of the Company Group

(1) Main business areas

The Company Group is electronic component manufacturer 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 chemical 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 Company 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 fiscal year under review, the global economy continued its recovery. In the U.S., despite fears over the rise of protectionist policies, job numbers and personal income improved while signs of a recovery were seen in capital investment. The global economy showed signs of a gradual recovery overall such as stable economic growth continued on the back of strong consumer spending spurred by an improved employment situation in Europe and increasing exports drove strong growth in China.

In the electronics market, of which the Company Group is a part, smartphone products shipped saw a decline in China. However, adding advanced functions to products, particularly high-end models, has led to an increase in the number of components per unit. Furthermore, in the car electronics segment, improvements to safety and environmental solutions for automobiles saw a significant rise in installed electronic components and considerable growth in demand for components.

Through the above efforts concentrated on growth markets, the Company Group's net sales for the fiscal year under review increased 20.8% year-on-year to 1,371,842 million yen. This owes to the addition of a lithium-ion secondary battery business from Sony Corporation acquisition completed on September 1, 2017, as well as to a year-on-year yen depreciation of 2.44 yen.

Operating income was 162,146 million yen, down 19.4%, income before income taxes was 167,801 million yen, down 16.3%, and net income attributable to the Company was 146,086 million yen, down 6.4% 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 an increase in manufacturing costs attributable to delays in launching new products with highly complicated technologies, and higher depreciation for primarily buildings and production facilities in connection with expanded production of new products.

2) Sales by product category

Net sales by product category for the fiscal year under review in comparison to the previous fiscal year are as follows.

(Orders and sales by product category)

Term		82nd Fiscal Term (From April 1, 2017 to March 31, 2018)			
		Orders received	Net sales		
		Amount	Amount	Ratio accounts for net sales	Year-on-year change
Product Category		Millions of yen	Millions of yen	%	%
Capacitors		535,859	449,801	32.9	121.7
Piezoelectric Components		153,153	152,016	11.1	89.4
Other Components		336,076	322,332	23.6	145.0
Components total		1,025,088	924,149	67.6	121.3
Communication Modules		390,748	395,003	28.9	121.3
Power Supplies and Other Modules		50,830	48,851	3.5	108.3
Modules total		441,578	443,854	32.4	119.7
Total		1,466,666	1,368,003	100.0	120.8

<Components>

Sales of Components for the fiscal year under review increased by 21.3% year-on-year to 924,149 million yen.

[Capacitors]

The Capacitors category includes multilayer ceramic capacitors (MLCCs).

For the fiscal year under review, sales of MLCCs, the main product in this category, increased significantly owing to expanded demand for a wide range of applications. In communications equipment, new products for new model smartphones increased dramatically, while new products for car electronics applications grew significantly as a result of a push to equip automobiles with electronics.

As a result, overall net sales of Capacitors increased by 21.7% year-on-year to 449,801 million yen.

[Piezoelectric Components]

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

For the fiscal year under review, SAW filter sales dropped significantly due to the effects of decreased smartphone production volume in China and lower product prices.

As a result, overall net sales of Piezoelectric Components decreased by 10.6% year-on-year to 152,016 million yen.

[Other Components]

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

For the fiscal year under review, sales of products in Other Components category grew significantly as a result of sales growth in coils, EMI suppression filters and MEMS sensors for car electronics product as well as owing to the completed acquisition of a rechargeable lithium-ion battery business.

As a result, overall net sales of Other Components increased by 45.0% year-on-year to 322,332 million yen.

<Modules>

Sales of Modules for the fiscal year under review increased by 19.7% year-on-year to 443,854 million yen.

[Communication Modules]

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

For the fiscal year under review, sales of circuit modules and RF sub modules were anemic owing to decreased market share in products for high-end smartphones with certain customers. Meanwhile, sales of short-range wireless communication modules saw considerable growth attributable to greater sales for smartphone and PC applications, as well as to increased usage of multilayered resin substrate in high-end smartphone models.

As a result, overall net sales of Communication Modules increased by 21.3% year-on-year to 395,003 million yen.

[Power Supplies and Other Modules]

This product category includes power supplies.

For the fiscal year under review, power supply products saw increased sales for office automation and other equipment applications.

As a result, overall net sales of Power Supplies and Other Modules increased by 8.3% year-on-year to 48,851 million yen.

(3) Issues to be addressed

The global electronics market is certain to grow due to demand expansion of sophisticated and multifunctional electronic appliances for consumer use centering on smartphones, and automotive market is also certain to grow due to its advance electrification and autonomous driving. 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. And IoT, which continues to proliferate across these markets, will drive demand.

The Company Group intends to strengthen its marketing abilities while examining market trends, and enhance manufacturing capacity by capital investment and improvement of the productivity. The Company Group will steadily capture the growing demands by launching compact-sized, thin, highly functional and high-quality products earlier than its competitors and also by creating new business models and customer value.

The transfer of a battery business from Sony Corporation was completed on September 1, 2017. Leveraging the combination of Sony Corporation's advanced technical capabilities and Murata Manufacturing's customer base and marketing acumen, we will nurture this business into a core business of the energy segment by deploying production technologies we have engineered over the course of developing multilayer ceramic capacitors and other products.

In regard to corporate social responsibility, taking into account a set of 17 goals of UN's "Sustainable Development Goals: SDGs," the Company Group will develop its business with equal emphasis on environmental preservation (E), social responsibility (S), and corporate governance (G).

The Company Group defines corporate governance as one of the most important principles of management. While taking all stakeholders into consideration, we commit ourselves to maintain an optimal management structure all the time so that the structure can function in order to ensure the sound growth and development of the Company Group.

(4) Status of capital expenditures

During the fiscal year under review, the Company Group had capital expenditures totaling 306,608 million yen.

Primary components were 194,101 million yen in reinforcement and rationalization of manufacturing facilities of the Company Group, 57,638 million yen in the acquisition of land and buildings, and 15,634 million yen in reinforcement of research and development facilities.

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

(5) Status of property and profits

1) Status of property and profits of the Company Group

(Millions of yen, %)

Item \ Term	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		82nd Fiscal Term From April 1, 2017 to March 31, 2018	
	Amount	Amount	Year-on-year change	Amount	Year-on-year change	Amount	Year-on-year change
Net sales	1,043,542	1,210,841	116.0	1,135,524	93.8	1,371,842	120.8
Income before Income taxes	238,400	279,173	117.1	200,418	71.8	167,801	83.7
Net income attributable to Murata Corporation	167,711	203,776	121.5	156,060	76.6	146,086	93.6
Total assets	1,431,303	1,517,784	106.0	1,634,999	107.7	1,797,013	109.9
Shareholders' equity	1,123,090	1,229,159	109.4	1,354,819	110.2	1,456,600	107.5
Basic earnings attributable to Murata Corporation per share	Yen 792.19	Yen 962.55	-	Yen 733.87	-	Yen 685.86	-
Shareholders' equity ratio	% 78.5	% 81.0	-	% 82.9	-	% 81.1	-

- (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, %)

Item \ Term	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		82nd Fiscal Term From April 1, 2017 to March 31, 2018	
	Amount	Amount	Year-on-year change	Amount	Year-on-year change	Amount	Year-on-year change
Net sales	752,660	889,121	118.1	831,136	93.5	948,594	114.1
Ordinary income	120,840	95,732	79.2	73,134	76.4	41,193	56.3
Net income	98,694	80,721	81.8	75,754	93.8	48,095	63.5
Total assets	855,498	840,658	98.3	942,873	112.2	1,015,877	107.7
Net assets	499,356	533,022	106.7	580,270	108.9	587,945	101.3
Basic earnings per share	Yen 466.18	Yen 381.29	-	Yen 356.23	-	Yen 225.82	-
Shareholders' equity ratio	% 58.4	% 63.4	-	% 61.5	-	% 57.9	-

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

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

1) The Company (As of March 31, 2018)

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, 2018)

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
Tohoku Murata Manufacturing Co., Ltd.	300	100	Manufacturing and development of components	Koriyama-shi, Fukushima
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 Energy Device Wuxi Co., Ltd.	Thousands of US\$ 366,220	100 ^(Note)	Manufacturing of components	People's Republic of China
Murata Electronics Europe B.V.	Thousands of EURO 245,000	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

Company name	Capital	Share of voting rights held by the Company	Primary business areas	Head office location
Philippine Manufacturing Co. of Murata, Inc.	Thousands of PHP 7,700,000	100	Manufacturing of components	Republic of the Philippines
Murata Electronics Singapore (Pte.) Ltd.	Thousands of SD 4,000	100	Manufacturing of components, Sales of products of the Company and its subsidiaries, General management of ASEAN sales companies	Singapore
Murata Energy Device Singapore Pte. Ltd.	Thousands of SD 0 Thousands of US\$ 162,000	100	Manufacturing of components	Singapore

(Note) Ratio includes indirect holdings.

3) Progress and results of business combinations

1. With the goal of positioning and achieving growth for the battery business as a core business of the energy business, the Company took over the Sony Group's battery business, effective on September 1, 2017. In the process, the Company acquired shares in Tohoku Murata Manufacturing Co., Ltd. and other such companies involved in this business.
2. To establish a foothold for breaking into the healthcare and medicine business overseas, on October 13, 2017 the Company acquired U.S.-based healthcare IT venture company Vios Medical, Inc. and its subsidiary.
3. The number of consolidated subsidiaries is 98, including 20 significant subsidiaries above. The results of business combinations are as stated in "(2) Business progress and results" in "1. Matters Concerning Status of the Company Group."

(7) Employees

1) Employees of the Company Group

Number of employees	
As of March 31, 2018	Year-on-year change
Persons	Persons
75,326	15,341

- (Notes)
1. The number of employees is the number of persons in regular employment at the Company (excluding persons seconded outside of the Company Group), and does not include seasonal, part-time, or temporary employees (2,173 persons).
 2. With the acquisition of a battery business from the Sony Group on September 1, 2017, the number of employees has increased over the previous fiscal period.

2) Employees of the Company

Number of employees		Average age	Average length of service
As of March 31, 2018	Year-on-year change		
Persons	Persons	Years old	Years
8,385	486	40.1	14.4

(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 (180 persons).

(8) Lenders (As of March 31, 2018)

(Millions of yen)

Lenders	Loan balance
Mizuho Bank, Ltd.	4,000
Sumitomo Mitsui Banking Corporation	4,000
The Bank of Kyoto, Ltd.	3,000
THE SHIGA BANK, LTD.	3,000
Other	487
Total	14,487

2. Matters Concerning Stock (As of March 31, 2018)

- (1) Total number of authorized shares 581,000,000 shares (Number of shares per unit: 100 shares)
(2) Total number of issued shares 225,271,427 shares (Includes 12,020,374 shares of treasury stock)
(3) Number of shareholders 70,587 persons
(4) Major shareholders (Top 10)

Shareholder name	Number of shares held (Thousands of shares)	Ownership ratio (%)
JPMorgan Chase Bank 380055	17,727	8.3
Japan Trustee Services Bank, Ltd. (Trust Account)	12,321	5.8
The Master Trust Bank of Japan, Ltd. (Trust Account)	8,484	4.0
Nippon Life Insurance Company	7,361	3.5
State Street Bank and Trust Company	6,552	3.1
The Bank of Kyoto, Ltd.	5,260	2.5
Meiji Yasuda Life Insurance Company	5,240	2.5
Japan Trustee Services Bank, Ltd. (Trust Account 5)	4,009	1.9
THE SHIGA BANK, LTD.	3,551	1.7
STATE STREET BANK WEST CLIENT - TREATY 505234	3,432	1.6

(Note) Ownership ratio is calculated after subtracting treasury stock (12,020 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, 2018)

Name	Positions and responsibilities	Significant concurrent positions	
Tsuneo Murata	* Chairman of the Board and President	The Murata Science Foundation	Chairman
Yoshitaka Fujita	Vice Chairman of the Board	Murata (China) Investment Co., Ltd.	President
Toru Inoue	* Member of the Board of Directors Senior Executive Vice President Director of Components Business Unit	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
Norio Nakajima	* Member of the Board of Directors Senior Executive Vice President Director of Module Business Unit	Kanazawa Murata Manufacturing Co., Ltd. Okayama Murata Manufacturing Co., Ltd. Tohoku Murata Manufacturing Co., Ltd.	President and Representative Director President and Representative Director President and Representative Director
Hiroshi Iwatsubo	Member of the Board of Directors Executive Vice President Director of Corporate Technology & Business Development Unit		
Yoshito Takemura	Member of the Board of Directors Executive Vice President Director of Planning Administration Unit		
Takashi Shigematsu	Member of the Board of Directors	DENSO TEN Limited Bando Chemical Industries, Ltd.	Chairman and Representative Director Outside Director who is an Audit & Supervisory Committee Member
Junichi Tanaka	Member of the Board of Directors Audit and Supervisory Committee Member (Standing)		
Hiroaki Yoshihara	Member of the Board of Directors Audit and Supervisory Committee Member	Hitachi, Ltd.	Outside Director who is an Audit Committee Member
Masakazu Toyoda	Member of the Board of Directors Audit and Supervisory Committee Member	The Institute of Energy Economics, Japan Nitto Denko Corporation CANON ELECTRONICS INC.	Chairman & CEO Outside Statutory Auditor Outside Director
Hiroshi Ueno	Member of the Board of Directors Audit and Supervisory Committee Member		

- (Notes)
1. “*” indicates Representative Director.
 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 insight 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 insight 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 the National Tax Agency, and possesses adequate insight 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 Company 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 24 Vice Presidents. Aside from Members of the Board of Directors above that hold concurrent positions as Vice Presidents, the Company has 20 other Vice Presidents.
8. Satoshi Ishino resigned from the Company and from his position as a Member of the Board of Directors on October 31, 2017. At the time of his resignation, he held the positions of Member of the Board of Directors and Executive Vice President; Director of New Business Unit; and Director of Healthcare Business Division. Since assuming the position of Senior Vice President on November 1, 2017, he has been in charge of New Products & Business Division while continuing to serve as Director of Healthcare Business Division.
9. Changes in positions and responsibilities, and significant concurrent positions of Members of the Board of Directors during the fiscal year under review are as follows.

Name	Before change	After change	Date of change
Tsuneo Murata	President (Representative Director)	Chairman of the Board and President (Representative Director)	June 29, 2017
Yoshitaka Fujita	Executive Deputy President (Representative Director)	Vice Chairman of the Board	June 29, 2017
Toru Inoue	Member of the Board of Directors	Member of the Board of Directors (Representative Director)	June 29, 2017
	Executive Vice President	Senior Executive Vice President	June 29, 2017
Norio Nakajima	Member of the Board of Directors	Member of the Board of Directors (Representative Director)	June 29, 2017
	Executive Vice President	Senior Executive Vice President	June 29, 2017
	Director of Communication & Sensor Business Unit Director of Energy Business Division	Director of Module Business Unit	April 1, 2017
	—	Tohoku Murata Manufacturing Co., Ltd. President and Representative Director	September 1, 2017
Yoshito Takemura	Senior Vice President	Executive Vice President	June 29, 2017
	General Manager of Accounting, Finance & Corporate Planning Group	Director of Planning Administration Unit	July 1, 2017

(2) Summary of liability limitation agreements

The Company has entered into liability limitation agreements with Members of the Board of 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 Audit and Supervisory Committee Members

Category	Persons	Amount of compensation, etc.
Members of the Board of Directors (excluding those who are not Audit and Supervisory Committee Members)	8 Persons	Millions of yen 438
Members of the Board of Directors who are Audit and Supervisory Committee Members	4	72
Total	12	510

- (Notes) 1. The above number includes one Members of the Board of Director who retired during the fiscal year ended March 31, 2018.
2. Out of the total shown above, total compensation, etc., provided to four Outside Directors, is 56 million yen.
3. Included in the above are restricted share remuneration (60 million yen for seven Members of the Board of Directors, excluding Members of the Board of Directors who are Audit and Supervisory Committee Members, and Outside Directors) for the fiscal year under review.
4. The maximum amount of compensation (per annum) is 700 million yen (resolved at the Ordinary General Meeting of Shareholders in June 2016) for Members of the Board of Directors (excluding those who are Audit and Supervisory Committee Members). However, this does not include employee compensation and bonuses provided to Members of the Board of Directors concurrently serving as Vice Presidents. The maximum amount of compensation (per annum) for the restricted share remuneration is 300 million yen (resolved at the Ordinary General Meeting of Shareholders in June 2017).
5. The maximum amount of compensation (per annum) is 100 million yen for Members of the Board of Directors who are Audit and Supervisory Committee Members (resolved at the Ordinary General Meeting of Shareholders in June 2016).

[Policy on Member of the Board of Directors Remuneration]

To improve corporate governance as well as enhance objectivity and transparency, for the decision making process for matters related to the remuneration of Members of the Board of Directors, the Company has established a Remuneration Advisory Committee, consisting of four (4) Members of the Board of Directors of which two (2) are Outside Directors, and the decision is made at the Board of Directors meeting upon receiving report from that committee.

With respect to remuneration for Member of the Board of Directors, the Company makes it a basic policy to provide a system and level of remuneration that is considered suitable for executive-level managers of a globally competitive electronic equipment and component manufacturer in order to ensure recruitment of human talent considered to be excellent based on a comparison with same-industry competitors, to raise the morale and motivation to improve financial results and to contribute to the maximization of corporate value.

Remuneration for Member of the Board of Directors who are not Audit and Supervisory Committee Members is made up of (i) monthly remuneration, (ii) bonus with the aim of giving a short-term incentive, and (iii) share-based remuneration with the aim of making them further share values with our shareholders by giving a medium- to long-term incentive.

(i) Monthly remuneration: The monthly remuneration is a fixed remuneration of an amount individually decided for each Member of the Board of Directors based on a fixed amount for service as Member of the Board of Directors, and an amount that is decided based on consideration of the level of importance of each Member of the Board of Directors' business execution allocation and responsibility and the previous fiscal year's financial performance.

(ii) Bonus: The total amount of bonus is decided according to the Company's financial performance and the amount allocated to each Member of the Board of Directors is decided by giving consideration to the level of contribution to financial performance of each individual.

(iii) Share-based remuneration: The share-based remuneration is set by position of each Member of the Board of Directors.

The remuneration paid to Outside Directors who are not Audit and Supervisory Committee Members and to Members of the Board of Directors who are Audit and Supervisory Committee Members is only monthly remuneration. The amount paid to each Member of the Board of Directors who are Audit and Supervisory Committee Members is decided as a fixed individual remuneration through discussion by the Members of the Board of Directors who are Audit and Supervisory Committee Members.

(4) Key activities of Outside Directors

Category	Name	Attendance at meetings of the Board of Directors	Attendance at meetings of the Audit and Supervisory Committee	Key activities
Outside Director	Takashi Shigematsu	9/10	—	Mr. Takashi Shigematsu made comments on overall management based on his extensive insight as a corporate manager and abundant experience in the automotive industry.
Outside Directors who are Audit and Supervisory Committee Members	Hiroaki Yoshihara	10/10	11/11	Mr. Hiroaki Yoshihara made comments on overall management based on his extensive insight as an accounting specialist, and abundant experience in global corporate management and consulting for global companies, etc.
	Masakazu Toyoda	10/10	11/11	Mr. Masakazu Toyoda made comments on overall management based on his insight and abundant experience as a specialist mainly in the field of industrial economics.
	Hiroshi Ueno	10/10	11/11	Mr. Hiroshi Ueno made comments on overall management based on his insight and abundant experience as a specialist mainly in government administration of such fields as tax and finance, as well as the Antimonopoly Act.

4. Matters Concerning the Independent Auditor

(1) Name of Independent Auditor

Deloitte Touche Tohmatsu LLC

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

	Category	Amount of compensation, etc.
(1)	Compensation, etc., as Independent Auditor	Millions of yen 218
(2)	Total amount of cash and other beneficial property payable by the Company and its subsidiaries	218

- (Notes)
1. 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.
 2. 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.
 3. 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.
 4. 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 Energy Device Wuxi Co., Ltd., Murata Electronics Europe B.V., Korea Murata Electronics Company, Limited, Philippine Manufacturing Co. of Murata, Inc., Murata Electronics Singapore (Pte.) Ltd., and Murata Energy Device Singapore Pte. Ltd. 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 the any of the items in Article 340, Paragraph 1 of the Companies Act applies 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.

[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
 - 1) 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.
 - 2) 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.
 - 3) In order to fulfill corporate social responsibilities (CSR), the Company shall establish an organizational committee which manages activities regarding CSR areas such as compliance, risk management, and environment, etc., and promote CSR management of the Company Group continuously and systematically.
 - 4) 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.
 - 5) 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 Corporate Ethics Policy and Code of Conduct and regulations regarding compliance.
 - 6) 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.
 - 7) 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 policy and the code.
 - 8) 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
 - 1) 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.
 - 2) 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.
 - 3) 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 Company Group's risk management structure and operational status shall be conducted at an organizational committee. Additionally, evaluations will be made regarding countermeasures against significant risks, driving forward the activities of the Company 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 such long and medium term policies formulate yearly policies, budgets, and action plans, and manage the progress and confirm status of the 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), through deliberation by 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 Representative Directors, the Company shall establish the 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 provided to concerned Members of the Board of Directors, Vice Presidents, and employees periodically or as required, and a system to share information shall be established via the use of IT.

- (5) System to secure appropriate business in the Company Group, composed of the Company and its subsidiaries
 - 1) The Company Group shall share corporate policy that acts as a fundamental management policy, in addition to strictly enforcing and sharing Corporate Ethics Policy and Code of Conduct, and regulations regarding compliance.
 - 2) The Company 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 Company 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 Company 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 Company Group are conducted appropriately and efficiently, adhering to laws and regulations and the internal regulations, etc. of the Company.
 - 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 Executive Committee, etc., group approval documents of the Company 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 Company Group that conflict with laws and regulations, the Articles of Incorporation, Corporate Ethics Policy and Code of Conduct, or other internal regulations of the Company, or may cause significant harm to the Company 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 Company Group that conflict with laws and regulations, the Articles of Incorporation, Corporate Ethics Policy and Code of Conduct, or other internal regulations of the Company, or may cause significant harm to the Company Group, Members of the Board of Directors, Vice Presidents, and employees of subsidiaries or parties that received such reports from the Members of the Board of Directors, Vice Presidents, and employees of subsidiaries 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 attorneys-at-law 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 as requested.
 - 7) Representative Directors, etc., shall work to exchange information with the Audit and Supervisory Committee.

[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 the standards, a number of Outside Directors are elected and they are giving their opinions based on their specialized views and abundant experience in the meeting of the Board of Directors and conducting vigorous discussions.
 - 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 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 dedicated organization responsible for promoting CSR activities has also been established.
 - 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. Yearly policies are decided by 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 Company 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 Executive 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 that allows related Members of the Board of Directors, Vice Presidents, and employees to share periodic reports and others is used.
- (5) System to secure appropriate business in the Company 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 Company Group. The Company also operates a system where advice and approval is given on certain matters for decisions by subsidiaries.
 - Divisions that supervise each function of the Company maintain regulations so that operations within the Company 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 Company 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 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, Information Disclosure 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. Furthermore, documents, information, etc., requested by the Audit and Supervisory Committee 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 Company 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 Company Group, a system where such reports can be made to the Audit and Supervisory Committee is developed, 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 attorneys-at-law and the Independent Auditor.
 - A system to secure budget necessary for the execution of duties by Audit and Supervisory Committee Members and to bear fees, etc., actually incurred as a result of the execution of duties by Audit and Supervisory Committee Members is in place.
 - The Audit and Supervisory Committee, the Independent Auditor, and the Internal Audit Department periodically meet, and a sufficient level of cooperation is realized.
 - Representative Directors are sharing the status and results of the Audit and Supervisory Committee's audits in the meeting with the Audit and Supervisory Committee on a regular basis and actively exchanging opinions.

Consolidated Balance Sheets

(As of March 31, 2018)

(Millions of yen)

Item	Amount	Item	Amount
Assets	1,797,013	Liabilities	339,797
Current assets	810,260	Current liabilities	261,812
Cash	168,902	Short-term borrowings	13,500
Short-term investments	30,747	Trade accounts payable	94,074
Marketable securities	20,790	Accrued payroll and bonuses	38,041
Trade notes receivable	2,895	Income taxes payable	24,968
Trade accounts receivable	256,140	Accrued expenses and other	91,229
Allowance for doubtful notes and accounts	(1,159)	Long-term liabilities	77,985
Inventories	290,257	Long-term debt	742
Prepaid expenses and other	41,688	Termination and retirement benefits	67,843
Property, plant and equipment	705,229	Deferred income taxes	7,675
Land	64,772	Other	1,725
Buildings	467,427	Equity	1,457,216
Machinery and equipment	1,104,592	Murata Corporation's Shareholders' equity	1,456,600
Construction in progress	97,090	Common stock	69,444
Accumulated depreciation	(1,028,652)	Capital surplus	120,596
Investments and other assets	281,524	Retained earnings	1,336,208
Investments	87,288	Accumulated other comprehensive loss	(16,052)
Intangible assets	54,347	Unrealized gains on securities	7,576
Goodwill	76,914	Pension liability adjustments	(16,995)
Deferred income taxes	36,346	Foreign currency translation adjustments	(6,633)
Other	26,629	Treasury stock, at cost	(53,596)
		Noncontrolling interests	616
Total assets	1,797,013	Total liabilities and total equity	1,797,013

Consolidated Statements of Income

(From April 1, 2017
to March 31, 2018)

(Millions of yen)

Item	Amount	
Net sales		1,371,842
Operating expenses		
Cost of sales	927,565	
Selling, general and administrative	187,950	
Research and development	94,181	1,209,696
Operating income		162,146
Other income		
Interest and dividend income	2,854	
Interest expense	(581)	
Foreign currency exchange loss	(7,299)	
Gain on bargain purchase	6,442	
Other - net	4,239	5,655
Income before income taxes		167,801
Income taxes		
Current income tax	48,538	
Deferred income tax	(26,789)	21,749
Net income		146,052
Net loss attributable to noncontrolling interests		(34)
Net income attributable to Murata Corporation		146,086

Consolidated Statements of Shareholders' Equity

(From April 1, 2017
to March 31, 2018)

(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 loss	Treasury stock			
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 share remuneration	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

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: 98

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.
Tohoku 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 Energy Device Wuxi Co., Ltd.
Murata Electronics Europe B.V.
Korea Murata Electronics Company, Limited
Philippine Manufacturing Co. of Murata, Inc.
Murata Electronics Singapore (Pte.) Ltd.
Murata Energy Device Singapore Pte. Ltd.

2) Number of unconsolidated subsidiaries

None (Companies accounted for by equity method None)

3) Number of affiliated companies

1 (Companies accounted for by equity method 1)

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

(Consolidated subsidiaries)

14 companies were newly consolidated.

Tohoku Murata Manufacturing Co., Ltd.
Murata Energy Device Wuxi Co., Ltd.
Murata Energy Device Singapore Pte. Ltd., and others

12 companies were excluded from consolidation.

Murata Electronics (UK) Limited
Kitami Tokyo Denpa Co., Ltd.
Four subsidiaries of the TOKO, INC. Group, 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” in the Statement of Financial Accounting Standards of the Financial Accounting Standards Board (FASB), the Company Group classifies 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 Company Group accounts 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.

In January 2017, FASB issued Accounting Standards Update (ASU) No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. The update eliminates Step 2 of the current goodwill impairment test, under which a goodwill impairment loss is measured by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. The new guidance requires that goodwill impairment loss be recognized for any excess of a reporting unit’s carrying amount over its fair value. The Company Group was an early adopter of this update in the fiscal year under review and will use the new standards prospectively towards the future. Application of these standards will not impact the operating results or financial position of the Company Group during the fiscal year under review.

(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 fiscal year under review, 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 fiscal year under review. 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.

A part of the lump-sum retirement payment plans at eight domestic consolidated subsidiaries were changed to defined contribution pension system in September 2017, with the new plans going into effect in October 2017.

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

(Note to Changes in accounting policy)

In November 2015, the FASB issued ASU No. 2015-17, “Income Taxes: Balance Sheet Classification of Deferred Taxes.” To simplify the presentation of deferred income taxes, the ASU requires that deferred tax liabilities and assets be classified as noncurrent in a classified consolidated balance sheet. From the fiscal year under review, the Company Group adopted the ASU. For the adoption of the ASU, the Company Group did not adjust prior period’s consolidated balance sheets retrospectively.

(Note 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 are as follows.

(Millions of yen)

Type	Cost and amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Governmental debt securities	1,000	1	-	1,001
Private debt securities	69,342	178	534	68,986
Equity securities	8,905	10,802	-	19,707
Investment trusts	2,000	-	59	1,941
Total	81,247	10,981	593	91,635

The aggregate carrying amount of non-listed shares that do not have a readily determinable fair value that are valued at cost is 16,442 million yen. Of this, 16,442 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) are as follows.

(Millions of yen)

Maturity date	Available-for-sale securities Governmental debt securities, private debt securities, and investment trusts
Within 1 year	20,790
Over 1 year, within 5 years	51,138
Over 5 years	-
Total	71,928

Sales amount, realized gains, and realized losses for available-for-sale securities are as follows.

(Millions of yen)

	Amount
Sale amount	1,131
Realized gains	350
Realized losses	-

(Financial instruments and concentration of risk)

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

1. Assets and liabilities

(1) Cash, short-term investments, trade notes receivable, trade accounts receivable, financial instruments included in other noncurrent assets, short-term borrowings, trade accounts payable, and long-term debt

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 Company Group enters into forward exchange contracts. Additionally, the Group does not hold any forward exchange contracts 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 Company Group records changes in fair value of forward exchange contracts as gains or losses upon their occurrence.

Estimated principal on forward exchange contracts is as follows.

(Millions of yen)

	Estimated principal
Forward exchange contracts	192,483

Fair values of forward exchange contracts are as follows.

(Millions of yen)

	Assets		Liabilities	
	Item	Fair value	Item	Fair value
Forward exchange contracts	Prepaid expenses and other current assets	2,845	Accrued expenses and other current liabilities	432

3. Concentration of credit risk

The Company Group conducts sales in the global electronic device market.

In general, the Company Group grants credit to its customers, and the recovery possibility of these trade receivables is affected by conditions in the electronics industry. However, the Company 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	6,830.45 yen
2. Basic earnings attributable to Murata Corporation per share	685.86 yen

Income Statements

(From April 1, 2017
to March 31, 2018)

(Millions of yen)

Item	Amount	
Net sales		948,594
Cost of sales		760,410
Gross profit		188,183
Selling, general and administrative		179,798
Operating income		8,385
Non-operating income		
Interest and dividend income	38,523	
Other	3,108	41,632
Non-operating expenses		
Interest expense	814	
Foreign currency exchange loss	2,681	
Product replacement and repair costs	1,825	
Other	3,503	8,824
Ordinary income		41,193
Income before income taxes		41,193
Current income tax	(5,209)	
Deferred income tax	(1,692)	(6,901)
Net income		48,095

Statements of Shareholders' Equity

(From April 1, 2017
to March 31, 2018)

(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, 2017	69,376	107,666	12,316	119,982	7,899	13	321	50
Changes of items during period								
Restricted share remuneration	67	67		67				
Cash dividends								
Net income								
Purchases of treasury stock at cost								
Disposal of treasury stock			6,271	6,271				
Reversal of reserve for special depreciation							(87)	
Net changes of items other than shareholders' equity								
Total changes of items during period	67	67	6,271	6,339	-	-	(87)	-
Balance at March 31, 2018	69,444	107,733	18,588	126,322	7,899	13	234	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, 2017	162,707	270,485	441,478	(55,808)	575,029	5,241	5,241	580,270	
Changes of items during period									
Restricted share remuneration					135			135	
Cash dividends		(51,058)	(51,058)		(51,058)			(51,058)	
Net income		48,095	48,095		48,095			48,095	
Purchases of treasury stock at cost				(53)	(53)			(53)	
Disposal of treasury stock				2,265	8,536			8,536	
Reversal of reserve for special depreciation		87	-		-			-	
Net changes of items other than shareholders' equity						2,019	2,019	2,019	
Total changes of items during period	-	(2,876)	(2,963)	2,212	5,655	2,019	2,019	7,675	
Balance at March 31, 2018	162,707	267,609	438,515	(53,596)	580,685	7,260	7,260	587,945	

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 taxes

Amounts are exclusive of consumption taxes.

(2) Application of consolidated taxation system

The consolidated taxation system is applied.

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

(Note to changes in presentation methods)

Balance sheets

“Short-term loans receivable,” which had been included in “Other” under “Current assets” until the previous fiscal year, is presented from the fiscal year under review as a separate item as its significance has increased.

(Notes to unconsolidated balance sheets)

1. Accumulated depreciation of property, plant and equipment	187,425 million yen
2. Short-term monetary claims with affiliated companies	270,509 million yen
Long-term monetary claims with affiliated companies	73,897 million yen
Short-term monetary liabilities with affiliated companies	313,883 million yen
Long-term monetary liabilities with affiliated companies	150 million yen
3. Guarantee obligations	1,266 million yen

(Millions of yen)

Warrantee	Guaranteed Amount	Liability Guaranteed
Tohoku Murata Manufacturing Co., Ltd.	1,266	Debt on electronic bill transactions
Total	1,266	

(Notes to the unconsolidated income statements)

1. Transactions with affiliated companies	
Business transactions	
Net sales	843,140 million yen
Purchase turnover	697,225 million yen
Non-business transactions	
Interest income	275 million yen
Dividend income	37,186 million yen
Asset transfer	2,343 million yen
Interest expense	249 million yen
Asset purchase	5,720 million yen
2. Research and development expenses	86,335 million yen

(Notes to statements of shareholders' equity)

1. Type and total number of issued shares as of March 31, 2018

Common stock 225,271,427 shares

2. Type and number of treasury stock as of March 31, 2018

Common stock 12,020,374 shares

3. Matters concerning dividends

(1) Amount of dividends paid

Resolution	Type of stock	Total amount of dividends (Millions of yen)	Dividend per share (yen)	Record date	Effective date
June 29, 2017 Ordinary General Meeting of Shareholders	Common stock	23,401	110	March 31, 2017	June 30, 2017
October 31, 2017 Meeting of the Board of Directors	Common stock	27,656	130	September 30, 2017	December 4, 2017

(2) Of dividends with a record date during the fiscal year under review, and with an effective date during the following fiscal year
As a proposal at the Ordinary General Meeting of Shareholders on June 28, 2018, the Company plans to propose the following concerning dividends for common stock.

1) Total amount of dividends 27,722 million yen

2) Dividend per share 130 yen

3) Record date March 31, 2018

4) Effective date June 29, 2018

The Company plans to use retained earnings as source of funds for dividends.

(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	2,282 million yen	Other marketable securities	
Inventories	3,205 million yen	valuation adjustment	9 million yen
Accrued expenses	1,217 million yen	Total deferred tax liabilities	9 million yen
Accounts payable - other	582 million yen	Elimination with deferred tax assets	(9) million yen
Accrued enterprise tax	182 million yen	Net deferred tax liabilities	-
Other	408 million yen		
Total deferred tax assets	7,878 million yen		
Elimination with deferred tax liabilities	(9) million yen		
Net deferred tax assets	7,868 million yen		

(2) Noncurrent

Deferred tax assets		Deferred tax liabilities	
Termination and retirement benefits	7,604 million yen	Other marketable securities	
Stock of affiliated companies	3,518 million yen	valuation adjustment	2,882 million yen
Tangible and intangible assets	2,311 million yen	Reserve for special depreciation	102 million yen
Deferred tax adjustment	510 million yen	Other	78 million yen
Investment securities	405 million yen	Total deferred tax liabilities	3,063 million yen
Other	187 million yen	Elimination with deferred tax assets	(3,063) million yen
Deferred tax assets subtotal	14,538 million yen	Net deferred tax liabilities	-
Valuation allowance	(5,114) million yen		
Total deferred tax assets	9,423 million yen		
Elimination with deferred tax liabilities	(3,063) million yen		
Net deferred tax assets	6,359 million yen		

2. Difference between effective statutory tax rate and income tax rate after application of tax effect accounting

Effective statutory tax rate	30.7 %
(Adjustments)	
Exemption for dividend income	(27.6) %
Tax exemption for R&D promotion tax system	(19.3) %
Other	(0.6) %
Income tax rate after application of tax effect accounting	(16.8) %

(Notes to transactions with related parties)

1. Subsidiaries and affiliated companies, etc.

(Millions of yen)

Type	Name of company, etc.	Percentage of voting rights holding (or held)	Relationship with related party	Summary of transactions	Transaction amount	Item	Balance at the end of the fiscal year
Subsidiary	Fukui Murata Manufacturing Co., Ltd.	Holding Directly, 100%	Manufacturing of the Company's products Officers concurrently serving at the Company	Procurement of products, etc. (Note 1)	117,335 (Note 2)	Trade accounts payable	6,220 (Note 2)
				Borrowing of funds Payment of interest (Note 3)	35,595 29	Short-term borrowings Current portion of long-term borrowings	31,612
Subsidiary	Izumo Murata Manufacturing Co., Ltd.	Holding Directly, 100%	Manufacturing of the Company's products Officers concurrently serving at the Company	Procurement of products, etc. (Note 1)	132,646 (Note 2)	Trade accounts payable	7,207 (Note 2)
				Borrowing of funds Payment of interest (Note 3)	18,093 5	Short-term borrowings Current portion of long-term borrowings	15,576
Subsidiary	Kanazawa Murata Manufacturing Co., Ltd.	Holding Directly, 100%	Manufacturing of the Company's products Officers concurrently serving at the Company	Borrowing of funds Payment of interest (Note 3)	32,946 12	Short-term borrowings	36,187
Subsidiary	Okayama Murata Manufacturing Co., Ltd.	Holding Directly, 100%	Manufacturing of the Company's products Officers concurrently serving at the Company	Procurement of products, etc. (Note 1)	94,075 (Note 2)	Trade accounts payable	4,107 (Note 2)
				Borrowing of funds Payment of interest (Note 3)	23,318 21	Short-term borrowings Current portion of long-term borrowings	20,578
Subsidiary	Toyama Murata Manufacturing Co., Ltd.	Holding Directly, 100%	Manufacturing of the Company's products Officers concurrently serving at the Company	Lending of funds Reception of interest (Note 3)	23,983 149	Short-term loans receivable Current portion of long-term loans receivable Long-term loans receivable	68,230
Subsidiary	Tohoku Murata Manufacturing Co., Ltd.	Holding Directly, 100%	Manufacturing of the Company's products Officers concurrently serving at the Company	Borrowing of funds Payment of interest (Note 3)	16,249 0	Short-term borrowings	36,893
Subsidiary	Murata Company Limited	Holding Directly, 100%	Sales of products of the Company and subsidiaries	Sales of products, etc. (Note 1)	218,262	Trade accounts receivable	62,726

Type	Name of company, etc.	Percentage of voting rights holding (or held)	Relationship with related party	Summary of transactions	Transaction amount	Item	Balance at the end of the fiscal year
Subsidiary	Murata Electronics Trading (Shanghai) Co., Ltd.	Holding Indirectly, 100%	Sales of products of the Company and subsidiaries Officers concurrently serving at the Company	Sales of products, etc. (Note 1)	144,348	Trade accounts receivable	62,003
Subsidiary	Korea Murata Electronics Company, Limited	Holding Directly, 100%	Sales of products of the Company and subsidiaries Officers concurrently serving at the Company	Sales of products, etc. (Note 1)	154,426	Trade accounts receivable	22,305

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 taxes. Balance at the end of the fiscal year includes consumption taxes.

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

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

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

2. Officers and primary shareholders, etc.

(Millions of yen)

Type	Name of company, etc.	Percentage of voting rights holding (or held)	Relationship with related party	Summary of transactions	Transaction amount	Item	Balance at the end of the fiscal year
Officer and close relative	Tsuneo Murata	Held Directly, 0.7%	Chairman of the Board and President of the Company	Transactions with the Murata Science Foundation, for which he serves as Chairman * Donation of cash	200	-	

* For a third party.

(Notes to amounts per share)

Net assets per share	2,757.06 yen
Net income per share	225.82 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, 2018)

a. Termination and retirement benefit liabilities	105,865 million yen
b. Pension assets	75,684 million yen
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c. Termination and retirement benefit liabilities in excess of pension assets (a – b)	30,181 million yen
d. Unrecognized actuarial differences	8,125 million yen
e. Unrecognized prior service cost	(2,729) million yen
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f. Termination and retirement benefits (c – d – e)	24,785 million yen

(3) Matters concerning the defined-benefit type termination and retirement expenses (From April 1, 2017 to March 31, 2018)

a. Service cost	4,689 million yen
b. Interest expenses	697 million yen
c. Expected operational profit	(1,453) million yen
d. Recorded amount of actuarial difference expenses	2,327 million yen
e. Recorded amount of prior service cost	(1,099) million yen
<hr/>	
f. Termination and retirement expenses (a + b + c + d + e)	5,162 million yen

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

a. Distribution period method for expected termination and retirement benefits	Benefit formula standard
b. Discount rate	0.6 %
c. Expected operational profit rate	2.0 %
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, 2017 to March 31, 2018)

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 from June 2015. Total unconverted assets as of March 31, 2018 are 1,837 million yen.

Recognized costs involved in contributions to defined contribution pension plans during the fiscal year under review are 846 million yen.