# Financial Data 2010

Year Ended March 31, 2010

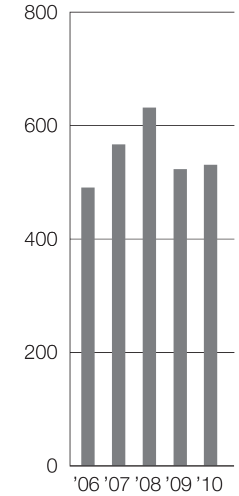
Innovator in Electronics

# Index

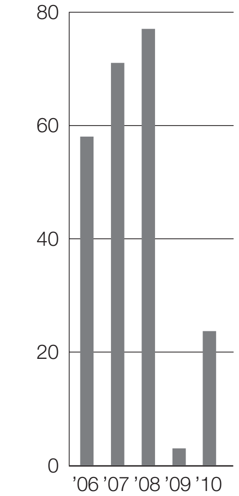
# Financial Data

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2006–2010

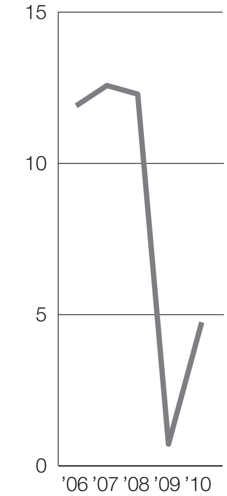
### Net sales
(Billions of yen)



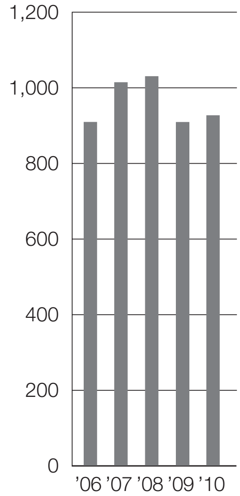

### Net income
(Billions of yen)



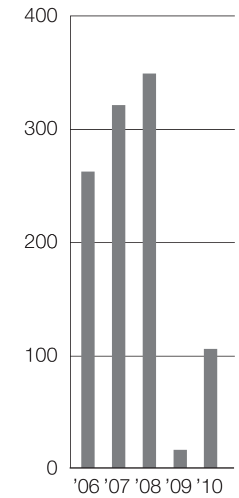

### Return on net sales
(%)



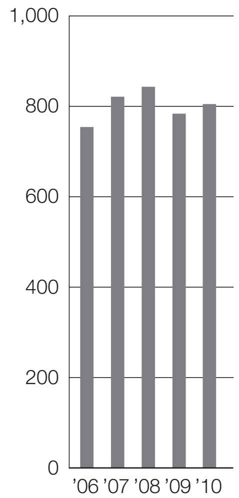

### Total assets
(Billions of yen)



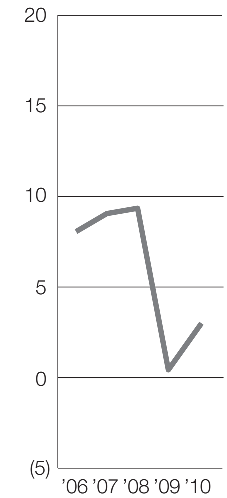

### Diluted earnings per share[*1] (Yen)



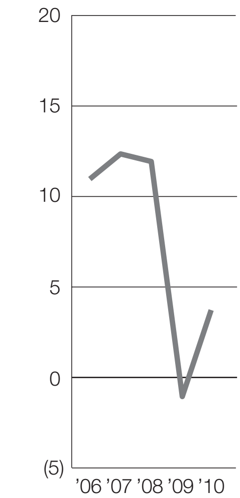

### Shareholders' equity
(Billions of yen)




### Return on equity (ROE) (%)

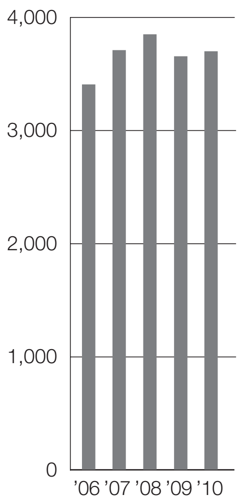



### Income (loss) before Tax on total assets (ROA) (%)

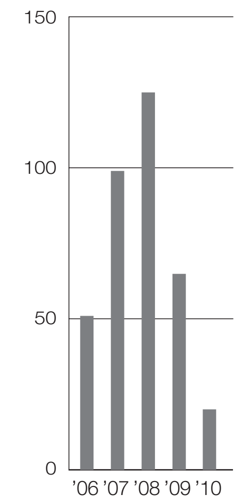



*1 Based on the average number of common shares outstanding and common equivalent shares outstanding such as those related to stock options.

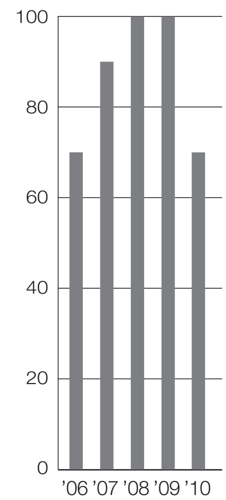
### Shareholders' equity per share[*2] (Yen)



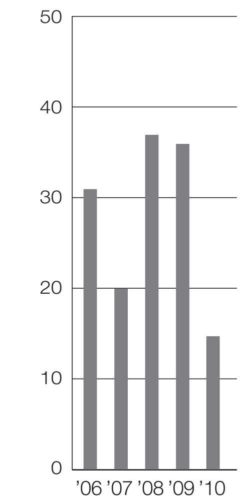

### Capital investment
(Billions of yen)




### Dividend per share
(Yen)




### Total return[*3]
(Billions of yen)




*2 Based on the number of common shares outstanding at term-end.
*3 Total of Dividend payments and Share buyback.

# Production, Order and Backlog by Product

Murata Manufacturing Co., Ltd. and Subsidiaries
Year ended March 31, 2010

| | Millions of yen | Component ratio | Ratio against the previous year | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2010 | | | |
| ***Production by Product*** | | % | % | |
| Capacitors | ¥177,912 | 33.6 | 10.0 | $1,913,032 |
| Piezoelectric Components | 81,955 | 15.5 | 12.8 | 881,237 |
| Other Components | 96,578 | 18.2 | (2.5) | 1,038,473 |
| Components Total | 356,445 | 67.3 | 6.9 | 3,832,742 |
| Communication Modules | 125,744 | 23.8 | 21.3 | 1,352,086 |
| Other Modules | 47,250 | 8.9 | (13.5) | 508,065 |
| Modules Total | 172,994 | 32.7 | 9.3 | 1,860,151 |
| Total | ¥529,439 | 100.0 | 7.7 | $5,692,893 |

*1 Figures are based on production quantity and sales price to customers.
*2 Exclusive of consumption taxes
*3 The tables by product indicate production, order and backlog of electronic components and related products.
*4 The classification of products has been changed from April 1, 2009. Short-range wireless communication modules and multilayer ceramic devices, previously included in “Microwave Devices”, and circuit modules, previously included in “Module products”, have been separated from these classifications and are indicated as “Communication Modules”.
Connectors and isolators, previously included in “Microwave Devices” are indicated as “Other Components”, together with EMI suppression filters, coils, sensors, and resistors, previously classified as “Other Products”.
Along with the reclassification and change of product classification, we have newly made “Components” category and “Modules” category. “Components” include “Capacitors”, “Piezoelectric Components“ and “Other Components”, and “Modules” consist of “Communication Modules” and “Other Modules”.
The figures for the year ended March 31, 2009, and as of March 31, 2009 have been reclassified for comparison.

| | Millions of yen | Component ratio | Ratio against the previous year | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2010 | | | |
| ***Order by Product*** | | % | % | |
| Capacitors | ¥199,825 | 35.4 | 18.5 | $2,148,656 |
| Piezoelectric Components | 87,222 | 15.4 | 18.5 | 937,871 |
| Other Components | 104,699 | 18.5 | 7.7 | 1,125,796 |
| Components Total | 391,746 | 69.3 | 15.4 | 4,212,323 |
| Communication Modules | 124,805 | 22.1 | 15.2 | 1,341,989 |
| Other Modules | 48,877 | 8.6 | (4.7) | 525,559 |
| Modules Total | 173,682 | 30.7 | 8.8 | 1,867,548 |
| Total | ¥565,428 | 100.0 | 13.3 | $6,079,871 |

*1 Figures are based on order quantity and sales price to customers.
*2 Exclusive of consumption taxes

| | Millions of yen | Component ratio | Ratio against the previous year | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2010 | | | |
| ***Backlog by Product*** | | % | % | |
| Capacitors | ¥29,983 | 41.9 | 231.9 | $322,398 |
| Piezoelectric Components | 9,635 | 13.4 | 105.7 | 103,602 |
| Other Components | 12,754 | 17.8 | 103.2 | 137,140 |
| Components Total | 52,372 | 73.1 | 161.9 | 563,140 |
| Communication Modules | 14,498 | 20.3 | 13.7 | 155,893 |
| Other Modules | 4,746 | 6.6 | 110.3 | 51,032 |
| Modules Total | 19,244 | 26.9 | 28.2 | 206,925 |
| Total | ¥71,616 | 100.0 | 104.6 | $770,065 |

*1 Figures are based on backlog quantity and sales price to customers.
*2 Exclusive of consumption taxes
*3 Backlog by Product for this year has increased drastically compared to the previous year.
This is because sharp inventory adjustment caused by demand defection ended by the end of the previous fiscal year, and procurements of components were increased by the customers.

# Capital Investment

Murata Manufacturing Co., Ltd. and Subsidiaries
Year ended March 31, 2010

1) Capital Investment for the fiscal year ended March 2010 amounted to ¥22,868 million ($245,892 thousand). Major capital investment included expansion and rationalization of production facilities, construction of buildings and expansion of R&D facilities.

2) Major property, plant and equipment on book value basis

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| 2010 | Land | Buildings | Machinery and equipment | Construction in progress | Total |
| ***Parent Company*** | | | | | |
| Plant, Office and other | | | | | |
| Head Office in Kyoto | ¥ 157 | ¥ 1,618 | ¥ 1,856 | ¥ 80 | ¥ 3,711 |
| Yokaichi Plant in Shiga | 468 | 6,074 | 5,681 | 506 | 12,731 |
| Yasu Plant in Shiga | 7,014 | 20,515 | 10,500 | 2,389 | 40,419 |
| Yokohama Technical Center in Kanagawa | 2,654 | 1,942 | 219 | 0 | 4,815 |
| Other | 7,195 | 1,494 | 595 | 43 | 9,329 |

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| 2010 | Land | Buildings | Machinery and equipment | Construction in progress | Total |
| ***Domestic subsidiaries*** | | | | | |
| Company Name | | | | | |
| Kanazawa Murata Manufacturing Co., Ltd. | ¥3,501 | ¥11,849 | ¥13,413 | ¥2,068 | ¥30,831 |
| Fukui Murata Manufacturing Co., Ltd. | 2,025 | 10,742 | 16,575 | 1,401 | 30,743 |
| Izumo Murata Manufacturing Co., Ltd. | 1,384 | 11,515 | 12,803 | 623 | 26,325 |
| Murata Land & Building Co., Ltd. | 4,734 | 11,337 | 23 | – | 16,094 |
| Okayama Murata Manufacturing Co., Ltd. | – | 6,589 | 6,627 | 1,569 | 14,785 |
| Toyama Murata Manufacturing Co., Ltd. | 1,610 | 3,182 | 4,284 | 365 | 9,441 |

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| 2010 | Land | Buildings | Machinery and equipment | Construction in progress | Total |
| ***Foreign subsidiaries*** | | | | | |
| Company Name | | | | | |
| Wuxi Murata Electronics Co., Ltd. | – | ¥ 3,291 | ¥ 7,391 | ¥ 472 | ¥11,154 |
| Murata Electronics Singapore (Pte.) Ltd. | – | 3,351 | 3,447 | – | 6,798 |
| Shenzhen Murata Technology Co., Ltd. | – | 2,413 | 2,089 | 4 | 4,506 |
| Murata (China) Investment Co., Ltd. | – | 1,882 | 155 | 797 | 2,834 |
| Murata Electronics (Thailand), Ltd. | ¥ 222 | 757 | 1,604 | 105 | 2,688 |

# Liquidity in hand

Murata Manufacturing Co., Ltd. and Subsidiaries
March 31, 2010 and 2009

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2010** | 2009 | **2010** |
| Cash and cash equivalents at end of year | **¥108,777** | ¥117,502 | **$1,169,645** |
| Short-term investments with the original maturities over three months | **21,897** | 22,584 | **235,452** |
| Available-for-sale securities (Governmental and Private debt securities) | **230,168** | 165,545 | **2,474,925** |
| Liquidity in hand | **¥360,842** | ¥305,631 | **$3,880,022** |

# Consolidated Balance Sheets

Murata Manufacturing Co., Ltd. and Subsidiaries
March 31, 2010 and 2009

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| ASSETS | **2010** | 2009 | **2010** |
| ***Current assets:*** | | | |
| Cash | **¥ 66,688** | ¥ 46,296 | **$ 717,075** |
| Short-term investments | **63,986** | 93,790 | **688,022** |
| Marketable securities (Note 3) | **32,793** | 83,342 | **352,613** |
| Notes and accounts receivable: | | | |
| Trade notes | **2,088** | 3,494 | **22,452** |
| Trade accounts | **109,942** | 80,578 | **1,182,172** |
| Allowance for doubtful notes and accounts | **(1,021)** | (1,013) | **(10,979)** |
| Inventories (Note 4) | **89,216** | 94,104 | **959,312** |
| Deferred income taxes (Note 9) | **17,378** | 16,363 | **186,860** |
| Prepaid expenses and other | **7,071** | 23,753 | **76,032** |
| Total current assets | **388,141** | 440,707 | **4,173,559** |
| ***Property, plant and equipment:*** | | | |
| Land | **43,829** | 43,899 | **471,280** |
| Buildings | **272,070** | 267,737 | **2,925,484** |
| Machinery and equipment | **570,701** | 567,299 | **6,136,570** |
| Construction in progress | **12,162** | 20,979 | **130,774** |
| Total | **898,762** | 899,914 | **9,664,108** |
| Accumulated depreciation | **(613,497)** | (571,632) | **(6,596,742)** |
| Net property, plant and equipment | **285,265** | 328,282 | **3,067,366** |
| ***Investments and other assets:*** | | | |
| Investments (Note 3) | **207,958** | 90,138 | **2,236,107** |
| Deferred income taxes (Note 9) | **9,654** | 20,496 | **103,806** |
| Other (Notes 6 and 16) | **37,772** | 29,704 | **406,151** |
| Total investments and other assets | **255,384** | 140,338 | **2,746,064** |
| Total assets | **¥928,790** | ¥909,327 | **$9,986,989** |

See notes to consolidated financial statements.

| LIABILITIES AND SHAREHOLDERS' EQUITY | Millions of yen 2010 | Millions of yen 2009 | Thousands of U.S. dollars (Note 2) 2010 |
|---|---|---|---|
| ***Current liabilities:*** | | | |
| Short-term borrowings (Note 5) | **¥ 5,476** | ¥ 9,240 | **$ 58,882** |
| Trade notes payable | **777** | 2,472 | **8,355** |
| Trade accounts payable | **28,861** | 17,939 | **310,333** |
| Accrued payroll and bonuses | **20,351** | 17,417 | **218,828** |
| Income taxes payable | **3,226** | 1,405 | **34,688** |
| Accrued expenses and other (Note 6) | **20,055** | 20,982 | **215,645** |
| Total current liabilities | **78,746** | 69,455 | **846,731** |
| ***Long-term liabilities:*** | | | |
| Long-term debt (Note 5) | **11** | 17 | **118** |
| Termination and retirement benefits (Note 6) | **46,496** | 53,593 | **499,957** |
| Deferred income taxes (Note 9) | **1,812** | 889 | **19,484** |
| Other | **868** | 1,031 | **9,333** |
| Total long-term liabilities | **49,187** | 55,530 | **528,892** |
| ***Commitments and contingent liabilities*** (Note 13) | | | |
| ***Shareholders' equity*** (Notes 8 and 18): | | | |
| Common stock (authorized 581,000,000 shares in 2010 and 2009; issued 225,263,592 shares in 2010 and 2009) | **69,377** | 69,377 | **745,989** |
| Capital surplus | **102,388** | 102,388 | **1,100,946** |
| Retained earnings | **698,613** | 692,099 | **7,511,968** |
| Accumulated other comprehensive income (loss): | | | |
| Unrealized gains on securities | **3,132** | 344 | **33,677** |
| Pension liability adjustments (Note 6) | **3,167** | (4,928) | **34,054** |
| Unrealized losses on derivative instruments | **(300)** | (590) | **(3,226)** |
| Foreign currency translation adjustments | **(27,446)** | (26,288) | **(295,118)** |
| Total accumulated other comprehensive loss | **(21,447)** | (31,462) | **(230,613)** |
| Treasury stock, at cost 10,633,763 shares in 2010 and 10,630,495 shares in 2009 | **(48,074)** | (48,060) | **(516,924)** |
| Total shareholders' equity | **800,857** | 784,342 | **8,611,366** |
| Total liabilities and shareholders' equity | **¥928,790** | ¥909,327 | **$9,986,989** |

# Consolidated Statements of Income

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2010, 2009 and 2008

| | Millions of yen | | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|---|
| | **2010** | 2009 | 2008 | **2010** |
| ***Net sales*** | **¥530,819** | ¥523,946 | ¥631,655 | **$5,707,731** |
| ***Operating costs and expenses:*** | | | | |
| Cost of sales | **382,877** | 398,112 | 387,842 | **4,116,957** |
| Selling, general and administrative | **79,563** | 95,289 | 85,780 | **855,516** |
| Research and development | **41,649** | 46,832 | 42,281 | **447,839** |
| Total operating costs and expenses | **504,089** | 540,233 | 515,903 | **5,420,312** |
| ***Operating income (loss)*** | **26,730** | (16,287) | 115,752 | **287,419** |
| ***Other income (expenses):*** | | | | |
| Interest and dividend income | **3,254** | 4,061 | 4,866 | **34,989** |
| Interest expense | **(67)** | (478) | (537) | **(720)** |
| Foreign currency exchange gain (loss) | **1,443** | 1,396 | (32) | **15,516** |
| Other-net | **3,298** | 989 | 1,781 | **35,463** |
| Other income (expenses)-net | **7,928** | 5,968 | 6,078 | **85,248** |
| ***Income (loss) before income taxes*** | **34,658** | (10,319) | 121,830 | **372,667** |
| ***Income taxes*** (Note 9) | **9,901** | (13,907) | 44,417 | **106,463** |
| ***Net income*** | **¥ 24,757** | ¥ 3,588 | ¥ 77,413 | **$ 266,204** |

| | Yen | | | U.S. dollars (Note 2) |
|---|---|---|---|---|
| ***Amounts per share*** (Note 11): | | | | |
| Basic earnings per share | **¥115.35** | ¥ 16.48 | ¥349.09 | **$1.24** |
| Diluted earnings per share | **¥115.35** | ¥ 16.48 | ¥349.05 | **$1.24** |
| Cash dividends per share | **¥ 85.00** | ¥100.00 | ¥100.00 | **$0.91** |

See notes to consolidated financial statements.

# Consolidated Statements of Comprehensive Income

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2010, 2009 and 2008

| | Millions of yen | | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|---|
| | **2010** | 2009 | 2008 | **2010** |
| ***Net income*** | **¥24,757** | ¥ 3,588 | ¥ 77,413 | **$266,204** |
| ***Other comprehensive income (loss), net of tax*** (Note 12): | | | | |
| Unrealized gains (losses) on securities | **2,788** | (2,610) | (2,414) | **29,979** |
| Pension liability adjustments | **8,095** | (5,573) | (7,821) | **87,043** |
| Unrealized gains (losses) on derivative instruments | **290** | (606) | 45 | **3,118** |
| Foreign currency translation adjustments | **(1,158)** | (17,771) | (8,901) | **(12,452)** |
| Other comprehensive income (loss) | **10,015** | (26,560) | (19,091) | **107,688** |
| ***Comprehensive income (loss)*** | **¥34,772** | ¥(22,972) | ¥ 58,322 | **$373,892** |

See notes to consolidated financial statements.

# Consolidated Statements of Shareholders' Equity

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2010, 2009 and 2008

| | Number of common shares issued | Millions of yen | | | | |
|---|---|---|---|---|---|---|
| | | Common stock | Capital surplus | Retained earnings | Accumulated other comprehensive income (loss) | Treasury stock |
| ***Balance at March 31, 2007*** | 225,263,592 | ¥69,377 | ¥102,363 | ¥655,240 | ¥ 14,189 | ¥(18,276) |
| Purchases of treasury stock at cost | | | | | | (15,035) |
| Exercise of stock options | | | 21 | | | 210 |
| Stock-based compensation expense | | | 19 | | | |
| Net income | | | | 77,413 | | |
| Cash dividends, ¥100.00 per share | | | | (22,200) | | |
| Other comprehensive loss, net of tax | | | | | (19,091) | |
| ***Balance at March 31, 2008*** | 225,263,592 | 69,377 | 102,403 | 710,453 | (4,902) | (33,101) |
| Purchases of treasury stock at cost | | | | | | (15,025) |
| Disposal of treasury stock | | | (15) | | | 66 |
| Net income | | | | 3,588 | | |
| Cash dividends, ¥100.00 per share | | | | (21,942) | | |
| Other comprehensive loss, net of tax | | | | | (26,560) | |
| ***Balance at March 31, 2009*** | **225,263,592** | **69,377** | **102,388** | **692,099** | **(31,462)** | **(48,060)** |
| Purchases of treasury stock at cost | | | | | | **(14)** |
| Net income | | | | **24,757** | | |
| Cash dividends, ¥85.00 per share | | | | **(18,243)** | | |
| Other comprehensive income, net of tax | | | | | **10,015** | |
| ***Balance at March 31, 2010*** | **225,263,592** | **¥69,377** | **¥102,388** | **¥698,613** | **¥(21,447)** | **¥(48,074)** |

| | Thousands of U.S. dollars (Note 2) | | | | |
|---|---|---|---|---|---|
| | Common stock | Capital surplus | Retained earnings | Accumulated other comprehensive income (loss) | Treasury stock |
| ***Balance at March 31, 2009*** | **$745,989** | **$1,100,946** | **$7,441,925** | **$(338,301)** | **$(516,774)** |
| Purchases of treasury stock at cost | | | | | **(150)** |
| Net income | | | **266,204** | | |
| Cash dividends, $0.91 per share | | | **(196,161)** | | |
| Other comprehensive income, net of tax | | | | **107,688** | |
| ***Balance at March 31, 2010*** | **$745,989** | **$1,100,946** | **$7,511,968** | **$(230,613)** | **$(516,924)** |

# Consolidated Statements of Cash Flows

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2010, 2009, and 2008

| | Millions of yen | | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|---|
| | **2010** | 2009 | 2008 | **2010** |
| ***Operating activities:*** | | | | |
| Net income | **¥ 24,757** | ¥ 3,588 | ¥ 77,413 | **$ 266,204** |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | **69,896** | 80,978 | 65,134 | **751,570** |
| Losses on sales and disposals of property, plant and equipment | **181** | 411 | 740 | **1,946** |
| Impairment losses on long-lived assets | **–** | 506 | – | **–** |
| Impairment losses on goodwill | **–** | 9,777 | – | **–** |
| Gains on sales of securities | **–** | (47) | (8) | **–** |
| Provision for termination and retirement benefits, less payments | **3,970** | 1,039 | (1,650) | **42,688** |
| Deferred income taxes | **2,608** | (18,341) | 4,895 | **28,043** |
| Changes in assets and liabilities: | | | | |
| Decrease (increase) in trade notes and accounts receivable | **(28,870)** | 39,183 | (280) | **(310,430)** |
| Decrease (increase) in inventories | **4,616** | 18,189 | (25,628) | **49,634** |
| Decrease (increase) in prepaid expenses and other | **16,563** | (14,540) | (61) | **178,097** |
| Increase (decrease) in trade notes and accounts payable | **9,259** | (23,012) | 3,730 | **99,559** |
| Increase (decrease) in accrued payroll and bonuses | **2,954** | (4,953) | 1,518 | **31,764** |
| Increase (decrease) in income taxes payable | **2,178** | (10,973) | (16,704) | **23,419** |
| Decrease in accrued expenses and other | **(369)** | (7,528) | (2,856) | **(3,968)** |
| Other-net | **(440)** | 2,244 | 114 | **(4,731)** |
| Net cash provided by operating activities | **107,303** | 76,521 | 106,357 | **1,153,795** |
| ***Investing activities:*** | | | | |
| Capital expenditures | **(22,868)** | (65,427) | (125,557) | **(245,892)** |
| Payment for purchases of marketable securities, investments and other | **(159,411)** | (21,575) | (37,118) | **(1,714,097)** |
| Maturities and sales of marketable securities, investments and other | **86,712** | 84,664 | 110,411 | **932,387** |
| Increase in long-term deposits | **–** | – | (4,000) | **–** |
| Decrease in long-term deposits | **1,000** | 3,000 | 2,000 | **10,753** |
| Acquisition of subsidiaries, net of cash acquired | **–** | – | (9,623) | **–** |
| Decrease (increase) in short-term investments | **687** | (19,338) | (2,365) | **7,387** |
| Other | **619** | 570 | 661 | **6,656** |
| Net cash used in investing activities | **(93,261)** | (18,106) | (65,591) | **(1,002,806)** |
| ***Financing activities:*** | | | | |
| Net increase (decrease) in short-term borrowings | **(3,977)** | (6,821) | 4,517 | **(42,764)** |
| Dividends paid | **(18,243)** | (21,942) | (22,200) | **(196,161)** |
| Payment for purchases of treasury stock | **(14)** | (15,025) | (15,035) | **(150)** |
| Other | **(145)** | (26) | 226 | **(1,559)** |
| Net cash used in financing activities | **(22,379)** | (43,814) | (32,492) | **(240,634)** |
| ***Effect of exchange rate changes on cash and cash equivalents*** | **(388)** | (7,235) | (4,293) | **(4,172)** |
| ***Net increase (decrease) in cash and cash equivalents*** | **(8,725)** | 7,366 | 3,981 | **(93,817)** |
| ***Cash and cash equivalents at beginning of year*** | **117,502** | 110,136 | 106,155 | **1,263,462** |
| ***Cash and cash equivalents at end of year*** | **¥108,777** | ¥117,502 | ¥110,136 | **$1,169,645** |
| ***Additional cash flow information:*** | | | | |
| Interest paid | **¥ 70** | ¥ 534 | ¥ 505 | **$ 753** |
| Income taxes paid (refund) | **(11,349)** | 32,571 | 56,611 | **(122,032)** |
| ***Additional cash and cash equivalents information:*** | | | | |
| Cash | **¥ 66,688** | ¥ 46,296 | ¥ 36,783 | **$ 717,075** |
| Short-term investments | **63,986** | 93,790 | 76,599 | **688,022** |
| Short-term investments with the original maturities over three months | **(21,897)** | (22,584) | (3,246) | **(235,452)** |
| Cash and cash equivalents at end of year | **¥108,777** | ¥117,502 | ¥110,136 | **$1,169,645** |

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Murata Manufacturing Co., Ltd. and Subsidiaries

**1. Summary of Significant Accounting Policies**

**(a) Nature of operations**

Murata Manufacturing Co., Ltd. (the “Company”) and subsidiaries (together the “Companies”) are engaged in the development, manufacture and sale of electronic components (Components and Modules) in numerous countries, with Japan, North America and certain other Asian and European countries as its primary markets. Components consist of capacitors, piezoelectric components and other components. Modules consist of communication modules and other modules. The Companies’ products are sold mainly to electronics companies for use as components in telecommunication, computer, audio, video, automotive electronics and other electronic products.

**(b) Basis of financial statements**

The consolidated financial statements, stated in Japanese yen, reflect certain adjustments, not recorded on the books of account, to present these statements in accordance with accounting principles generally accepted in the United States.

Effective July 1, 2009, the Companies adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 105, "Generally Accepted Accounting Principles" (the provisions which were previously included in Statement of Financial Accounting Standards (“SFAS”) No.168, "The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162") in the United States of America. According to SFAS No. 168, the Companies replaced Statement of Financial Accounting Standards and others with FASB Accounting Standards Codification (ASC). Adoption of this FASB Accounting Standards Codification has no effect on the Companies’ consolidated financial statements.

The principal adjustments to amounts recorded in the Companies’ books of account include the measurement of net periodic cost for defined benefit retirement plans, the accrual of compensated absences, accounting for derivatives, and the provision for deferred income taxes relating to these adjustments.

**(c) Principles of consolidation**

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. All significant intercompany items have been eliminated in consolidation.

**(d) Short-term investments, cash and cash equivalents**

Short-term investments include time deposits which may be withdrawn on demand without diminution of principal, and commercial paper which is a highly-liquid investment.

The Companies consider cash and short-term investments with original maturities of three months or less as cash and cash equivalents.

**(e) Marketable securities and investments**

Under ASC320, “Investment - Debt and Equity Securities” (the provisions which were previously included in SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities”), the Companies classify all 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. 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 (See Note 3). The Companies review the fair value of their marketable securities and investments on a regular basis to determine if the fair value of any individual investment has declined below its cost and amortized cost and if such decline is other than temporary. A determination of whether a decline in fair value represents an other than temporary impairment is based on criteria that include the extent to which the securities’ carrying value exceeds its fair value, the duration of the market decline, and the Companies’ requirement and intent to sell the investment. Losses from other-than-temporary impairments, if any, are charged to income as incurred.

**(f) Inventories**

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

**(g) Property, plant and equipment**

Property, plant and equipment is stated at cost. Depreciation of property, plant and equipment has been principally computed using the declining-balance method (straight-line method for certain overseas subsidiaries) based upon the estimated useful lives of the assets. The range of useful lives is principally from 10 to 50 years for buildings and from 4 to 8 years for machinery and equipment.

**(h) Termination and retirement benefits**

Termination and retirement benefits are accounted for in accordance with ASC715, “Compensation - Retirement benefits” (the provisions which were previously included in SFAS No.87, “Employers’ Accounting for Pensions” and SFAS No.158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)”).

**(i) Revenue recognition**

The Companies recognize revenue when persuasive evidence of an arrangement including title transfer exists, delivery has occurred, the sales price to the customer is fixed or determinable, and collectability is reasonably assured.

**(j) Advertising expenses**

Advertising costs are expensed as incurred. Advertising expenses for the years ended March 31, 2010, 2009 and 2008 were ¥1,964 million ($21,118 thousand), ¥2,536 million and ¥2,354 million, respectively.

**(k) Taxes on Income**

The Companies follow the provisions of ASC740, “Income Taxes” (the provisions which were previously included in SFAS No. 109, “Accounting for Income Taxes”) to account for income taxes. Under ASC740, deferred tax assets and liabilities are computed based on the differences between the financial statement and the income tax bases of assets and liabilities using the enacted tax rates. Deferred income tax expenses and credits are based on the change in the deferred tax assets and liabilities from period to period. A valuation allowance is established, when necessary, to reduce deferred tax assets to the amounts expected to be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

A revised income tax act was enacted during the year ended March 31, 2009, and it treats almost all dividends received from subsidiaries after April 1, 2009 as non-taxable income for tax calculation. Regarding undistributed earnings of subsidiaries the Companies doesn't recognize the corresponding deferred tax liabilities.

The Companies account for uncertainty in income taxes in accordance with ASC740, “Income Taxes” (the provisions which were previously included in FASB Interpretation (“FIN”) No. 48, “Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109”). ASC740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

**(l) Earnings per share**

The Companies account for earnings per share in accordance with ASC260, “Earnings per share” (the provisions which were previously included in SFAS No. 128, “Earnings per Share”). Diluted earnings per share reflects the potential dilution from potential shares outstanding such as shares issuable upon the exercise of stock options. A reconciliation of the numerator and denominator of the basic and diluted earnings per share computation is included in Note 11.

**(m) Fair value measurements**

The Companies account for fair value measurements in accordance with ASC820, “Fair value measurements and disclosures” (the provisions which were previously included in SFAS No. 157, “Fair value measurements”). ASC820 clarifies the definitions of fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

**(n) Derivatives**

The Companies account for their derivative instruments and hedging activities in accordance with ASC815, “Derivatives and Hedging” (the provisions which were previously included in SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” SFAS No. 138, “Accounting for Certain Derivative Instruments and Certain Hedging Activities – an amendment of FASB Statement No. 133,” SFAS No. 149, “Amendment of Statement 133 on Derivative Instruments and Hedging Activities,” SFAS No. 155, “Accounting for Certain Hybrid Financial Instruments - an amendment of FASB Statements No. 133 and 140,” and SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133”). These standards establish accounting and reporting standards for derivative instruments and for hedging activities, and require that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value.

On the date the derivative contract is entered into, the Companies designate the derivative as a hedge of forecasted foreign currency cash flows. The Companies formally document all relationships between hedging instruments and hedged items, as well as their risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as foreign currency cash flow hedges to specific assets and liabilities in the consolidated balance sheet or to specific forecasted transactions. The Companies consider all hedges to be highly effective in offsetting changes in cash flows of hedged items, because the currencies and terms of the derivatives correspond to those of hedged items.

Changes in fair value of a derivative that is highly effective and that is designated and qualifies as a foreign currency cash flow hedge are recorded in other comprehensive income (loss), until earnings are affected by the variability in cash flows of the designated hedged item.

**(o) Stock-based Compensation**

The Company accounts for stock-based awards to employees in accordance with ASC718, “Compensation - Stock compensation” (the provisions which were previously included in SFAS No. 123 (revised 2004), “Share-Based Payment” (“SFAS No. 123R”)), using the modified prospective application. ASC718 requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The cost is recognized over the period during which an employee is required to provide service in exchange for the award on or after the effective date. Stock-based compensation for the year ended March 31, 2008 was ¥19 million. There is no tax effect on the stock-based compensation. There were no stock-based compensations for the years ended March 31, 2010 and 2009.

**(p) Shipping and Handling costs**

Shipping and Handling costs which are included in selling, general and administrative expenses for the years ended March 31, 2010, 2009 and 2008 were ¥4,828 million ($51,914 thousand), ¥5,086 million and ¥5,953 million, respectively.

**(q) Consideration given by a vendor to a customer**

The Companies account for consideration given to a customer as a reduction of revenue in accordance with ASC605-50, “Customer payments and incentives” (the provisions which were previously included in Emerging Issues Task Force (“EITF”) No. 01-9, “Accounting for Consideration Given by a Vendor to a Customer or Reseller of the Vendor’s Products”). ASC605-50 defines the income statement classification of consideration given by a vendor to a customer or reseller of the vendor’s products.

**(r) Impairment or Disposal of Long-Lived Assets**

The Companies account for impairment or disposal of long-lived assets and discontinued operations in accordance with ASC360,“Property, plant, and equipment” (the provisions which were previously included in SFAS No.144, “Accounting for the Impairment or Disposal of Long-Lived Assets”). This statement applies to all long-lived assets. The Companies’ long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount exceeds the fair value of the assets. If the Companies determine to dispose of assets, depreciation estimates for the assets shall be revised to reflect those remaining useful lives. Assets classified as held for sale shall be measured at the lower of its carrying amount or fair value less cost to sell.

Except for idle long-lived assets and long-lived assets to be disposed of by sale, long-lived assets are aggregated into asset groups based on product category.

The Companies recognized ¥506 million of impairment losses in selling, general and administrative expenses for the year ended March 31, 2009.

In the year ended March 31, 2009, the Company entered into sales agreement of certain idle long-lived assets located in Japan and recognized ¥506 million of impairment losses. Impairment losses consist of ¥237 million for building and ¥269 million for land. Net realizable values of these long-lived assets were determined at fair value less cost to sell, which were equal with the price contracted by the sales agreement.

### (s) Goodwill and other intangible assets

The Companies account for goodwill and other intangible assets in accordance with ASC350, "Intangibles - Goodwill and other" (the provisions which were previously included in SFAS No. 142, "Goodwill and Other Intangible Assets"). 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.

And also this statement requires that an intangible asset that is determined to have 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.

### (t) Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### (u) Reclassifications

Certain items in prior years' financial statements have been reclassified to conform to the 2010 presentation.

## 2. Translation of Japanese Yen Amounts into U.S. Dollar Amounts

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for convenience of readers outside of Japan and have been made at the rate of ¥93 to $1, the approximate rate of exchange at March 31, 2010. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at the above or any other rate.

## 3. Marketable Securities and Investments

The cost and amortized cost, gross unrealized gains, gross unrealized losses and fair value for available-for-sale securities by major security type, at March 31, 2010 and 2009 were as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2010 | | | |
| | Cost and Amortized cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Governmental debt securities | ¥ 4,528 | ¥ 61 | – | ¥ 4,589 |
| Private debt securities | 223,922 | 2,249 | ¥ 592 | 225,579 |
| Equity securities | 5,275 | 3,574 | – | 8,849 |
| Investment trusts | 600 | 10 | – | 610 |
| Total available-for-sale securities | ¥ 234,325 | ¥ 5,894 | ¥ 592 | ¥ 239,627 |

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2009 | | | |
| | Cost and Amortized cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Governmental debt securities | ¥ 6,558 | ¥ 79 | ¥ 0 | ¥ 6,637 |
| Private debt securities | 159,878 | 435 | 1,405 | 158,908 |
| Equity securities | 4,606 | 1,764 | – | 6,370 |
| Investment trusts | 600 | 5 | – | 605 |
| Total available-for-sale securities | ¥ 171,642 | ¥ 2,283 | ¥1,405 | ¥ 172,520 |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | 2010 | | | |
| | Cost and Amortized cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Governmental debt securities | $ 48,688 | $ 656 | – | $ 49,344 |
| Private debt securities | 2,407,764 | 24,183 | $6,366 | 2,425,581 |
| Equity securities | 56,720 | 38,430 | – | 95,150 |
| Investment trusts | 6,452 | 107 | – | 6,559 |
| Total available-for-sale securities | $2,519,624 | $63,376 | $6,366 | $2,576,634 |

The fair value and gross unrealized losses for available-for-sale securities by major security type and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2010 and 2009 were as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2010 | | | |
| | Less than 12 months | | 12 months or longer | |
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| Private debt securities | ¥63,598 | ¥528 | ¥5,630 | ¥64 |
| Total | ¥63,598 | ¥528 | ¥5,630 | ¥64 |

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2009 | | | |
| | Less than 12 months | | 12 months or longer | |
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| Governmental debt securities | – | – | ¥ 14 | ¥ 0 |
| Private debt securities | ¥28,445 | ¥287 | 31,978 | 1,118 |
| Total | ¥28,445 | ¥287 | ¥31,992 | ¥1,118 |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | 2010 | | | |
| | Less than 12 months | | 12 months or longer | |
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| Private debt securities | $683,849 | $5,678 | $60,538 | $688 |
| Total | $683,849 | $5,678 | $60,538 | $688 |

Effective April 1, 2009, the Companies adopted ASC320, "Investment - Debt and Equity Securities" (the provisions which were previously included in FSP 115-2 and 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments").

The Companies did not recognize other-than-temporary impairment loss on debt securities which have a fair value below amortized cost as of March 31, 2010, as the Companies don't intend to and more likely than not won't be required to sell such securities before the recovery of amortized cost and as the issuers of the securities have favorable credit ratings.

The aggregate carrying amounts of equity securities that do not have a readily determinable fair value at March 31, 2010 and 2009, which were valued at cost, were ¥1,124 million ($12,086 thousand) and ¥960 million, respectively. At March 31, 2010 and 2009, equity securities of ¥1,118 million ($12,022 thousand) and ¥934 million, respectively, were not evaluated for impairment because (a) the Companies did not identify any events or changes in circumstances that might have a significant adverse effect on the fair value of the securities and (b) the Companies determined that it was not practicable to estimate the fair value of the securities.

The Companies previously classified all available-for-sale debt securities as current assets without consideration of contractual maturities. On April 1, 2009, the Companies changed accounting method by which debt securities are classified as current or long-term investments based on their contractual maturities, unless the Companies intend to sell an investment within the next twelve months, in which case it is classified as current. The Companies believe this new method is a preferable accounting method as it better reflects when cash will be realized. In accordance with ASC 250, "Accounting Changes and Error Corrections" (the provisions which were previously included in SFAS No. 154, “Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3”), this change is accounted for as a change in accounting principle. There is no effect on income and earning per share, and no cumulative effect on April 1, 2008 due to this change. In connection with this accounting change, certain debt securities of ¥197,375 million ($2,122,312 thousand) and ¥82,203 million as of March 31, 2010 and March 31, 2009, respectively, have been reclassified to long-term. Also, current deferred tax assets of ¥452 million ($4,860 thousand) and ¥718 million, and current deferred tax liabilities of ¥879 million ($9,452 thousand) and ¥175 million, as of March 31, 2010 and March 31, 2009, respectively, have been reclassified to long-term before offsetting deferred tax assets and liabilities.

Contractual maturities of debt securities (Governmental and private debt securities) as of March 31, 2010 were as follows:

| | Millions of yen | | Thousands of U.S. dollars | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Within one year | ¥ 32,671 | ¥ 32,793 | $ 351,301 | $ 352,613 |
| After one year through five years | 194,779 | 196,387 | 2,094,398 | 2,111,688 |
| After five years | 1,000 | 988 | 10,753 | 10,624 |
| Total | ¥228,450 | ¥230,168 | $2,456,452 | $2,474,925 |

Information related to sales of available-for-sale securities was as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | **2010** | 2009 | 2008 | **2010** |
| Proceeds from sales | **–** | ¥4,526 | ¥997 | **–** |
| Gross realized gains | **–** | 47 | 8 | **–** |
| Gross realized losses | **–** | – | 14 | **–** |

## 4. Inventories

Inventories at March 31, 2010 and 2009 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2010** | 2009 | **2010** |
| Finished products | **¥37,167** | ¥41,903 | **$399,645** |
| Work-in-process | **31,165** | 31,119 | **335,108** |
| Materials and supplies | **20,884** | 21,082 | **224,559** |
| Total | **¥89,216** | ¥94,104 | **$959,312** |

## 5. Short-Term Borrowings and Long-Term Debt

Short-Term Borrowings at March 31, 2010 and 2009 consisted of the following:

| | Millions of yen | Weighted-Average Interest Rate | Millions of yen | Weighted-Average Interest Rate | Thousands of U.S. dollars |
|---|---|---|---|---|---|
| | **2010** | | 2009 | | **2010** |
| Bank loans | **¥5,476** | **0.6%** | ¥9,240 | 1.4% | **$58,882** |

Long-term debt at March 31, 2010 and 2009 consisted of the following:

| | Millions of yen | Weighted-Average Interest Rate | Millions of yen | Weighted-Average Interest Rate | Thousands of U.S. dollars |
|---|---|---|---|---|---|
| | **2010** | | 2009 | | **2010** |
| Long-term loan payable | **¥13** | **3.5%** | ¥19 | 3.4% | **$139** |
| Total | **13** | **3.5** | 19 | 3.4 | **139** |
| Less: Portion due within one year | **2** | **3.8** | 2 | 3.6 | **21** |
| Total | **¥11** | **3.5%** | ¥17 | 3.4% | **$118** |

The aggregate future maturities of long-term debt outstanding at March 31, 2010 were as follows:

| Year ending March 31 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2011 | ¥ 2 | $ 21 |
| 2012 | 2 | 21 |
| 2013 | 1 | 11 |
| 2014 | 1 | 11 |
| 2015 | 1 | 11 |
| 2016 and thereafter | 6 | 64 |
| Total | ¥13 | $139 |

## 6. Termination and Retirement Benefits

The Companies sponsor termination and retirement benefit plans which cover most employees. Benefits are primarily based on the employee's position and assessment of performance or the employee's years of service, with some plans also considering compensation and other factors. If the termination is involuntary or caused by death, the employee or their beneficiary is usually entitled to greater payments than in the case of voluntary termination.

The Companies fund a portion of the obligation under these plans. The general funding policy is to contribute amounts computed in accordance with accepted actuarial methods.

The Companies have several termination and retirement plans, some partially funded and administered by independent trustees, others unfunded and administered by the Companies. These plans usually provide lump sum termination and retirement benefits and are paid at the earlier of the employee's termination or the mandatory retirement age although periodic payments are available under certain conditions.

The following table summarizes the financial status of the termination and retirement plans and the amounts recognized in the financial statements at March 31:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2010** | 2009 | **2010** |
| Change in benefit obligation: | | | |
| Benefit obligation at beginning of year | **¥105,006** | ¥102,644 | **$1,129,097** |
| Service cost | **6,448** | 6,528 | **69,333** |
| Interest cost | **2,018** | 1,973 | **21,699** |
| Amendments | **(2,582)** | (2,108) | **(27,764)** |
| Actuarial loss | **(3,448)** | 483 | **(37,075)** |
| Benefits paid | **(1,432)** | (1,305) | **(15,398)** |
| Settlement paid | **(2,344)** | (3,209) | **(25,204)** |
| Benefit obligation at end of year | **103,666** | 105,006 | **1,114,688** |
| Change in plan assets: | | | |
| Fair value of plan assets at beginning of year | **50,467** | 58,495 | **542,656** |
| Actual return on plan assets | **6,686** | (9,874) | **71,893** |
| Employer contribution | **3,525** | 3,755 | **37,903** |
| Benefits paid | **(1,432)** | (1,305) | **(15,398)** |
| Settlement paid | **(406)** | (604) | **(4,366)** |
| Fair value of plan assets at end of year | **58,840** | 50,467 | **632,688** |
| Funded status at end of year | **¥ (44,826)** | ¥ (54,539) | **$ (482,000)** |
| Amounts recognized in the consolidated balance sheet consist of: | | | |
| Long-term receivables, advances and other | **¥ 2,745** | – | **$ 29,516** |
| Accrued expenses and other | **(1,075)** | ¥ (946) | **(11,559)** |
| Termination and retirement benefits | **(46,496)** | (53,593) | **(499,957)** |
| Net amount recognized | **¥ (44,826)** | ¥ (54,539) | **$ (482,000)** |
| Accumulated benefit obligation at end of year | **¥ 99,202** | ¥100,615 | **$1,066,688** |

Accumulated benefit obligations for all of the Companies' termination and retirement plans were in excess of their plan assets at March 31, 2010 and 2009.

Amounts recognized in accumulated other comprehensive loss (income) at March 31, 2010 and 2009 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2010** | 2009 | **2010** |
| Actuarial loss | **¥17,145** | ¥ 30,269 | **$184,355** |
| Prior service benefit | **(22,405)** | (21,943) | **(240,914)** |
| Pension liability adjustments, before tax | **¥ (5,260)** | ¥ 8,326 | **$ (56,559)** |

Net periodic benefit cost for the years ended March 31:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | **2010** | 2009 | 2008 | **2010** |
| Service cost | **¥6,448** | ¥ 6,528 | ¥ 5,606 | **$69,333** |
| Interest cost | **2,018** | 1,973 | 1,862 | **21,699** |
| Expected return on plan assets | **(1,004)** | (1,163) | (1,274) | **(10,796)** |
| Amortization of prior service benefit | **(2,120)** | (1,988) | (1,988) | **(22,796)** |
| Recognized actuarial loss | **3,949** | 2,134 | 255 | **42,463** |
| Net periodic benefit cost | **¥9,291** | ¥ 7,484 | ¥ 4,461 | **$99,903** |

Other amounts recognized in other comprehensive loss (income) for the years ended March 31:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2010** | 2009 | **2010** |
| Prior service benefit due to amendments .... | **¥ (2,582)** | ¥ (2,108) | **$ (27,764)** |
| Actuarial loss .............................................. | **(9,175)** | 11,606 | **(98,655)** |
| Amortization of prior service benefit ............ | **2,120** | 1,988 | **22,796** |
| Recognized actuarial loss ........................... | **(3,949)** | (2,134) | **(42,463)** |
| Total recognized in other comprehensive loss (income), before tax ... | **¥(13,586)** | ¥ 9,352 | **$(146,086)** |

The estimated prior service cost and net loss for the termination and retirement benefit plans that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost over the next fiscal year are a gain of ¥2,224 million ($23,914 thousand) and a loss of ¥1,601 million ($17,215 thousand), respectively.

Termination and retirement benefits, accounted for in accordance with ASC715, "Compensation-Retirement benefits" (the provisions which were previously included in SFAS No.87, "Employers' Accounting for Pensions" and SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R),") 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 (loss).

The unrecognized prior service benefit due to certain plan amendments is being amortized on a straight-line basis over the average remaining service period of employees. In the year ended March 31, 2009, the Company and a domestic subsidiary amended their termination and retirement benefit plans. As a result of these amendments, the benefit obligation decreased by ¥2,108 million during the year ended March 31, 2009. In the year ended March 31, 2010, domestic subsidiaries changed from qualified pension plans to defined benefit retirement plans, and amended termination and retirement benefit plans. As a result of these changes and amendments, the benefit obligation decreased by ¥2,582 million ($27,764 thousand) during the year ended March 31, 2010.

The unrecognized actuarial gains and losses in excess of 10% of the larger of the projected benefit obligation or plan assets are being amortized over five years.

The following assumptions were utilized to calculate the actuarial present value of the benefit obligation as of March 31:

| | **2010** | 2009 |
|---|---|---|
| Discount rate...................................................................... | **2.2%** | 2.0% |

The following assumptions were utilized to calculate net periodic benefit cost for the years ended March 31:

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Discount rate............................................... | **2.0%** | 2.0% | 2.0% |
| Expected long-term rate of return on plan assets............................... | **2.0%** | 2.0% | 2.0% |

The Companies determined the discount rate based on a risk-free rate estimated considering the long-term rate of return on Japanese Government Bonds and the rate of returns on other high-quality fixed-income investments. The Companies determined the expected long-term rate of return on plan assets, based on the historical performance of various invested asset categories, as well as the long-term rate of return on Japanese Government Bonds.

Compensation increase rate is not used in the calculation of benefit obligation and net periodic benefit cost under the point system.

Plan assets are invested for the purpose of achieving a sufficient rate of return to maintain pension plan assets for future payment of benefits to plan participants. Considering the expected rate of return on invested assets, a related standard deviation, and a related correlation coefficient, the Companies believe the current asset allocation is adequate for purposes of meeting investment objectives. For achieving the expected rate of return on plan assets on a mid-term to long-term basis, the Companies select optimal investing institutions by invested asset category and entrust the investment of plan assets to them. The Companies revise the asset allocation when and to the extent considered necessary. The asset allocation of the Company's plan assets which account for most of plan assets at March 31, 2010 consists of 42% of equity securities, 50% of debt securities and life insurance company general accounts, and 8% of other.

The fair values of the Companies' plan assets at March 31, 2010 were as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | Fair value measurements | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Equity securities | | | | |
| Stocks | ¥ 3,204 | ¥ 18 | – | ¥ 3,222 |
| Pooled funds | – | 16,461 | – | 16,461 |
| Debt Securities | | | | |
| Governmental debt securities | 9,422 | 200 | – | 9,622 |
| Private debt securities | – | 885 | – | 885 |
| Pooled funds | – | 9,797 | – | 9,797 |
| Life insurance company general accounts | – | 14,764 | – | 14,764 |
| Other | | | | |
| Pooled funds | – | – | ¥1,434 | 1,434 |
| Other | – | 2,655 | – | 2,655 |
| Total | ¥12,626 | ¥44,780 | ¥1,434 | ¥58,840 |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | Fair value measurements | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Equity securities | | | | |
| Stocks | $ 34,451 | $ 194 | – | $ 34,645 |
| Pooled funds | – | 177,000 | – | 177,000 |
| Debt Securities | | | | |
| Governmental debt securities | 101,312 | 2,150 | – | 103,462 |
| Private debt securities | – | 9,516 | – | 9,516 |
| Pooled funds | – | 105,344 | – | 105,344 |
| Life insurance company general accounts | – | 158,753 | – | 158,753 |
| Other | | | | |
| Pooled funds | – | – | $15,420 | 15,420 |
| Other | – | 28,548 | – | 28,548 |
| Total | $135,763 | $481,505 | $15,420 | $632,688 |

The fair values of the Companies' plan assets of level 3 for the year ended March 31, 2010 were as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | Other Pooled funds | Other Pooled funds |
| Beginning balance | ¥1,228 | $13,204 |
| Actual Return on Plan Assets | | |
| Relating to assets still held at the reporting date | 226 | 2,430 |
| Relating to assets sold during the period | (2) | (21) |
| Purchases, sales, and settlements | (18) | (193) |
| Transfers in and/or out of Level 3 | – | – |
| Ending balance | ¥1,434 | $15,420 |

The Companies' benefit plan weighted-average asset allocation at March 31, 2009 by asset category was as follows:

| | 2009 |
|---|---|
| Equity securities | 27.9% |
| Debt securities | 38.5 |
| Life insurance company general accounts | 25.2 |
| Other | 8.4 |
| | 100.0% |

Stocks

Stocks contain marketable equity securities and nonmarketable equity securities. Marketable equity securities are measured by the market approach using quoted prices in active markets; they are classified within level 1. This class consists of 100% Japanese stocks.

Stocks include common stock of the Company in the amounts of ¥59 million ($634 thousand) (0.10% of total plan assets) and ¥22 million (0.04% of total assets) at March 31, 2010 and 2009, respectively.

Governmental debt securities

Governmental debt securities contain government bonds and local government bonds. Government bonds are measured by the market approach using quoted prices in active markets; they are classified within level 1. Local government bonds are measured by the market approach using quoted prices for identical or similar assets in markets that are not active; they are classified within level 2. This class consists of 55% Japanese governmental debt securities and 45% foreign governmental debt securities.

Private debt securities

Private debt securities are measured by the market approach using quoted prices for identical or similar assets in markets that are not active; they are classified within level 2. This class consists of 100% Japanese private debt securities.

Pooled funds

Pooled funds are measured to distribute the fair values of pooled fund assets by units of shares.

Pooled funds (equity securities) mainly contain marketable equity securities. Pooled funds (equity securities) are measured by the market approach using inputs other than quoted prices that are observable for the assets; they are classified within level 2. This class consists of 45% Japanese pooled funds (equity securities) and 55% foreign pooled funds (equity securities).

Pooled funds (debt securities) mainly contain government bonds and local government bonds. Pooled funds (debt securities) are measured by the market approach using inputs other than quoted prices that are observable for the assets; they are classified within level 2. This class consists of 32% Japanese pooled funds (debt securities) and 68% foreign pooled funds (debt securities).

Pooled funds (other) are measured by the income approach using inputs that are not unobservable for the assets; they are classified within level 3.

Life insurance company general accounts

Life insurance company general accounts are investments in general accounts of life insurance companies. Life insurance company general accounts guarantee principal and certain rates of return, and they are measured by the market approach using inputs other than quoted prices that are observable for the assets; they are classified within level 2.

The Companies expect to contribute ¥3,203 million ($34,441 thousand) to their defined benefit plans in the year ending March 31, 2010.

The future benefit payments are expected as follows:

| Year ending March 31 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2011 | ¥ 3,356 | $ 36,086 |
| 2012 | 3,439 | 36,978 |
| 2013 | 3,511 | 37,753 |
| 2014 | 3,566 | 38,344 |
| 2015 | 4,333 | 46,591 |
| 2016-2020 | 23,888 | 256,860 |

## 7. Stock-based Compensation

For the year ended March 31, 2006, the Company authorized the grant of options to purchase common stock of the Company to employees of the Company and its subsidiaries under a fixed stock option plan.

Under the above plan, the exercise price of the option exceeds the market price of the Company's common stock on the date of grant and the options expire six years after the date of grant.

Generally, the options granted become fully vested and exercisable after two years.

A summary of the Company's fixed stock option plan activity and related information for the year ended March 31, 2010 was as follows:

| | | Yen | Years | Millions of yen |
|---|---|---|---|---|
| | Number of Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value |
| Fixed Options | | | | |
| Outstanding at beginning of year | 119,300 | ¥5,746 | | |
| Granted | – | – | | |
| Exercised | – | – | | |
| Forfeited | – | – | | |
| Expired | (21,200) | 5,863 | | |
| Outstanding at end of year | 98,100 | 5,720 | 1.00 | – |
| Options exercisable at end of year | 98,100 | ¥5,720 | 1.00 | – |

| | U.S. dollars | Thousands of U.S. dollars |
|---|---|---|
| | Weighted-Average Exercise Price | Aggregate Intrinsic Value |
| Fixed Options | | |
| Outstanding at beginning of year | $61.78 | |
| Granted | – | |
| Exercised | – | |
| Forfeited | – | |
| Expired | 63.04 | |
| Outstanding at end of year | 61.51 | – |
| Options exercisable at end of year | $61.51 | – |

The Company has not granted any options during the years ended March 31, 2010 and 2009, respectively.

No options were exercised during the year ended March 31, 2010 and 2009 respectively. As of March 31, 2010, there was no unrealized compensation expense.

**8. Shareholders' Equity**

On and after May 1, 2006, Japanese companies are subject to a new corporate law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan (the "Code") with various revisions that are, for the most part, applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below;

(a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting, if companies meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation. The Board of Directors of such company may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Corporate Law provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

The amount available for dividends under the Corporate Law was ¥211,445 million ($2,273,602 thousand) as of March 31, 2010, based on the amount recorded in the parent company's general books of account.

(b) Increases / decreases and transfer of common stock, reserve and surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

## 9. Income Taxes

The provision for income taxes for the years ended March 31, 2010, 2009 and 2008, consisted of the following:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | **2010** | 2009 | 2008 | **2010** |
| Current | **¥7,293** | ¥ 4,434 | ¥ 39,522 | **$ 78,420** |
| Deferred | **2,608** | (18,341) | 4,895 | **28,043** |
| Provision for income taxes | **¥9,901** | ¥(13,907) | ¥ 44,417 | **$106,463** |

A revised income tax act was enacted during the year ended March 31, 2009, and it treats dividends received from foreign subsidiaries after April 1, 2009 as non-taxable income for tax calculation. The provision for income tax-deferred for the year ended March 31, 2009 included a credit of ¥19,736 million for the effect of the change on deferred income taxes (non-current liability).

The effective income tax rates of the Company and subsidiaries differ from the normal Japanese statutory rates as follows for the years ended March 31:

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Normal Japanese statutory rates | **40.4%** | (40.4)% | 40.4% |
| Increase (decrease) in taxes resulting from: | | | |
| Tax credits | **(4.1)** | (2.1) | (3.1) |
| Permanently non-deductible items | **(1.4)** | 5.9 | 0.0 |
| Impairment loss on goodwill | **–** | 34.2 | – |
| Foreign earnings taxed at different rates | **(7.1)** | 2.7 | – |
| Net change in valuation allowance for deferred tax assets | **1.5** | 53.5 | (0.2) |
| Effect of reversal of deferred tax liabilities by a change in tax laws | **–** | (191.3) | – |
| Other-net | **(0.7)** | 2.7 | (0.6) |
| Effective tax rates | **28.6%** | (134.8)% | 36.5% |

The approximate effects of temporary differences and tax loss carryforwards that gave rise to deferred tax balances at March 31, 2010 and 2009 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2010** | 2009 | **2010** |
| Deferred tax assets: | | | |
| Intercompany profits | **¥ 1,589** | – | **$ 17,086** |
| Termination and retirement benefits | **17,552** | ¥21,099 | **188,731** |
| Enterprise taxes | **567** | 97 | **6,097** |
| Compensated absences | **2,113** | 1,788 | **22,721** |
| Inventory valuation | **2,109** | 6,996 | **22,677** |
| Marketable securities and investments adjustments | **–** | 1,530 | **–** |
| Tangible and intangible assets | **10,249** | 9,026 | **110,204** |
| Accrued bonuses | **5,089** | 4,373 | **54,721** |
| Other temporary differences | **10,322** | 9,377 | **110,989** |
| Tax loss carryforwards | **5,601** | 8,972 | **60,226** |
| Total | **55,191** | 63,258 | **593,452** |
| Valuation allowance | **(7,597)** | (7,205) | **(81,689)** |
| Total | **¥47,594** | ¥56,053 | **$511,763** |
| Deferred tax liabilities: | | | |
| Intercompany losses | **–** | ¥ 683 | **–** |
| Enterprise taxes | **¥ 2** | 1,116 | **$ 21** |
| Undistributed earnings of foreign subsidiaries | **7,598** | 7,517 | **81,699** |
| Marketable securities and investments adjustments | **1,089** | – | **11,710** |
| Tangible and intangible assets | **5,939** | 4,459 | **63,860** |
| Other temporary differences | **7,808** | 6,447 | **83,957** |
| Total | **¥22,436** | ¥20,222 | **$241,247** |

The total valuation allowance increased ¥392 million ($4,215 thousand) for the year ended March 31, 2010 and increased ¥5,535 million for the year ended March 31, 2009.

Based upon the level of historical taxable income and projections for future taxable income over the periods which the net deductible temporary differences are expected to reverse, management believes it is more likely than not that the Companies will realize the benefits of these deferred tax assets, net of existing valuation allowances at March 31, 2010 and 2009.

The Company and subsidiaries have tax loss carryforwards for each of the corporate and local taxes approximating ¥11,202 million ($120,452 thousand) and ¥20,382 million ($219,161 thousand), respectively, available to reduce future taxable income at March 31, 2010, which will expire substantially in the period from 2011 to 2027.

A reconciliation of the beginning and ending amount of unrecognized tax benefits at March 31 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2010** | 2009 | **2010** |
| Balance at beginning of year | **¥97** | ¥206 | **$1,043** |
| Additions based on tax positions related to the current year | **–** | 4 | **–** |
| Reductions for tax positions of prior years | **(26)** | (38) | **(279)** |
| Settlements | **(0)** | (73) | **(0)** |
| Other | **(5)** | (2) | **(54)** |
| Balance at end of year | **¥66** | ¥ 97 | **$ 710** |

Total amount of unrecognized tax benefits, if recognized, would reduce the effective tax rate.

The Japanese tax authority completed the audit of the consolidated income tax of the Company and the domestic subsidiaries which adopt the consolidated taxation system for the years before 2006. And the tax authorities completed the tax audit of the major foreign subsidiaries for the years before 2002. The Companies believe unrecognized tax benefits are reasonably estimated, but unrecognized tax benefits will change as a result of the tax examination. As of March 31, 2010, the Companies did not anticipate the material change of unrecognized tax benefits in the next 12 months.

The Companies classify interest and penalties related to unrecognized tax benefits in income taxes in the consolidated statement of income. Accrued interest and penalties in the consolidated balance sheet as of March 31, 2010, and interest and penalties in the consolidated statement of income for the year ended March 31, 2010 are not material.

## 10. Foreign Operations

Net sales and Shareholders' equity of foreign subsidiaries were as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | **2010** | 2009 | 2008 | **2010** |
| Net sales | **¥359,814** | ¥339,815 | ¥388,696 | **$3,868,968** |
| Shareholders' equity | **156,700** | 151,495 | 166,284 | **1,684,946** |

### 11. Amounts per Share

A reconciliation of the basic and diluted earnings per share computation was as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | **2010** | 2009 | 2008 | **2010** |
| Net income | **¥24,757** | ¥3,588 | ¥77,413 | **$266,204** |
| | Numbers of shares | | | |
| | **2010** | 2009 | 2008 | |
| Average common shares outstanding | **214,631,432** | 217,761,262 | 221,754,208 | |
| Dilutive effect of stock options | **–** | – | 29,227 | |
| Diluted common shares outstanding | **214,631,432** | 217,761,262 | 221,783,435 | |
| | Yen | | | U.S. dollars |
| | **2010** | 2009 | 2008 | **2010** |
| Earnings per share: | | | | |
| Basic | **¥115.35** | ¥16.48 | ¥349.09 | **$1.24** |
| Diluted | **115.35** | 16.48 | 349.05 | **1.24** |

### 12. Comprehensive Income

The changes in the components of accumulated other comprehensive income (loss), including the before- and net-of-tax components of other comprehensive income (loss), were as follows:

| | Millions of yen | | |
|---|---|---|---|
| | 2010 | | |
| | Before-Tax Amount | Tax (Expense) or Benefit | Net-of-Tax Amount |
| Unrealized gains (losses) on securities: | | | |
| Unrealized holding gains arising during period | ¥ 4,413 | ¥(1,625) | ¥ 2,788 |
| Reclassification adjustment for losses included in net income | 0 | (0) | 0 |
| | 4,413 | (1,625) | 2,788 |
| Pension liability adjustment: | | | |
| Pension liability adjustment arising during period | 11,757 | (4,752) | 7,005 |
| Reclassification adjustment for losses included in net income | 1,829 | (739) | 1,090 |
| | 13,586 | (5,491) | 8,095 |
| Unrealized gains (losses) on derivative instruments: | | | |
| Unrealized holding losses arising during period | 3,119 | (1,260) | 1,859 |
| Reclassification adjustment for gains included in net income | (2,637) | 1,068 | (1,569) |
| | 482 | (192) | 290 |
| Foreign currency translation adjustments | (1,057) | (101) | (1,158) |
| Other comprehensive income | ¥17,424 | ¥(7,409) | ¥10,015 |

| | Millions of yen | | |
|---|---|---|---|
| | 2009 | | |
| | Before-Tax Amount | Tax (Expense) or Benefit | Net-of-Tax Amount |
| Unrealized gains (losses) on securities: | | | |
| Unrealized holding losses arising during period | ¥ (6,878) | ¥ 2,778 | ¥ (4,100) |
| Reclassification adjustment for losses included in net income | 2,499 | (1,009) | 1,490 |
| | (4,379) | 1,769 | (2,610) |
| Pension liability adjustment: | | | |
| Pension liability adjustment arising during period | (9,498) | 3,838 | (5,660) |
| Reclassification adjustment for losses included in net income | 146 | (59) | 87 |
| | (9,352) | 3,779 | (5,573) |
| Unrealized gains (losses) on derivative instruments: | | | |
| Unrealized holding losses arising during period | (300) | 118 | (182) |
| Reclassification adjustment for gains included in net income | (711) | 287 | (424) |
| | (1,011) | 405 | (606) |
| Foreign currency translation adjustments | (16,715) | (1,056) | (17,771) |
| Other comprehensive loss | ¥(31,457) | ¥ 4,897 | ¥(26,560) |

| | Millions of yen | | |
|---|---|---|---|
| | 2008 | | |
| | Before-Tax Amount | Tax (Expense) or Benefit | Net-of-Tax Amount |
| Unrealized gains (losses) on securities: | | | |
| Unrealized holding losses arising during period | ¥ (4,075) | ¥ 1,646 | ¥ (2,429) |
| Reclassification adjustment for losses included in net income | 25 | (10) | 15 |
| | (4,050) | 1,636 | (2,414) |
| Pension liability adjustment: | | | |
| Pension liability adjustment arising during period | (11,403) | 4,615 | (6,788) |
| Reclassification adjustment for gains included in net income | (1,733) | 700 | (1,033) |
| | (13,136) | 5,315 | (7,821) |
| Unrealized gains (losses) on derivative instruments: | | | |
| Unrealized holding gains arising during period | 2,100 | (848) | 1,252 |
| Reclassification adjustment for gains included in net income | (2,025) | 818 | (1,207) |
| | 75 | (30) | 45 |
| Foreign currency translation adjustments | (10,842) | 1,941 | (8,901) |
| Other comprehensive loss | ¥(27,953) | ¥ 8,862 | ¥(19,091) |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | 2010 | | |
| | Before-Tax Amount | Tax (Expense) or Benefit | Net-of-Tax Amount |
| Unrealized gains (losses) on securities: | | | |
| Unrealized holding losses arising during period | $ 47,452 | $(17,473) | $ 29,979 |
| Reclassification adjustment for losses included in net income | 0 | (0) | 0 |
| | 47,452 | (17,473) | 29,979 |
| Pension liability adjustment: | | | |
| Pension liability adjustment arising during period | 126,419 | (51,097) | 75,322 |
| Reclassification adjustment for losses included in net income | 19,666 | (7,945) | 11,721 |
| | 146,085 | (59,042) | 87,043 |
| Unrealized gains (losses) on derivative instruments: | | | |
| Unrealized holding losses arising during period | 33,538 | (13,549) | 19,989 |
| Reclassification adjustment for gains included in net income | (28,355) | 11,484 | (16,871) |
| | 5,183 | (2,065) | 3,118 |
| Foreign currency translation adjustments | (11,366) | (1,086) | (12,452) |
| Other comprehensive loss | $187,354 | $(79,666) | $107,688 |

## 13. Commitments and Contingent Liabilities

Outstanding commitments at March 31, 2010 and 2009 for the purchase of property, plant and equipment approximated ¥3,670 million ($39,462 thousand) and ¥6,648 million, respectively.

At March 31, 2010 and 2009, the Companies were contingently liable for trade accounts receivable discounted and transferred to banks of ¥338 million ($3,634 thousand) and ¥159 million, respectively, which were accounted for as sales when discounted and transferred.

## 14. Fair value measurements

The Companies account for fair value measurements in accordance with ASC820, “Fair value measurements and disclosures” (the provisions which were previously included in SFAS No. 157, “Fair value measurements” ). ASC820 clarifies the definitions of fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

ASC820 prioritizes the inputs used to measure fair value into the three broad levels, and classifies the fair value hierarchy.

Level 1: Quoted prices for identical assets or liabilities in active markets

Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the assets or liabilities

Level 3: Inputs that are unobservable for the assets or liabilities

Effective April 1, 2009, the Companies adopts ASC820, “Fair value measurements and disclosures” (the provisions which were previously included in FSP157-4, “Determining fair value when the volume and level of activity for the asset or liability have significantly decreased and identifying transactions that are not orderly”).

Assets and liabilities measured at fair value on a recurring basis at March 31, 2010 were as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | Fair value measurements | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | |
| Available-for-sale securities.. | | | | |
| Governmental debt securities | ¥3,067 | ¥ 1,522 | – | ¥ 4,589 |
| Private debt securities | – | 223,709 | ¥1,870 | 225,579 |
| Equity securities | 8,849 | – | – | 8,849 |
| Investment trusts | – | 610 | – | 610 |
| Derivatives | – | 10 | – | 10 |
| Liabilities | | | | |
| Derivatives | – | 860 | – | 860 |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | Fair value measurements | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | |
| Available-for-sale securities | | | | |
| Governmental debt securities .. | $32,978 | $ 16,366 | – | $ 49,344 |
| Private debt securities .... | – | 2,405,473 | $20,108 | 2,425,581 |
| Equity securities ............ | 95,150 | – | – | 95,150 |
| Investment trusts ............ | – | 6,559 | – | 6,559 |
| Derivatives......................... | – | 108 | – | 108 |
| Liabilities | | | | |
| Derivatives ......................... | – | 9,247 | – | 9,247 |

Assets measured at fair value of level 3 on a recurring basis for the year ended March 31, 2010 were as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | Available-for-sale securities Private debt securities | Available-for-sale securities Private debt securities |
| Beginning balance ............................................................. | ¥1,221 | $13,129 |
| Total gains and losses (realized/unrealized) | | |
| Included in consolidated statements of income as other income (expenses) ............................................... | (1) | (10) |
| Included in other comprehensive income (loss), before tax....................................................................... | 650 | 6,989 |
| Purchases, sales, and settlements.................................... | – | – |
| Transfers in and/or out of Level 3...................................... | – | – |
| Ending balance................................................................. | ¥1,870 | $20,108 |
| The amount of unrealized gains or losses relating to assets still held at the reporting date, included in consolidated statements of income as other income (expenses) ......... | ¥ (1) | $ (10) |

Assets and liabilities measured at fair value on a recurring basis at March 31, 2009 were as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | Fair value measurements | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | |
| Short-term investments..... | – | ¥ 19,565 | – | ¥ 19,565 |
| Marketable Securities and Investments.. | ¥11,482 | 159,827 | ¥1,221 | 172,520 |
| Derivatives......................... | – | 129 | – | 129 |
| Liabilities | | | | |
| Derivatives......................... | – | 1,390 | – | 1,390 |

Assets measured at fair value of level 3 on a recurring basis for the year ended March 31, 2009 were as follows:

| | Millions of yen |
|---|---|
| | Marketable Securities and Investments |
| Beginning balance | ¥1,780 |
| Total gains and losses (realized/unrealized) | |
| Included in consolidated statements of income as other income (expense) | (538) |
| Included in other comprehensive income (loss), before tax | (21) |
| Purchases, sales, and settlements | – |
| Transfers in and/or out of Level 3 | – |
| Ending balance | ¥1,221 |
| The amount of unrealized gains or losses relating to assets still held at the reporting date, included in consolidated statements of income as other income (expenses) | ¥ (538) |

Short-term investments

Short-term investments contain commercial paper. Commercial paper is measured by the income approach using inputs other than quoted prices that are observable for the assets; it is classified within level 2.

Available-for-sale securities

Japanese government bonds and marketable equity securities are measured by the market approach using quoted prices in active markets; they are classified within level 1. Governmental debt securities other than Japanese government bonds, private debt securities, and investment trusts are measured by the market approach using quoted prices for identical or similar assets in markets that are not active; they are classified within level 2. Certain of private debt securities are measured by the income approach using inputs that are unobservable for the assets; they are classified within level 3.

Derivatives

Derivatives contain forward exchange contracts. Forward exchange contracts are measured by the market approach using marketable data of observable foreign exchange rates, swap rates and others; they are classified within level 2.

**15. Financial Instruments and Concentration of Credit Risk**

In the normal course of its business, the Companies invest in various financial assets and incur various financial liabilities. The Companies also enter into agreements for derivative financial instruments to manage their exposure to fluctuations in foreign currency exchange rates. The fair value estimates of financial instruments presented below are not necessarily indicative of the amounts the Companies might pay or receive from actual market transactions. The Companies had the following financial assets and liabilities at March 31, 2010 and 2009:

**Financial Assets and Liabilities**

(1) Cash, short-term investments, notes and accounts receivable, short-term borrowings, notes and accounts payable and long-term debt

Fair value approximates carrying amounts indicated in the balance sheets at March 31, 2010 and 2009.

(2) Marketable securities and Investments

Fair value is primarily based on quoted market prices or estimated using discounted cash flow analysis, based on the market interest rates currently available to the Companies for instruments with similar terms and maturities. The fair values of marketable securities and investments are presented in Note 3.

(3) Long-term receivables, advances and other assets

Fair value is primarily based on dealer quotes for the same or similar instruments. The fair values of applicable long-term receivables, advances and other assets at March 31, 2010 and 2009 were ¥37,786 million ($406,301 thousand) and ¥29,734 million compared with carrying amounts of ¥37,772 million ($406,151 thousand) and ¥29,704 million, respectively.

**Forward exchange contracts**

The Companies had forward exchange contracts in order to hedge the foreign currency risk of various sales and supply transactions, accounts receivable and accounts payable, which transactions are expected to occur within the next six months, and designated as cash flow hedges.

The Company mainly sold to foreign subsidiaries on a yen basis. Foreign subsidiaries had forward exchange contracts to purchase transactions on a yen basis. Changes in the fair value of forward exchange contracts are reported in accumulated other comprehensive income (loss). These amounts are subsequently reclassified into earnings through other income (expenses) in the same period that the hedged items affect earnings. Substantially all unrealized gains or losses on derivatives included in accumulated other comprehensive income (loss) at the end of the year are expected to be recognized in earnings within the next six months.

The exposure to credit risk is minimal since the counterparties are major financial institutions. The Companies do not anticipate nonperformance by any of the counterparties. The gains or losses arising from these contracts are applied to offset gains or losses on related hedged assets, liabilities or future commitments.

Notional amounts of forward exchange contract at March 31, 2010 and 2009 consisted of the following. In addition, the Companies had no forward exchange contracts not designated as hedges.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2010** | 2009 | **2010** |
| Notional amounts of forward exchange contracts .......................... | **¥39,517** | ¥28,435 | **$424,914** |

The fair value of forward exchange contracts designated as hedges for the year ended March 31, 2010 and 2009 was as follows. In addition, the Companies had no forward exchange contracts not designated as hedges.

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2010 | | | |
| | Account | Fair value | Account | Fair value |
| Forward exchange contracts ...... | Prepaid expenses and other | ¥10 | Accrued expenses and other | ¥860 |

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2009 | | | |
| | Account | Fair value | Account | Fair value |
| Forward exchange contracts ...... | Prepaid expenses and other | ¥129 | Accrued expenses and other | ¥1,390 |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | 2010 | | | |
| | Account | Fair value | Account | Fair value |
| Forward exchange contracts ...... | Prepaid expenses and other | $108 | Accrued expenses and other | $9,247 |

Forward exchange contracts designated as hedges recognized in consolidated statements of income and other comprehensive income (loss) for the year ended March 31, 2010 and for the three months ended March 31, 2009 were as follows. In addition, the Companies had no forward exchange contracts not designated as hedges.

| Cash flow hedges | Millions of yen | | |
|---|---|---|---|
| | 2010 | | |
| | Amounts recognized in other comprehensive income (loss), before tax (Effective Portion) | Reclassification adjustment from accumulated other comprehensive income (loss) to consolidated statements of income, before tax (Effective Portion) | |
| | Before-Tax Amount | Account | Before-Tax Amount |
| Forward exchange contracts | ¥3,119 | Other income (expenses) | ¥(2,637) |

| Cash flow hedges | Millions of yen | | |
|---|---|---|---|
| | Three months ended March 31, 2009 | | |
| | Amounts recognized in other comprehensive income (loss), before tax (Effective Portion) | Reclassification adjustment from accumulated other comprehensive income (loss) to consolidated statements of income, before tax (Effective Portion) | |
| | Before-Tax Amount | Account | Before-Tax Amount |
| Forward exchange contracts | ¥(1,598) | Other income (expenses) | ¥232 |

| Cash flow hedges | Thousands of U.S. dollars | | |
|---|---|---|---|
| | 2010 | | |
| | Amounts recognized in other comprehensive income (loss), before tax (Effective Portion) | Reclassification adjustment from accumulated other comprehensive income (loss) to consolidated statements of income, before tax (Effective Portion) | |
| | Before-Tax Amount | Account | Before-Tax Amount |
| Forward exchange contracts | $33,538 | Other income (expenses) | $(28,355) |

**Concentration of Credit Risk**

A significant portion of the Companies' sales is dependent upon and concentrated in the electronics industry, especially telecommunications equipment. The Companies generally extend credit to their customers, therefore, collection of receivables could be affected by developments in the electronics industry. However, the Companies closely monitor extensions of credit and have never experienced significant credit losses.

## 16. Goodwill and other intangible assets

Intangible assets other than goodwill, at March 31, 2010 and 2009 are as follows.

| | Millions of yen | | |
|---|---|---|---|
| | 2010 | | |
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Amortized intangible assets | | | |
| Software | ¥22,412 | ¥ 5,860 | ¥16,552 |
| Patents | 4,353 | 1,767 | 2,586 |
| Other | 14,929 | 5,140 | 9,789 |
| Total | ¥41,694 | ¥12,767 | ¥28,927 |
| Unamortized intangible assets | | | ¥ 243 |

| | Millions of yen | | |
|---|---|---|---|
| | 2009 | | |
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Amortized intangible assets | | | |
| Software | ¥20,944 | ¥4,524 | ¥16,420 |
| Patents | 3,145 | 1,335 | 1,810 |
| Other | 7,848 | 3,622 | 4,226 |
| Total | ¥31,937 | ¥9,481 | ¥22,456 |
| Unamortized intangible assets | | | ¥ 241 |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | 2010 | | |
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Amortized intangible assets | | | |
| Software | $240,989 | $ 63,011 | $177,978 |
| Patents | 46,807 | 19,000 | 27,807 |
| Other | 160,527 | 55,269 | 105,258 |
| Total | $448,323 | $137,280 | $311,043 |
| Unamortized intangible assets | | | $ 2,613 |

Intangible assets other than goodwill acquired during the year ended March 31, 2010 totaled ¥10,957 million ($117,817 thousand) and primarily consist of customer relationships ¥6,004 million ($64,559 thousand).

Software of amortized intangible assets includes software suspense account. Software suspense account at March 31, 2010 and 2009 were ¥509 million ($5,473 thousand) and ¥8,131 million, respectively. The weighted average useful life for software is 9.63 years.

Total amortization expenses of intangible assets during the years ended March 31, 2010 and 2009 amounted to ¥4,394 million ($47,247 thousand) and ¥3,293 million, respectively. The estimated amortization expenses for intangible assets for the next five years are as follows:

| Year ending March 31 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2011 | ¥2,898 | $31,161 |
| 2012 | 2,536 | 27,269 |
| 2013 | 1,973 | 21,215 |
| 2014 | 1,428 | 15,355 |
| 2015 | 1,062 | 11,419 |

The changes in the carrying amount of goodwill of each operating segment for the years ended March 31, 2010 and 2009 are as follows:

| | Millions of yen | | |
|---|---|---|---|
| | 2010 | | |
| | Components | Modules | Total |
| Balance of beginning year | | | |
| Acquisition cost | ¥760 | ¥10,942 | ¥11,702 |
| Accumulated impairment losses | (760) | (9,017) | (9,777) |
| Net carrying amounts | – | 1,925 | 1,925 |
| Increase (decrease) in goodwill resulting from | | | |
| Goodwill acquired during year | – | – | – |
| Impairment losses | – | – | – |
| Balance of ending year | | | |
| Acquisition cost | 760 | 10,942 | 11,702 |
| Accumulated impairment losses | (760) | (9,017) | (9,777) |
| Net carrying amounts | – | ¥ 1,925 | ¥ 1,925 |

| | Millions of yen | | |
|---|---|---|---|
| | 2009 | | |
| | Components | Modules | Total |
| Balance of beginning year | | | |
| Acquisition cost | ¥760 | ¥10,942 | ¥11,702 |
| Accumulated impairment losses | – | – | – |
| Net carrying amounts | 760 | 10,942 | 11,702 |
| Increase (decrease) in goodwill resulting from | | | |
| Goodwill acquired during year | – | – | – |
| Impairment losses | (760) | (9,017) | (9,777) |
| Balance of ending year | | | |
| Acquisition cost | 760 | 10,942 | 11,702 |
| Accumulated impairment losses | (760) | (9,017) | (9,777) |
| Net carrying amounts | – | ¥ 1,925 | ¥ 1,925 |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | 2010 | | |
| | Components | Modules | Total |
| Balance of beginning year | | | |
| Acquisition cost | $ 8,172 | $117,656 | $125,828 |
| Accumulated impairment losses | (8,172) | (96,957) | (105,129) |
| Net carrying amounts | – | 20,699 | 20,699 |
| Increase (decrease) in goodwill resulting from | | | |
| Goodwill acquired during year | – | – | – |
| Impairment losses | – | – | – |
| Balance of ending year | | | |
| Acquisition cost | 8,172 | 117,656 | 125,828 |
| Accumulated impairment losses | (8,172) | (96,957) | (105,129) |
| Net carrying amounts | – | $ 20,699 | $ 20,699 |

For the year ended March 31, 2009, the Companies recognized impairment loss on goodwill mainly associated with modules business. As a result of the impairment test, the fair values declined due to sluggish demand for electronic components, and the goodwill was considered to be impaired. The recognized impairment was measured at the amount that the carrying amount exceeded the fair value of the goodwill. The fair value of the goodwill was determined by considering the estimated future cash flows.

## 17. Segment Information

On March 31, 2010, the Companies adopted ASC280, "Segment Reporting" (the provisions which were previously included in SFAS No.131, "Disclosures about Segments of an Enterprise and Related Information").

1) Operating Segment Information

The companies mainly develop, manufacture and sell electronic components and related products.

Operating segments of the Companies are classified based on the nature of products and the Companies recognized Components segment, Modules segment and Others.

Operating Segment Information for the years ended March 31, 2010, 2009 and 2008 was as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | **2010** | 2009 | 2008 | **2010** |
| ***Components*** | | | | |
| Sales to: | | | | |
| Unaffiliated customers | **¥359,369** | ¥360,201 | ¥461,038 | **$3,864,183** |
| Intersegment | **10,636** | 8,542 | 9,299 | **114,365** |
| Total revenue | **370,005** | 368,743 | 470,337 | **3,978,548** |
| Segment income | **49,954** | 24,641 | 132,403 | **537,140** |
| Assets | **277,801** | 311,032 | 334,518 | **2,987,108** |
| Depreciation and amortization | **53,341** | 62,351 | 49,520 | **573,559** |
| Expenditure for long-lived assets | **24,545** | 54,389 | 104,008 | **263,925** |
| ***Modules*** | | | | |
| Sales to: | | | | |
| Unaffiliated customers | **¥169,444** | ¥161,571 | ¥168,496 | **$1,821,978** |
| Intersegment | **666** | 429 | 642 | **7,162** |
| Total revenue | **170,110** | 162,000 | 169,138 | **1,829,140** |
| Segment income (loss) | **6,142** | (10,350) | 8,901 | **66,043** |
| Assets | **54,740** | 57,539 | 78,045 | **588,602** |
| Depreciation and amortization | **8,557** | 11,051 | 9,734 | **92,011** |
| Expenditure for long-lived assets | **4,580** | 8,030 | 15,349 | **49,247** |
| ***Others*** | | | | |
| Sales to: | | | | |
| Unaffiliated customers | **¥ 2,006** | ¥ 2,174 | ¥ 2,121 | **$ 21,570** |
| Intersegment | **9,903** | 25,971 | 42,375 | **106,484** |
| Total revenue | **11,909** | 28,145 | 44,496 | **128,054** |
| Segment income | **859** | 1,476 | 4,440 | **9,236** |
| Assets | **8,034** | 7,620 | 9,381 | **86,387** |
| Depreciation and amortization | **1,856** | 1,952 | 1,658 | **19,957** |
| Expenditure for long-lived assets | **1,418** | 2,739 | 4,096 | **15,247** |
| ***Corporate and eliminations*** | | | | |
| Sales to: | | | | |
| Unaffiliated customers | **–** | – | – | **–** |
| Intersegment | **¥ (21,205)** | ¥ (34,942) | ¥ (52,316) | **$ (228,011)** |
| Total revenue | **(21,205)** | (34,942) | (52,316) | **(228,011)** |
| Corporate expenses | **(30,225)** | (32,054) | (29,992) | **(325,000)** |
| Assets | **588,215** | 533,136 | 608,405 | **6,324,892** |
| Depreciation and amortization | **6,142** | 5,624 | 4,222 | **66,043** |
| Expenditure for long-lived assets | **1,183** | 4,358 | 7,150 | **12,721** |

| | | | | |
|---|---|---|---|---|
| ***Consolidated*** | | | | |
| Sales to: | | | | |
| Unaffiliated customers... | **¥530,819** | ¥523,946 | ¥ 631,655 | **$5,707,731** |
| Intersegment................ | **–** | – | – | **–** |
| Total revenue................... | **530,819** | 523,946 | 631,655 | **5,707,731** |
| Operating income (loss).... | **26,730** | (16,287) | 115,752 | **287,419** |
| Assets............................. | **928,790** | 909,327 | 1,030,349 | **9,986,989** |
| Depreciation and amortization ... | **69,896** | 80,978 | 65,134 | **751,570** |
| Expenditure for long-lived assets .... | **31,726** | 69,516 | 130,603 | **341,140** |

*1 Major products and businesses included in the operating segments.
(1) Components : Capacitors, Piezoelectric Components
(2) Modules : Communication Modules
(3) Others : Welfare services, personnel services, education and training services, lease and management of real estate, facility maintenance and cleaning, sales of software, machinery manufacturing
*2 Intersegment transactions are based on market prices.
*3 Segment income (loss) for each operating segments represents net sales, less related costs. Corporate expenses represent expenses of headquarters functions and fundamental researches.
*4 Assets for operating segments are composed of inventories and fixed assets used in business. The other assets are included in Corporate and eliminations.
*5 Expenditure for long-lived assets are composed of that for property, plant and equipment, and intangible assets.
*6 Segment loss of ¥10,350 million on modules segment for the year ended March 31, 2009 includes impairment loss on goodwill of ¥9,017 million.

2) Geographic Information
Net sales are attributed to countries or areas based on customer locations.
Long-lived assets are composed of property, plant and equipment based on physical location.

Net sales

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | **2010** | 2009 | 2008 | **2010** |
| Japan............................... | **¥100,922** | ¥116,924 | ¥155,953 | **$1,085,183** |
| The Americas.................. | **38,758** | 43,918 | 53,688 | **416,753** |
| Europe............................ | **56,981** | 58,013 | 72,860 | **612,699** |
| Greater China.................. | **240,088** | 214,972 | 237,217 | **2,581,591** |
| Asia and Others .............. | **94,070** | 90,119 | 111,937 | **1,011,505** |
| Total ................................ | **¥530,819** | ¥523,946 | ¥631,655 | **$5,707,731** |

Notes : Major countries and areas included in the segments other than Japan:
*1 The Americas : USA, Mexico
*2 Europe : Germany, Hungary, United Kingdom, France, Sweden
*3 Greater China : China, Taiwan
*4 Asia and Others : South Korea, Singapore

Long-lived assets

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | **2010** | 2009 | 2008 | **2010** |
| Japan............................... | **¥252,163** | ¥294,464 | ¥311,018 | **$2,711,430** |
| The Americas.................. | **1,518** | 1,664 | 1,828 | **16,323** |
| Europe............................ | **776** | 828 | 1,125 | **8,344** |
| Asia................................. | **30,808** | 31,326 | 32,178 | **331,269** |
| Total ................................ | **¥285,265** | ¥328,282 | ¥346,149 | **$3,067,366** |

Notes : Major countries and areas included in the segments other than Japan:
*1 The Americas : USA
*2 Europe : Germany, United Kingdom, France, Italy, the Netherlands
*3 Asia : China, Singapore, Thailand

**18. Subsequent Events**

1. The Companies account for subsequent events in accordance with ASC855, “Subsequent events” (the provisions which were previously included in SFAS No. 165, “Subsequent events”). ASC855 defines to disclose the date through which subsequent events have been evaluated, the nature of the nonrecognized subsequent events and an estimate of its financial effect. The Companies evaluated subsequent events by June 29, 2010, which is this financial report presentation day.

2. The ordinary general meeting of shareholders on June 29, 2010 resolved to pay a cash dividend of ¥35 ($0.38) per share to shareholders of record as of March 31, 2010, or a total of ¥7,512 million ($80,774 thousand).

# Independent Auditors' Report

Deloitte Touche Tohmatsu LLC
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To the Board of Directors and Shareholders of
Murata Manufacturing Co., Ltd.
Nagaokakyo-shi
Kyoto, Japan

We have audited the accompanying consolidated balance sheets of Murata Manufacturing Co., Ltd. and subsidiaries (the "Company") as of March 31, 2010 and 2009, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2010, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our report dated June 11, 2009, we expressed a qualified opinion, because certain information required by Accounting Standards Codification ("ASC") 280, "Segment Reporting" had not been presented in the 2009 and 2008 consolidated financial statements. As discussed in Note 17 to the consolidated financial statements, the Company has now presented segment information required by ASC 280 in the 2009 and 2008 consolidated financial statements. Accordingly, our present opinion on the 2009 and 2008 consolidated financial statements, as expressed herein, is different from that expressed in our prior report on the previously issued 2009 and 2008 consolidated financial statements.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Murata Manufacturing Co., Ltd. and subsidiaries as of March 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

As discussed is Note 3 to the consolidated financial statements, the Company changed its method of accounting for classification of debt securities in 2010 and, retrospectively adjusted the 2009 and 2008 consolidated financial statements for the change.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2. Such U.S. dollar amounts are presented solely for the convenience of readers outside of Japan.

Deloitte Touche Tohmatsu LLC

June 29, 2010

Member of
Deloitte Touche Tohmatsu

# Internal Control Section

**NOTE TO READERS:**

The Companies design and operate effective internal control over financial reporting, and prepare management's report on internal control over financial reporting under the Financial Instruments and Exchange Act of Japan.

The management's report on internal control over financial reporting of the Companies is audited in accordance with auditing standards for internal control over financial reporting generally accepted in Japan, and an opinion on management's report on internal control over financial reporting is expressed by Deloitte Touche Tohmatsu LLC.

# Management's Report on Internal Control

**NOTE TO READERS:**

Following is an English translation of management's report on internal control over financial reporting filed under the Financial Instruments and Exchange Act of Japan. Readers should be aware that this report is presented merely as supplemental information.

Readers should be particularly aware of the differences between an assessment of internal control over financial reporting ("ICFR") under the Financial Instruments and Exchange Act ("ICFR under FIEA") and one conducted under the standards of the Public Company Accounting Oversight Board (United States) ("ICFR under PCAOB");

- In an assessment of ICFR under FIEA, there is detailed guidance on the scope of an assessment of ICFR, such as quantitative guidance on business location selection and/or account selection. In an assessment of ICFR under PCAOB, there is no such detailed guidance. Accordingly, regarding the scope of assessment of internal control over business processes, we selected locations and business units to be tested, and the companies whose combined sales and others volume reaches two thirds of total sales and others for the prior year on a consolidation basis were selected as "significant locations and/or business units."

**(TRANSLATION)**

## MANAGEMENT'S REPORT ON INTERNAL CONTROL

1. Matters relating to the basic framework for internal control over financial reporting

Tsuneo Murata, President and Statutory Representative Director and Yoshitaka Fujita, Executive Deputy President and Statutory Representative Director are responsible for designing and operating effective internal control over financial reporting of our company (the "Company") and have designed and operated internal control over financial reporting of the consolidated financial statements in accordance with the basic framework for internal control set forth in "The Standards and Practice Standards for Management Assessment and Audit of Internal Control Over Financial Reporting" published by the Business Accounting Council.

The internal control is designed to achieve its objectives to the extent reasonable through the effective function and combination of its basic elements. Therefore, there is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

2. Matters relating to the scope of assessment, the basis date of assessment and the assessment procedures

Tsuneo Murata, President and Statutory Representative Director and Yoshitaka Fujita, Executive Deputy President and Statutory Representative Director performed the assessment of internal control over financial reporting as of March 31, 2010, which is the end of this fiscal year. The assessment was performed in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

In conducting this assessment, we evaluated internal controls which may have a material effect on our entire financial reporting on a consolidation basis ("entity-level controls") and based on the results of this assessment, we selected business processes to be tested. We analyzed these selected business processes, identified key controls that may have a material impact on the reliability of the Company's financial reporting, and assessed the design and operation of these key controls. These procedures have allowed us to evaluate the effectiveness of the internal controls of the Company.

We determined the required scope of assessment of internal control over financial reporting for the Company, as well as its consolidated subsidiaries, from the perspective of the materiality that may affect the reliability of their financial reporting. The procedures, methods and others to determine the scope are determined taking into account the materiality of quantitative and qualitative impacts on financial reporting. In light of the results of assessment of entity-level controls conducted for all locations and business units except for insignificant ones, we reasonably determined the scope of assessment of internal controls over business processes.

Regarding the scope of assessment of internal control over business processes, we selected locations and business units to be tested, and the companies whose combined sales and others volume reaches two thirds of total sales and others for the prior year on a consolidation basis were selected as "significant locations and/or business units". We included in the scope of assessment, at the selected significant locations and/or business units, business processes leading to sales, accounts receivable, inventories, and property, plant and equipment as significant accounts that may have a material impact on the business objectives of the Company. Further, in addition to selected significant locations and/or business units, we also selected individually for testing, as business processes having greater materiality, business processes relating to (i) greater likelihood of material misstatements and/or (ii) significant accounts involving estimates and the management's judgment and/or (iii) a business dealing with high-risk transactions, taking into account their impact on the financial reporting.

3. Matters relating to the results of the assessment

As a result of the assessment described above, as of the end of this fiscal year, we concluded that the Company's internal control over financial reporting of the consolidated financial statements was effectively maintained.

4. Additional matters

Not applicable.

5. Particular matters

Not applicable.

Tsuneo Murata
President
Statutory Representative Director
Murata Manufacturing Co., Ltd.

The above represents a translation, for convenience only, of the original report issued in the Japanese language.

**NOTE TO READERS:**

Following is an English translation of the Independent Auditors' Report filed under the Financial Instruments and Exchange Act of Japan. Readers should be aware that this report is presented merely as supplemental information.

Readers should be particularly aware of the differences between an audit of internal control over financial reporting ("ICFR") under the Financial Instruments and Exchange Act ("ICFR under FIEA") and one conducted under the standards of the Public Company Accounting Oversight Board (United States) ("ICFR under PCAOB");

- In an audit of ICFR under FIEA, the auditors express an opinion on management's report on ICFR, and do not express an opinion on the Company's ICFR directly. In an audit of ICFR under PCAOB, the auditors express an opinion on the Company's ICFR directly.
- In an audit of ICFR under FIEA, there is detailed guidance on the scope of an audit of ICFR, such as quantitative guidance on business location selection and/or account selection. In an audit of ICFR under PCAOB, there is no such detailed guidance. Accordingly, regarding the scope of assessment of internal control over business processes, the Company selected locations and business units to be tested, and the companies whose combined sales and others volume reaches two thirds of total sales and others for the prior year on a consolidation basis were selected as "significant locations and/or business units."

**(TRANSLATION)**

# INDEPENDENT AUDITORS' REPORT
## (filed under the Financial Instruments and Exchange Act of Japan)

June 29, 2010

To the Board of Directors of Murata Manufacturing Co., Ltd.

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Akira Ishida

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Kentaro Kurosawa

## [Audit of Financial Statements]

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements included in the Financial Section, namely, the consolidated balance sheet and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows, and consolidated supplementary schedules of Murata Manufacturing Co., Ltd. and subsidiaries (the "Company") for the fiscal year from April 1, 2009 to March 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Murata Manufacturing Co., Ltd. and consolidated subsidiaries as of March 31, 2010, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Supplementary Information

1. As discussed in Note Ⅱ to the consolidated financial statements, the Company changed classification of securities which are classified as between marketable securities and investments for the fiscal year from April 1, 2009 to March 31, 2010.
2. As discussed in Note ⅩⅥ to the consolidated financial statements, the Company has presented segment information in conformity with Financial Accounting Standards Board (FASB) Accounting Standards Codification 280 (the former FASB Statement No.131) for the fiscal year from April 1, 2009 to March 31, 2010.

## [Audit of Internal Control over Financial Reporting]

Pursuant to the second paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited management's report on internal control over financial reporting of Murata Manufacturing Co., Ltd. and subsidiaries as of March 31, 2010. The Company's management is responsible for designing and operating effective internal control over financial reporting and preparing its report on internal control over financial reporting. Our responsibility is to express an opinion on management's report on internal control over financial reporting based on our audit. There is a possibility that misstatements will not completely be prevented or detected by internal control over financial reporting.

We conducted our audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether management's report on internal control over financial reporting is free of material misstatement. An audit includes examining, on a test basis, the scope, procedures and results of assessment of internal control made by management, as well as evaluating the overall presentation of the management's report on internal control over financial reporting. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, management's report on internal control over financial reporting referred to above, which represents that the internal control over financial reporting of Murata Manufacturing Co., Ltd. and subsidiaries as of March 31, 2010 is effectively maintained, presents fairly, in all material respects, the assessment of internal control over financial reporting in conformity with assessment standards for internal control over financial reporting generally accepted in Japan.

Our firm and the engagement partners do not have any financial interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

The above represents a translation, for convenience only, of the original report issued in the Japanese language and "Supplemental Schedules" referred to in this report are not included in the attached finanical documents.

Murata
Manufacturing Co., Ltd.

Printed in Japan '10/6/1.3K