



Member of the Board of Directors
and Executive Vice President
Director of Corporate Planning
& Administration Unit

Yoshito Takemura

Message from the Director of Corporate Planning & Administration Unit

**In order to ensure that we live up to the stakeholders' expectations,
we will focus efforts on enhancing our corporate value
from both financial and nonfinancial angles.**

Commitment to Murata Philosophy is the core of our Business & Management Foundation

My name is Yoshito Takemura, and I am in charge of the Corporate Planning & Administration Unit. I would like to express my sincere gratitude for your support for our Group. I would like to discuss Murata's financial policy and initiatives and our views on business management and issues we face amid increasing interest in nonfinancial value in recent years.

First, what underlies the accounting system of Murata Manufacturing Co., Ltd.? It is the Murata Philosophy established by our founder, Akira Murata. At Murata, we have been emphatically told to always make a point of explaining anything quantitatively and constantly think about the essence of what numbers represent, based on the idea of "scientific approach," a phrase from the Murata Philosophy. We tally accounting information from different angles,

use the results to improve management operations, read what they indicate, and make decisions based on them. What supports this process is Murata's management accounting system.

The Murata Philosophy also includes the phrase, "being trustworthy." What it calls for is for us to win the trust of our stakeholders, including shareholders, clients, and suppliers. To this day, the Murata Philosophy has remained at the base of Murata's Business & Management Foundation.

Transparency of profit drives growth

At Murata, we have a three-dimensional matrix organizational structure in which businesses such as capacitors and RF modules are categorized in the vertical axis and process-based organizations that conduct location (entity) operations, including production activities, are categorized in the horizontal axis, and which includes functional staff

that support these organizations on the ground (staff of Head Office, development, sales, etc.). This organizational structure combines with the management accounting system to constitute Murata's unique matrix management system.

The aim of the matrix management system is to finely break down business management units using the matrix (combination) by product and process to identify costs and create a system in which business performance is managed by profit/loss unit. In particular, grasping consolidated business performance each month is very important for adjusting management policies in response to the wildly fluctuating management environment. Results of business activities appear in numbers on the statement of income of each department and make individuals in charge of profit and loss management aware of their responsibility, helping them enhance their sense of business management.

Murata has unique systems to support this management accounting system, including an elaborate system of accounting line items unified across global operations, internal interest rate system, standardized cost calculation system, internal price transfer system and investment economy calculation system to support decision making. We have an organizational culture in which opinions expressed openly and freely from different angles are brought together, while placing importance on the business axis, and in which departments share information on their respective issues and cooperate with each other using objective data, even when there is a conflict between departments, to resolve these issues.

In addition, Murata was early to introduce a structure to make not just executives but heads of business units aware of capital costs. By setting internal interest rates at the same level as capital costs, the concept of engaging in business operation while being conscious of capital costs has been instilled among staff on the manufacturing floor as well, which has led to the evaluation of operations based on return on invested capital (ROIC) as we practice today.

Through these numerous efforts, we have built an ample amount of capital required for growth investment and to become able to raise funds smoothly by winning the confidence of financial institutions and the capital market. This has resulted in a virtuous cycle of investment and investment recovery during the period of a rapid increase in the number of mobile phone users. In the 2000s, we stepped up an aggressive management policy under

which we took risks backed by our solid financial position, which enabled us to capture huge business opportunities related to smartphones and other devices, leading to continuous growth today.

Solid "Business & Management Foundation" and healthy growth riding on business opportunities

We expect demand for Murata's electronic components will increase over the medium to long term along with the multi-functionalization and increased functionality of electronic devices as well as advancement in the electrification of automobiles. In order to capture opportunistic gains for business expansion, we have aggressively made investments over the past few years. On the other hand, various risks have materialized in relation to opportunities for business expansion, including deteriorated cost structures as a result of higher standards of technical requirements in response to new technologies, including 5G, and investment recovery not being achieved as expected amid increased volatility of demand fluctuation as we expand operations globally. Taking these issues into consideration, we established our Mid-term Direction 2021, which is currently in the second fiscal year after introduction.

Mid-term Direction 2021 has a slogan: "Murata focuses on strengthening 'Business & Management Foundation' in order to seize expanding business opportunities and realize Healthy & Sustainable Growth." I would like to call your attention to the word, "healthy." A healthy state for a company is a situation in which its work structures and organization are evolving in pace with the growth speed and diversification of its business operations so that the company can successfully respond to changing business opportunities, and in which the company is contributing to the sustainable development of society and winning the trust of the public by meeting its expectations and requirements from society, not just complying with laws and regulations, while maintaining high profitability. In order to achieve this state, we have introduced three initiatives (please see pp.29-30).

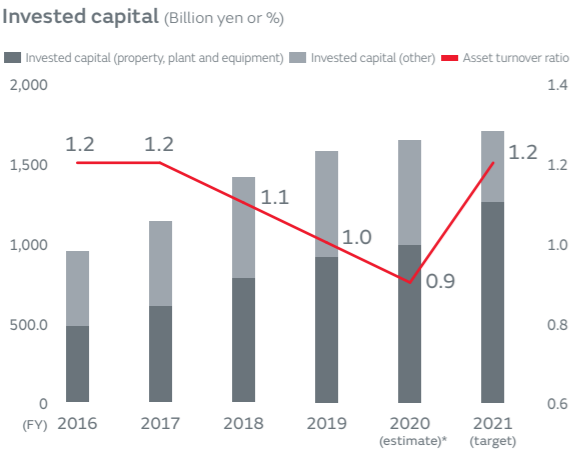
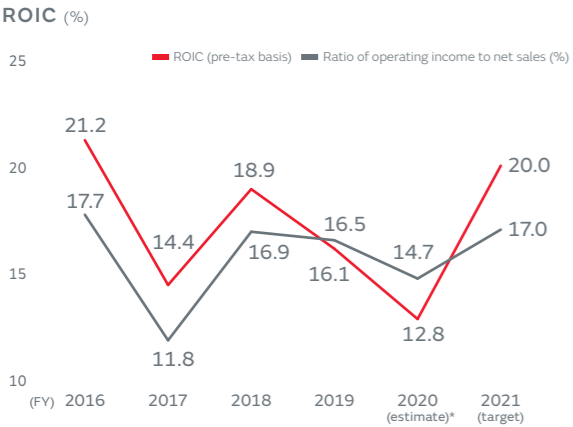
And we set medium-term financial targets of minimum 20% in ROIC (before tax) and minimum 17% in the ratio of operating income to net sales. For net sales, we set 2 trillion yen as a guideline. The reason for using ROIC based on pre-tax operating income as the target is that it makes it easy to allocate figures to profit and loss units based on product, business division, operational location, etc. in the above-mentioned management accounting system.



As our new President, Norio Nakajima discusses in his message, one of the key issues in Mid-term Direction 2021 is to closely examine the profitability of each business from the viewpoint of portfolio management. Some of our businesses are in “healthy” deficit, so to speak, having a potential to contribute to our future growth. For such businesses, we do not just terminate them categorically. Instead, we make a judgement in the course of monitoring their business performance.

Today, a large wave of change in the business environment is coming to the communication and automotive markets. Furthermore, we expect the pace of change to further accelerate as demand related to IoT (Internet of Things) technologies, including contactless and remote-control technologies, has emerged all at once due to the impact of COVID-19. In addition, we need to work to resolve social issues, including climate change and sustainable use of resources, in order to achieve a sustainable society.

Murata aims to steadily capture business opportunities, provide value that satisfies customers, achieve sustainable growth, and work to resolve social issues through our business. For this, we are working to strengthen our Business & Management Foundation, including organizational structures and work structures in line with expansion of the scale of our business.



Use of human capital and information capital essential for healthy growth

A company’s real ability is not necessarily represented only by its financial statements. Nonfinancial factors, including its human resources and information, can also form part of its power or capital that creates value. I believe that the mission of Murata’s management team is to make Murata a company where each and every employee can have an opportunity to play an active role and seek to achieve healthy growth as a person with a sense of fulfillment.

In today’s rapidly changing environment, there are many cases where it is difficult to foresee the future. Therefore, it is also important that employees can become a driving force in such cases by reading a sign of change and finding a new direction by themselves. Even if we draw up an excellent business strategy, the business environment changes every moment. Unless we adjust our strategy flexibly in accordance with changes in the environment, we may fall off the pace. Accordingly, we will need people who can see signs of change and flexibly change direction.

For Mid-term Direction 2021, we will work on this under the theme of “Harmony among people, organization, and society.” (please see pp. 29–30)

In the age of IoT, companies who control information will control their market share. Under Mid-term Direction 2021, each department including factories in various locations has been actively engaged in efforts to improve productivity through utilization of data and to promote smart factories under the theme of “Establishment of advanced supply system & exponential productivity enhancement.” In addition, just as we accumulate our inimitable monozukuri (manufacturing) technologies, our indirect divisions are stepping up their unique initiatives. I believe that information can transform into management resources by giving significance to simple data and it will exert its power as so-called invisible capital (please see pp. 29–30).

Accordingly, in addition to the capital employed as recorded in financial statements, human resources and information that does not appear on financial statements are also the source of competitive advantage, and they are important capital that drives value creation.

Financial strategy to achieve sustained growth for the future

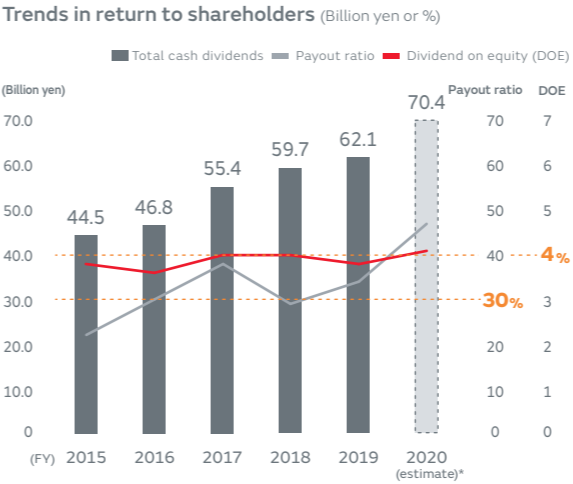
Now, in the second year under Mid-term Direction 2021, it is unclear whether we can achieve net sales of two trillion yen due to impacts from the spread of COVID-19 and the intensified U.S.–China trade friction. Yet we continue our efforts to improve the ratio of operating income to net sales and ROIC and steadily build the Business & Management Foundation to achieve sustained growth for the future, based on our efforts to create

added value through our operation and enhance capital by increasing profits. Since its foundation, Murata has continued to believe that enhancement of equity capital as a robust financial strength is essential amid abrupt changes in demand and rapid advancement in technologies. It is often thought that securing of financial base is contrary to asset efficiency, but we believe it is important for achieving the permanent growth of our company. When business conditions have deteriorated, we cannot expect to achieve sustained growth unless we have enough funds to keep spending to achieve our vision in the future. We also believe that as a company we can adapt flexibly to changes only if we have a stable financial base.

Enhancement of cash reserves is also an important theme as the market outlook remains uncertain. For this, we are prepared to deal with unexpected situations, we have three months’ worth of cash reserves, which we think is an adequate level, and have secured credit lines from financial institutions. In addition, we have successfully diversified means of raising funds because we were able to issue bonds under favorable terms in the last fiscal year and a year earlier. We did not do this in anticipation of the spread of COVID-19; it simply proves that our effort in always foreseeing one step ahead has worked very well.

In terms of shareholder returns, our basic policy is to pay dividends to investors from a portion of profit earned through business activity, while expanding corporate value over the long term and reinforcing financial position. In addition, we will strive to stably increase dividends by increasing earnings per share.

In terms of our dividend policy, we kept increasing payouts for eight consecutive fiscal years since 2013. More recently, we have decided to adopt dividend on equity (DOE), which is less susceptible to the impact of business results in a single year, as an indicator for shareholder returns in order to present to shareholders and investors stable payout levels over the long term. In the fiscal year ending March 2021, we are planning to pay an annual dividend per share of 110 yen, up 13 yen from a year earlier, on the assumption that we can achieve earnings



forecasts released in this past April. Based on this, the targets for DOE and payout ratio are 4.1% and 47%, respectively.* We will also purchase treasury stocks as a measure of shareholder returns in a timely manner, with an aim to improve capital efficiency. While we aim to secure funds necessary for achieving future business growth, we will utilize extra funds as financial resources to purchase treasury stocks in a timely manner.

Enhancing management transparency and our relationship of mutual trust with you

In our dialogue with shareholders and investors, we believe it is of primary importance for us to fulfill operational responsibility and accountability pertaining to business results, as a matter of course. The electronics market grew significantly over a period from the 1970s to the early 1990s. However, lacking adequate funds to capture the opportunity for growth, Murata issued convertible bonds on several occasions and raised large amounts of funds directly from the financial market. We have always respected the standpoint of investors and were able to significantly increase our corporate value thanks to the funds thus raised, although on occasions we were forced to cancel issuance due to abrupt changes in the financial market climate. We are grateful for many of our supportive investors who bought multiple convertible bonds, converted them to shares, and have held them for many years. We would like to continue to respect the spirit of “being trustworthy,” as called for in the Murata Philosophy, that we have built with our shareholders and investors. As our businesses and organizations continue to grow globally, we will remain focused on fostering a relationship of trust with you by stepping up efforts to secure management transparency and disclose information.

We think provision of information to employees is also important, in the sense of information disclosure to stakeholders. It is our wish that all our employees, regardless of their positions, can come together to think about management issues and face shareholders and investors with the investor relations division playing an intermediary role.

Building the trust of stakeholders and contributing to the development of the world through manufacturing of electronic components: this is the ideal vision of management Murata aims for. My wish is that our shareholders and investors will empathize with Murata’s management philosophy and feel proud of holding its shares. We will focus on further improving our corporate value in both financial and nonfinancial aspects as an innovator that can sensitively detect business opportunities and risks, proactively initiate changes to respond to them, and further strengthen the relationship of trust with you while sincerely working to meet your expectations.

*From earnings forecast announced on April 30, 2020