Consolidated Financial Statements
and Auditor's Report

Year Ended March 31, 2021

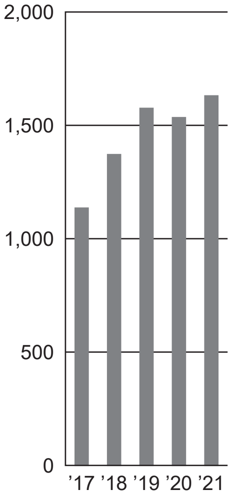
INNOVATOR IN ELECTRONICS

Index

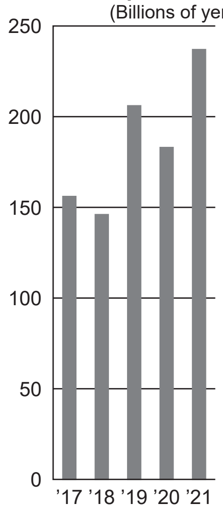
Financial Data

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2017–2021

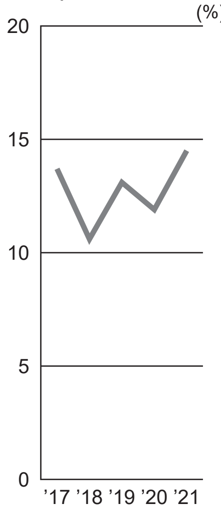
Net sales
(Billions of yen)



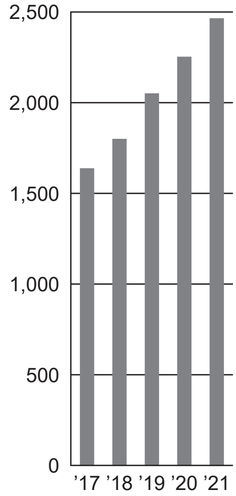
Net income attributable to Murata Corporation
(Billions of yen)



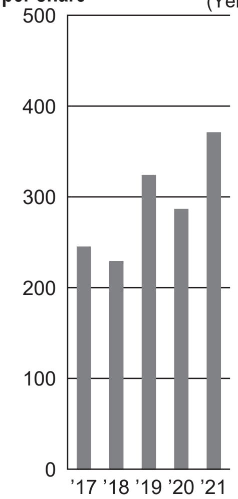
Net income attributable to Murata Corporation / Net sales
(%)



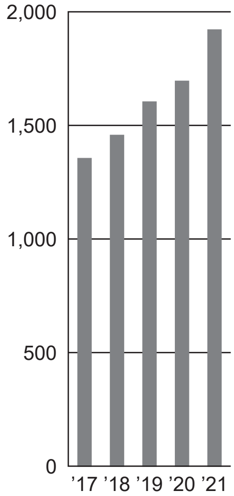
Total assets
(Billions of yen)



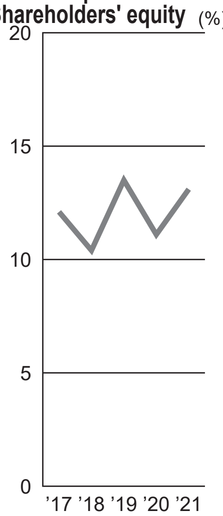
Basic earnings attributable to Murata Corporation per share[*1]
(Yen)



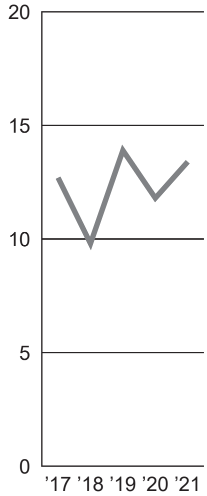
Shareholders’ equity
(Billions of yen)



Net income attributable to Murata Corporation / Shareholders' equity
(%)

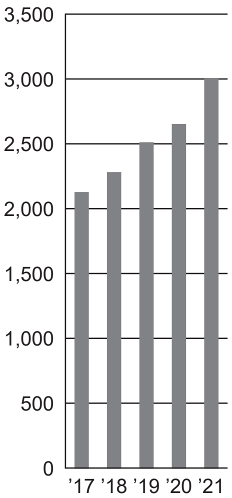


Income before income taxes / Total assets
(%)

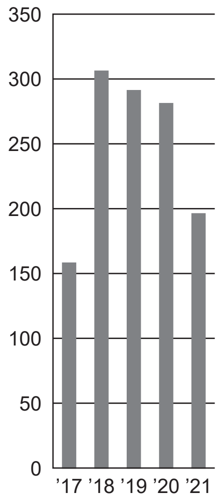


*1 Based on the average number of common shares outstanding. The Company executed a three-for-one common stock split, effective April 1, 2019. Basic earnings attributable to Murata Corporation per share were calculated as if the relevant stock split was executed at the beginning of the previous consolidated fiscal year ended March 31, 2017. There are no potential dilutive securities.

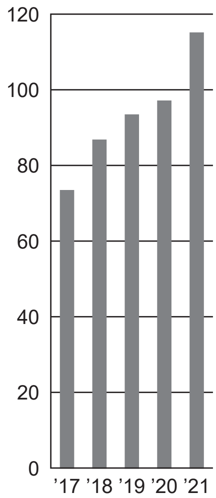
Shareholders’ equity per share[*2]
(Yen)



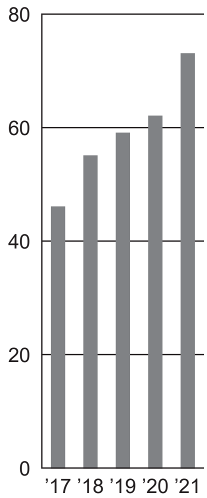
Capital expenditures
(Billions of yen)



Cash dividends per share[*3]
(Yen)



Total return[*4]
(Billions of yen)



*2 Based on the number of common shares outstanding at term-end. The Company executed a three-for-one common stock split, effective April 1, 2019. Shareholders' equity per share was calculated as if the relevant stock split was executed at the beginning of the previous consolidated fiscal year ended March 31, 2017.

*3 The Company executed a three-for-one common stock split, effective April 1, 2019. Cash dividends per share for the years ended March 31, 2017 through March 31, 2019 were calculated as if the relevant stock split was executed at the beginning of the previous consolidated fiscal year ended March 31, 2017.

*4 Total of dividend payments and share buyback.

Productions, Orders, Backlogs, and Sales by Product

Murata Manufacturing Co., Ltd. and Subsidiaries
Year ended March 31, 2021

	Millions of yen	Component ratio	Ratio against the previous year	Thousands of U.S. dollars
	2021			
Productions by Product		%	%	
Capacitors	¥ 626,927	38.4	15.2	$ 5,647,991
Piezoelectric Components	124,931	7.7	2.4	1,125,505
Other Components	387,852	23.7	8.3	3,494,162
Components Total	1,139,710	69.8	11.2	10,267,658
Modules	493,754	30.2	3.2	4,448,234
Total	¥1,633,464	100.0	8.7	$14,715,892

*1 Figures in the tables for each product are based on sales price to customers.
*2 Exclusive of consumption taxes on the tables by product.
*3 The tables by product indicate productions, orders, backlogs, and sales of electronic components and related products.

	Millions of yen	Component ratio	Ratio against the previous year	Thousands of U.S. dollars
	2021			
Orders by Product		%	%	
Capacitors	¥ 706,901	38.8	31.3	$ 6,368,477
Piezoelectric Components	151,765	8.3	14.8	1,367,252
Other Components	453,822	24.9	25.2	4,088,487
Components Total	1,312,488	72.0	27.0	11,824,216
Modules	509,251	28.0	7.5	4,587,847
Total	¥1,821,739	100.0	20.9	$16,412,063

*1 Capacitor's orders for this year increased drastically compared to the previous year. This is because of the increased demand of multilayer ceramic capacitors (MLCCs) for personal computers (PCs) and car electronics.

	Millions of yen	Component ratio	Ratio against the previous year	Thousands of U.S. dollars
	2021			
Backlogs by Product		%	%	
Capacitors	¥189,718	43.7	73.5	$1,709,171
Piezoelectric Components	43,001	9.9	109.5	387,397
Other Components	127,124	29.3	108.6	1,145,261
Components Total	359,843	82.9	88.6	3,241,829
Modules	74,471	17.1	51.0	670,910
Total	¥434,314	100.0	80.8	$3,912,739

*1 Capacitor's backlogs for this year increased drastically compared to the previous year. This is because of the increased demand of MLCCs for PC and car electronics.
*2 Piezoelectric Component's backlogs for this year increased drastically compared to the previous year. This is because of the increased demand of SAW filters for smartphones.
*3 Other Component's backlogs for this year increased drastically compared to the previous year. This is because of the increased demand of lithium ion batteries for power tools.
*4 Module's backlogs for this year increased drastically compared to the previous year. This is because of the increased demand of RF modules for smartphones.

	Millions of yen	Component ratio	Ratio against the previous year	Thousands of U.S. dollars
	2021			
Sales by Product		%	%	
Capacitors	¥ 626,546	38.5	12.0	$ 5,644,559
Piezoelectric Components	129,288	8.0	0.0	1,164,757
Other Components	387,648	23.8	6.8	3,492,324
Components Total	1,143,482	70.3	8.7	10,301,640
Modules	484,099	29.7	1.1	4,361,252
Total	¥1,627,581	100.0	6.4	$14,662,892

Capital Expenditures

Murata Manufacturing Co., Ltd. and Subsidiaries
Year ended March 31, 2021

1) Capital expenditures for the fiscal year ended March 31, 2021 amounted to ¥196,660 million ($1,771,712 thousand).
Major capital expenditures included the expansion and rationalization of production facilities, acquisition of land and buildings and expansion of R&D facilities.

2) Major property, plant and equipment on a net book value basis at March 31, 2021 was as follows:

	Millions of yen				
	Land	Buildings	Machinery and equipment	Construction in progress	Total
Parent Company					
Plant, Office and other					
Head Office in Kyoto	¥ 2,344	¥ 3,680	¥ 5,520	¥ 102	¥11,648
Nagaoka Plant in Kyoto	29	5,098	296	747	6,171
Yokaichi Plant in Shiga	566	20,749	13,334	1,457	36,108
Yasu Division in Shiga	7,515	21,812	16,434	13,488	59,251
Yokohama Technical Center in Kanagawa	1,797	2,184	866	10	4,858
Minato MIRAI Innovation Center in Kanagawa	10,526	32,835	2,338	801	46,501
Other	7,693	1,460	181	–	9,335

	Millions of yen				
	Land	Buildings	Machinery and equipment	Construction in progress	Total
Domestic Subsidiaries					
Company Name					
Fukui Murata Manufacturing Co., Ltd.	¥4,521	¥55,086	¥43,701	¥8,110	¥111,418
Izumo Murata Manufacturing Co., Ltd.	3,620	48,566	41,667	4,909	98,762
Okayama Murata Manufacturing Co., Ltd.	857	42,923	31,278	2,760	77,818
Kanazawa Murata Manufacturing Co., Ltd.	4,058	34,290	32,096	1,891	72,335
Toyama Murata Manufacturing Co., Ltd.	2,084	15,358	21,279	1,044	39,765
Komoro Murata Manufacturing Co., Ltd.	773	4,520	11,551	1,021	17,865

	Millions of yen				
	Land	Buildings	Machinery and equipment	Construction in progress	Total
Foreign Subsidiaries					
Company Name					
Wuxi Murata Electronics Co., Ltd.	¥ –	¥30,765	¥62,967	¥ 7,210	¥100,942
Murata Electronics Singapore (Pte.) Ltd.	3,789	9,738	29,199	3,586	46,312
Murata Energy Device Wuxi Co., Ltd.	–	18,564	15,676	11,359	45,599
Philippine Manufacturing Co. of Murata, Inc.	–	10,356	15,325	13,876	39,557
Shenzhen Murata Technology Co., Ltd.	–	9,054	17,112	887	27,053
Murata Electronics (Thailand), Ltd.	344	9,317	11,632	2,632	23,925

Consolidated Balance Sheets

Murata Manufacturing Co., Ltd. and Subsidiaries
At March 31, 2021 and 2020

ASSETS	Millions of yen 2021	Millions of yen 2020	Thousands of U.S. dollars (Note 2) 2021
Current assets:			
Cash	**¥ 363,979**	¥ 239,656	**$ 3,279,090**
Short-term investments	**64,218**	106,950	**578,541**
Marketable securities (Note 3)	**22,599**	29,554	**203,595**
Notes and accounts receivable:			
Trade notes	**25**	100	**225**
Trade accounts	**342,260**	281,958	**3,083,423**
Allowance for doubtful notes and accounts	**(1,414)**	(1,026)	**(12,739)**
Inventories (Note 4)	**361,331**	334,408	**3,255,234**
Prepaid expenses and other (Note 15)	**31,182**	35,627	**280,919**
Total current assets	**1,184,180**	1,027,227	**10,668,288**
Property, plant and equipment:			
Land	**73,359**	72,707	**660,892**
Buildings	**741,346**	633,041	**6,678,793**
Machinery and equipment, tools, dies, furniture and fixtures, and autos and trucks	**1,418,356**	1,310,534	**12,777,982**
Construction in progress	**100,277**	133,148	**903,396**
Total	**2,333,338**	2,149,430	**21,021,063**
Accumulated depreciation	**(1,286,598)**	(1,182,318)	**(11,590,973)**
Operating lease right-of-use assets (Note 13)	**32,098**	35,098	**289,171**
Net property, plant and equipment	**1,078,838**	1,002,210	**9,719,261**
Investments and other assets:			
Investments (Note 3)	**41,438**	49,059	**373,315**
Intangible assets (Note 16)	**33,524**	38,576	**302,018**
Goodwill (Note 16)	**71,058**	73,032	**640,162**
Deferred income taxes (Note 10)	**37,796**	42,220	**340,505**
Other (Note 6)	**15,427**	17,906	**138,983**
Total investments and other assets	**199,243**	220,793	**1,794,983**
Total assets	**¥ 2,462,261**	¥ 2,250,230	**$ 22,182,532**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2021	Millions of yen 2020	Thousands of U.S. dollars (Note 2) 2021
Current liabilities:			
Short-term borrowings (Note 5)	¥ **97**	¥ 51,000	$ **874**
Trade accounts payable	**85,927**	79,330	**774,117**
Current portion of bonds (Note 5)	**39,982**	–	**360,198**
Accrued payroll and bonuses	**52,909**	45,374	**476,658**
Income taxes payable	**41,525**	28,294	**374,099**
Accrued expenses and other (Notes 6 and 9)	**90,516**	73,611	**815,459**
Current operating lease liabilities (Note 13)	**6,955**	6,691	**62,658**
Total current liabilities	**317,911**	284,300	**2,864,063**
Long-term liabilities:			
Bonds (Note 5)	**109,853**	149,764	**989,667**
Long-term debt (Note 5)	**772**	207	**6,955**
Termination and retirement benefits (Note 6)	**74,005**	84,602	**666,712**
Deferred income taxes (Note 10)	**7,603**	5,644	**68,495**
Noncurrent operating lease liabilities (Note 13)	**25,051**	28,408	**225,684**
Other	**5,421**	2,498	**48,838**
Total long-term liabilities	**222,705**	271,123	**2,006,351**
Commitments (Note 12)			
Murata Corporation's shareholders' equity (Notes 7 and 18):			
Common stock (authorized 1,743,000,000 shares in 2021 and 2020; issued 675,814,281 shares in 2021 and 2020)	**69,444**	69,444	**625,622**
Capital surplus	**120,880**	120,775	**1,089,009**
Retained earnings	**1,786,660**	1,616,783	**16,096,036**
Accumulated other comprehensive income (loss) (Note 8):			
Unrealized gains (losses) on securities	**(32)**	(61)	**(288)**
Pension liability adjustments (Note 6)	**(14,814)**	(25,999)	**(133,460)**
Foreign currency translation adjustments	**12,219**	(33,275)	**110,081**
Total accumulated other comprehensive income (loss)	**(2,627)**	(59,335)	**(23,667)**
Treasury stock, at cost 35,998,818 shares in 2021 and 36,017,849 shares in 2020	**(53,552)**	(53,563)	**(482,450)**
Total Murata Corporation's shareholders' equity	**1,920,805**	1,694,104	**17,304,550**
Noncontrolling interests	**840**	703	**7,568**
Total equity	**1,921,645**	1,694,807	**17,312,118**
Total liabilities and equity	**¥ 2,462,261**	¥ 2,250,230	**$ 22,182,532**

See notes to consolidated financial statements.

Consolidated Statements of Income

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2021, 2020 and 2019

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2021	2020	2019	**2021**
Net sales (Note 9):	**¥1,630,193**	¥1,534,045	¥1,575,026	**$14,686,423**
Operating costs and expenses (Note 6):				
Cost of sales	**1,007,992**	952,583	974,808	**9,081,009**
Selling, general and administrative	**203,680**	229,587	231,822	**1,834,955**
Research and development	**101,727**	102,486	101,589	**916,459**
Impairment losses on goodwill (Note 16):	**3,554**	3,934	–	**32,018**
Total operating costs and expenses	**1,316,953**	1,288,590	1,308,219	**11,864,441**
Other operating income	**–**	7,792	–	**–**
Operating income	**313,240**	253,247	266,807	**2,821,982**
Other income (expenses):				
Interest and dividend income	**1,667**	4,017	3,519	**15,018**
Interest expense	**(384)**	(512)	(422)	**(3,459)**
Foreign currency exchange loss	**(10,237)**	(3,614)	(2,401)	**(92,225)**
Other-net	**12,131**	894	(187)	**109,288**
Other income (expenses)-net	**3,177**	785	509	**28,622**
Income before income taxes	**316,417**	254,032	267,316	**2,850,604**
Income taxes (Note 10):				
Current	**80,476**	69,127	65,036	**725,009**
Deferred	**(1,084)**	1,923	(4,679)	**(9,766)**
Provision for income taxes	**79,392**	71,050	60,357	**715,243**
Net income	**237,025**	182,982	206,959	**2,135,361**
Less: Net income (loss) attributable to noncontrolling interests	**(32)**	(30)	29	**(288)**
Net income attributable to Murata Corporation	**¥ 237,057**	¥ 183,012	¥ 206,930	**$ 2,135,649**

	Yen			U.S. dollars (Note 2)
Amounts per share (Note 11):				
Basic earnings attributable to Murata Corporation per share	**¥370.51**	¥286.05	¥323.45	**$ 3.34**
Cash dividends per share	**¥105.00**	¥187.00	¥270.00	**$ 0.95**

See notes to consolidated financial statements.
* The Company executed a three-for-one common stock split, effective April 1, 2019. Basic earnings attributable to Murata Corporation per share were calculated as if the relevant stock split was executed at the beginning of the previous consolidated fiscal year ended March 31, 2019.
* Cash dividends per share for the fiscal year ended March 31, 2020 consists of the amount of the year-end dividend for the record date of March 31, 2019 (¥140($1.29) per share (before the relevant stock split)) and the amount of the interim dividend for the record date of September 30, 2019 (¥47 ($0.43) per share (after the relevant stock split)).
Cash dividends per share for the fiscal year ended March 31, 2019 were calculated based on the number of common shares outstanding before the relevant stock split.

Consolidated Statements of Comprehensive Income

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2021, 2020 and 2019

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2021	2020	2019	**2021**
Net income	**¥237,025**	¥182,982	¥206,959	**$2,135,361**
Other comprehensive income (loss), net of tax (Note 8):				
Unrealized gains (losses) on securities	**29**	(107)	320	**262**
Pension liability adjustments	**11,185**	(4,425)	(4,579)	**100,765**
Foreign currency translation adjustments	**45,568**	(28,588)	1,874	**410,523**
Other comprehensive income (loss)	**56,782**	(33,120)	(2,385)	**511,550**
Comprehensive income	**293,807**	149,862	204,574	**2,646,911**
Less: Comprehensive income (loss) attributable to noncontrolling interests	**41**	(88)	15	**369**
Comprehensive income attributable to Murata Corporation	**¥293,766**	¥149,950	¥204,559	**$2,646,542**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2021, 2020 and 2019

	Number of common shares issued	Millions of yen							
		Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Controlling interests	Noncontrolling interests	Total equity
Balance at March 31, 2018	675,814,281	¥69,444	¥ 120,596	¥1,336,208	¥ (16,052)	¥(53,596)	¥1,456,600	¥ 616	¥1,457,216
Cumulative effect adjustment from the adoption of Accounting Standards Update ("ASU") No. 2016-01 ..				7,850	(7,850)		–		–
Purchases of treasury stock at cost						(33)	(33)		(33)
Disposal of treasury stock			3			1	4		4
Net income				206,930			206,930	29	206,959
Cash dividends				(57,579)			(57,579)	(6)	(57,585)
Other comprehensive loss, net of tax (Note 8)					(2,371)		(2,371)	(14)	(2,385)
Restricted stock compensation...........			103			34	137		137
Equity transactions with noncontrolling interests and other....................				288			288	(61)	227
Balance at March 31, 2019	675,814,281	¥69,444	¥ 120,702	¥1,493,697	¥ (26,273)	¥(53,594)	¥1,603,976	¥ 564	¥1,604,540
Purchases of treasury stock at cost						(12)	(12)		(12)
Disposal of treasury stock			1			0	1		1
Net income				183,012			183,012	(30)	182,982
Cash dividends				(59,926)			(59,926)	(9)	(59,935)
Other comprehensive loss, net of tax (Note 8)					(33,062)		(33,062)	(58)	(33,120)
Restricted stock compensation...........			92			43	135		135
Equity transactions with noncontrolling interests and other....................			(20)				(20)	236	216
Balance at March 31, 2020	**675,814,281**	**¥69,444**	**¥ 120,775**	**¥1,616,783**	**¥ (59,335)**	**¥(53,563)**	**¥1,694,104**	**¥ 703**	**¥1,694,807**
Purchases of treasury stock at cost						**(21)**	**(21)**		**(21)**
Disposal of treasury stock			**1**			**0**	**1**		**1**
Net income				**237,057**			**237,057**	**(32)**	**237,025**
Cash dividends				**(67,180)**			**(67,180)**	**(3)**	**(67,183)**
Other comprehensive loss, net of tax (Note 8)					**56,708**		**56,708**	**74**	**56,782**
Restricted stock compensation...........			**104**			**32**	**136**		**136**
Equity transactions with noncontrolling interests and other....................								**98**	**98**
Balance at March 31, 2021	**675,814,281**	**¥69,444**	**¥ 120,880**	**¥1,786,660**	**¥ (2,627)**	**¥(53,552)**	**¥1,920,805**	**¥ 840**	**¥1,921,645**

	Thousands of U.S. dollars (Note 2)							
	Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive loss	Treasury stock	Controlling interests	Noncontrolling interests	Total equity
Balance at March 31, 2020	**$625,622**	**$1,088,063**	**$14,565,613**	**$(534,550)**	**$ (482,549)**	**$15,262,199**	**$ 6,333**	**$15,268,532**
Purchases of treasury stock at cost					**(189)**	**(189)**		**(189)**
Disposal of treasury stock		**9**			**0**	**9**		**9**
Net income			**2,135,649**			**2,135,649**	**(288)**	**2,135,361**
Cash dividends			**(605,226)**			**(605,226)**	**(27)**	**(605,253)**
Other comprehensive loss, net of tax (Note 8)				**510,883**		**510,883**	**667**	**511,550**
Restricted stock compensation........		**937**			**288**	**1,225**		**1,225**
Equity transactions with noncontrolling interests and other							**883**	**883**
Balance at March 31, 2021	**$625,622**	**$1,089,009**	**$16,096,036**	**$ (23,667)**	**$ (482,450)**	**$17,304,550**	**$ 7,568**	**$17,312,118**

See notes to consolidated financial statements.
* The Company executed a three-for-one common stock split, effective April 1, 2019. The number of common shares outstanding was calculated as if the relevant stock split was executed at the end of the consolidated fiscal year ended March 31, 2018.
* Represented the effects of ASU No. 2016-01, "Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities".

Consolidated Statements of Cash Flows

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2021, 2020 and 2019

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2021	2020	2019	**2021**
Operating activities:				
Net income	**¥ 237,025**	¥ 182,982	¥ 206,959	**$ 2,135,361**
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	**143,074**	140,267	124,419	**1,288,955**
Losses on sales and disposals of property, plant and equipment	**1,054**	2,477	3,284	**9,495**
Impairment losses on long-lived assets (Note 14)	**1,531**	23,756	25,511	**13,793**
Impairment losses on goodwill	**3,554**	3,934	–	**32,018**
Provision for termination and retirement benefits, less payments	**4,918**	2,719	(504)	**44,306**
Deferred income taxes	**(1,084)**	1,923	(4,679)	**(9,766)**
Changes in assets and liabilities:				
Increase in trade notes and accounts receivable	**(42,560)**	(14,481)	(16,852)	**(383,423)**
(Increase) decrease in inventories	**(16,027)**	8,680	(59,250)	**(144,387)**
(Increase) decrease in prepaid expenses and other	**4,644**	(4,185)	10,120	**41,838**
Increase (decrease) in trade notes and accounts payable	**4,353**	4,492	(24,140)	**39,216**
Increase (decrease) in accrued payroll and bonuses	**6,986**	2,209	5,474	**62,937**
Increase (decrease) in income taxes payable	**12,636**	(9,631)	13,521	**113,838**
Increase (decrease) in accrued expenses and other	**19,755**	(690)	(4,108)	**177,973**
Other-net	**(6,288)**	5,882	87	**(56,649)**
Net cash provided by operating activities	**373,571**	350,334	279,842	**3,365,505**
Investing activities:				
Capital expenditures	**(199,876)**	(285,935)	(291,581)	**(1,800,685)**
Payment for purchases of marketable securities, investments and other	**(26,542)**	(27,018)	(25,792)	**(239,117)**
Maturities and sales of marketable securities, investments and other	**42,705**	30,666	28,853	**384,730**
(Increase) decrease in long-term deposits	**5,827**	5,913	(1,169)	**52,495**
(Increase) decrease in short-term investments	**23,299**	(10,781)	(16,417)	**209,901**
Acquisitions of businesses, net of cash acquired	**–**	(479)	(563)	**–**
Other-net	**4,312**	3,203	2,928	**38,847**
Net cash used in investing activities	**(150,275)**	(284,431)	(303,741)	**(1,353,829)**
Financing activities:				
Net increase (decrease) in short-term borrowings	**(50,908)**	27,993	9,507	**(458,631)**
Proceeds from long-term debt	**249**	98	42	**2,243**
Repayment of long-term debt	**(136)**	(211)	(259)	**(1,225)**
Proceeds from issuance of bonds (Note 5)	**–**	49,889	99,813	**–**
Dividends paid	**(67,180)**	(59,926)	(57,579)	**(605,225)**
Other-net	**(214)**	(193)	22	**(1,928)**
Net cash provided by (used in) financing activities	**(118,189)**	17,650	51,546	**(1,064,766)**
Effect of exchange rate changes on cash and cash equivalents	**272**	962	2,248	**2,450**
Net increase (decrease) in cash and cash equivalents	**105,379**	84,515	29,895	**949,360**
Cash and cash equivalents at beginning of year	**302,320**	217,805	187,910	**2,723,604**
Cash and cash equivalents at end of year	**¥ 407,699**	¥ 302,320	¥ 217,805	**$ 3,672,964**
Additional cash flow information:				
Interest paid	**¥ 409**	¥ 533	¥ 422	**$ 3,685**
Income taxes paid	**65,634**	79,528	52,525	**591,297**
Additional cash and cash equivalents information:				
Cash	**¥ 363,979**	¥ 239,656	¥ 181,956	**$ 3,279,090**
Short-term investments	**64,218**	106,950	69,781	**578,541**
Short-term investments with the original maturities over 3 months	**(20,498)**	(44,286)	(33,932)	**(184,667)**
Cash and cash equivalents at end of year	**¥ 407,699**	¥ 302,320	¥ 217,805	**$ 3,672,964**

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, manufacturing, and sale of electronic components (Components and Modules) in numerous countries, including Japan, North America, Greater China, certain other Asian countries, and European countries as its primary markets. Components consist of Capacitors, Piezoelectric Components, and Other Components. 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 of America.

The Companies adopt Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 105, “Generally Accepted Accounting Principles” in the United States of America.

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, 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 balances and transactions are eliminated in consolidation. Investments in 20% to 50%-owned companies are accounted for by the equity method.

(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 3 months or less as cash and cash equivalents.

(e) Marketable securities and investments

Under ASC 320, “Investments - Debt Securities”, ASC 321, "Investments - Equity Securities”, and ASC 825 "Financial Instruments", the Companies classify debt securities as available-for-sale and carry them at fair value with a corresponding recognition of the net unrealized holding gains or losses (net of tax) as a separate component of shareholders’ equity, except investments whose unrealized holding gains and losses are included in net income by electing the fair value option. Equity investments (except those accounted for under the equity method or those that result in consolidation of the investee) are measured at fair value with changes in fair value recognized in net income. The Companies measure non-marketable equity securities without readily determinable fair value at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer. Gains and losses on sales of investments are computed on an average cost basis. The Companies review the fair value of their available-for-sale debt securities on a regular basis to determine if the fair value of any individual available-for-sale debt securities has declined below its cost or 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 security’s carrying value exceeds its fair value, the duration of the market decline, and the Companies’ requirement and intent to hold or sell the security. 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 net realizable value.

(g) Property, plant and equipment

Property, plant and equipment is stated at cost. Depreciation of property, plant and equipment is computed using the straight-line method 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 17 years for machinery and equipment, and autos and trucks.

(h) Termination and retirement benefits

Termination and retirement benefits are accounted for in accordance with ASC 715, “Compensation - Retirement Benefits”.

(i) Revenue recognition

The Companies account for revenue recognition in accordance with ASC 606, “Revenue from Contracts with Customers”. The Companies adopted the ASC from the year beginning April 1, 2018. The Companies recognize revenue based on the following five-step model:

Step 1: Identify the contract with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when the entity satisfies a performance obligation

The Companies mainly sell electric components including Components (Capacitors, Piezoelectric Components and Other Components) and Modules and related products. Revenue from sales of products is recognized upon delivery of the products because the customer obtains control of the products upon delivery, at which time the Companies determine that the performance obligation to be satisfied. Revenue is measured at the consideration promised in a contract with a customer, less estimated discounts, rebates, returned products and other items.

(j) Advertising expenses

Advertising costs are expensed as incurred. Advertising expenses for the years ended March 31, 2021, 2020, and 2019 were ¥3,196 million ($28,793 thousand), ¥3,406 million, and ¥3,839 million, respectively.

(k) Taxes on income

The Companies account for income taxes in accordance with the provisions of ASC 740, “Income Taxes”. Under ASC 740, deferred tax assets and liabilities are computed based on the differences between the financial statement and income tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is recognized to reduce the deferred tax assets to the amount that is considered more likely than not to be realized.

Regarding undistributed earnings of subsidiaries, the Companies recognize deferred tax liabilities for the taxable portion of future dividends receivable under the current tax system. The Companies recognize no deferred tax liability for the non-taxable portion because the tax system treats the majority of dividends receivable the Company receives from subsidiaries as non-taxable.

The Companies account for uncertainty in income taxes in accordance with ASC 740. In accordance with this statement, the Companies recognize the financial statement effects of tax positions when they are more likely than not, based on the technical merits, that the tax positions will be sustained upon examination by the tax authorities. Benefits from tax positions that meet the more likely than not recognition threshold are measured at the largest amount of benefit that is greater than 50% likely to be realized upon ultimate settlement with the related tax authorities.

(l) Earnings per share

The Companies account for earnings per share in accordance with ASC 260, “Earnings Per Share”. Diluted earnings attributable to Murata Corporation per share, if applicable, reflect 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 attributable to Murata Corporation per share computation is included in Note 11.

(m) Fair value measurements

The Companies account for fair value measurements in accordance with ASC 820, “Fair Value Measurement”. ASC 820 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 ASC 815, “Derivatives and Hedging”. ASC 815 establishes accounting and reporting standards for derivative instruments and for hedging activities, and requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value.

Changes in fair value of a derivative that is highly effective and that is designated and qualifies as a foreign currency and material procurement 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 Companies account for stock-based compensation in accordance with ASC 718, “Compensation - Stock Compensation”. ASC 718 requires that an entity measure stock-based compensation cost at the grant date, based on the fair value of the award, and recognize the cost over the requisite service period.

(p) Shipping and handling costs

Shipping and handling costs which are included in selling, general and administrative expenses for the years ended March 31, 2021, 2020, and 2019 were ¥15,889 million ($143,144 thousand), ¥13,063 million, and ¥14,834 million, respectively.

(q) Impairment or disposal of long-lived assets

The Companies account for impairment or disposal of long-lived assets and discontinued operations in accordance with ASC 360, “Property, Plant, and Equipment”. 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 assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an operating asset group 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.

(r) Acquisitions

The Companies account for business acquisitions in accordance with ASC 805, “Business Combinations”. In accordance with this statement, the Companies use the acquisition method of accounting, which requires the measurement of the fair value of all of the assets and liabilities of an acquired company, including noncontrolling interests. The Companies recognize goodwill at the acquisition date, measured as the excess of the total acquisition price over the net identifiable assets acquired. Acquisition-related costs are accounted for as expenses in the periods in which the costs are incurred and the services are received.

(s) Goodwill and other intangible assets

The Companies account for goodwill and other intangible assets in accordance with ASC 350, “Intangibles - Goodwill and Other”. In accordance with this statement, goodwill is not amortized and is instead tested at least annually for impairment and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value below its carrying amount. Intangible assets that have finite useful lives will continue to be amortized over their useful lives.

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

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment". The ASU eliminates Step 2 from the goodwill impairment test, which measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. Instead, the ASU requires if the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. The Companies early adopted the ASU from the year ended March 31, 2018.

(t) Use of estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(u) New accounting standards

Recently issued accounting guidance not yet adopted

Financial Instruments

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments". Further, In November 2019, the FASB issued ASU No. 2019-10, "Financial Instruments - Credit Losses, Derivatives and Hedging, and Leases: Effective Dates". The ASU introduces a new impairment model based on expected losses rather than incurred losses. Under this current expected credit loss model, an entity would recognize as an allowance its estimate of the contractual cash flows not expected to be collected. The ASU is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2022. The Companies will adopt the ASU from the fiscal year beginning April 1, 2023. The Companies are currently evaluating the effect that the adoption of this guidance will have on their consolidated financial statements.

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 the convenience of readers outside of Japan and have been made at the rate of ¥111 to $1, the approximate rate of exchange at March 31, 2021. 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 values for available-for-sale debt securities by major security type, at March 31, 2021 and 2020 were as follows:

	Millions of yen			
	2021			
	Cost and Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Private debt securities	¥30,429	¥13	¥60	¥30,382

	Millions of yen			
	2020			
	Cost and Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Private debt securities	¥50,788	¥36	¥124	¥50,700

	Thousands of U.S. dollars			
	2021			
	Cost and Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Private debt securities	$274,135	$117	$540	$273,712

The fair value and gross unrealized losses for available-for-sale debt securities by major security type and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2021 and 2020 were as follows:

	Millions of yen			
	2021			
	Less than 12 months		12 months or longer	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Private debt securities	¥9,164	¥39	¥4,501	¥21

	Millions of yen			
	2020			
	Less than 12 months		12 months or longer	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Private debt securities	¥19,939	¥123	¥2,500	¥1

	Thousands of U.S. dollars			
	2021			
	Less than 12 months		12 months or longer	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Private debt securities	$82,559	$351	$40,550	$189

The Companies did not recognize an other-than-temporary impairment loss on the above debt securities which had a fair value below amortized cost at March 31, 2021, because (1) the Companies did not intend to sell such securities at March 31, 2021 and (2) it was more likely than not that the Companies would not be required to sell such securities before the recovery of amortized cost and (3) the issuers of the securities had favorable credit ratings.

Contractual maturities of available-for-sale debt securities at March 31, 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within 1 year	¥22,605	¥22,599	$ 203,649	$ 203,595
After 1 year through 5 years	7,824	7,783	70,486	70,117
After 5 years	–	–	–	–
Total	¥30,429	¥30,382	$ 274,135	$ 273,712

There were no realized gains or losses related to available-for-sale debt securities for the years ended March 31, 2021 and 2020.

The realized and unrealized gains and losses related to equity securities included in investments in the consolidated balance sheets at March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Net gains (losses) on equity securities	**¥ 7,240**	¥(3,993)	**$ 65,225**
Net gains (losses) on equity securities sold	**(96)**	3	**(865)**
Impairment losses on equity securities	**(206)**	(928)	**(1,856)**
Unrealized gains (losses) on equity securities	**7,542**	(3,068)	**67,946**

The Companies measure non-marketable equity securities without readily determinable fair value at cost, minus impairment, if any, plus or minus changes resulting from observables price changes in orderly transactions for identical or similar investments of the same issuer. The carrying amounts of non-marketable equity securities were ¥4,279 million ($38,549 thousand) and ¥3,336 million at March 31, 2021 and 2020, respectively.

4. Inventories

Inventories at March 31, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Finished products	**¥146,043**	¥137,077	**$1,315,703**
Work in process	**135,881**	128,529	**1,224,153**
Materials and supplies	**79,407**	68,802	**715,378**
Total	**¥361,331**	¥334,408	**$3,255,234**

5. Short-Term Borrowings, Bonds and Long-Term Debt

Short-term borrowings at March 31, 2021 and 2020 consisted of the following:

	Millions of yen	Weighted-Average Interest Rate	Millions of yen	Weighted-Average Interest Rate	Thousands of U.S. dollars
	2021		2020		**2021**
Unsecured bank loans	**¥ 97**	**1.0%**	¥51,000	0.1%	**$ 874**
Total	**¥ 97**	**1.0%**	¥51,000	0.1%	**$ 874**

Bonds and long-term debt at March 31, 2021 and 2020 consisted of the following:

	Millions of yen	Weighted-Average Interest Rate	Millions of yen	Weighted-Average Interest Rate	Thousands of U.S. dollars
	2021		2020		**2021**
Unsecured bonds,					
due 2022	**¥ 39,982**	**0.1%**	¥ 39,959	0.1%	**$ 360,198**
due 2024	**59,929**	**0.2**	59,903	0.2	**539,901**
due 2025	**49,924**	**0.1**	49,902	0.1	**449,766**
Unsecured bank loans,					
due 2021	–	–	100	0.4	–
due 2022	–	–	30	0.9	–
Other	**825**	**0.6**	580	0.7	**7,432**
Total	**150,660**	**0.1**	150,474	0.1	**1,357,297**
Less: Portion due within one year	(40,035)	**0.1**	(503)	0.6	(360,675)
Total	**¥110,625**	**0.1%**	¥149,971	0.1%	**$ 996,622**

The aggregate future maturities of bonds and long-term debt outstanding at March 31, 2021 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2022	¥ 40,035	$ 360,675
2023	104	937
2024	60,586	545,820
2025	49,929	449,811
2026	6	54
2027 and thereafter	–	–
Total	¥150,660	$1,357,297

6. Termination and Retirement Benefits

The Companies' postretirement benefit plans cover most employees. Benefits are primarily calculated by a point system, based on the employee's position and performance assessment 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 sponsor several postretirement benefit plans, including defined benefit plans and defined contribution plans. Certain defined benefit plans are partially funded and administered by independent trustees, others are 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 consolidated financial statements at March 31:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Change in benefit obligation:			
Benefit obligation at beginning of year	**¥228,703**	¥222,373	**$2,060,387**
Service cost	**11,370**	11,754	**102,432**
Interest cost	**616**	684	**5,550**
Actuarial gain (loss)	**(2,383)**	3,494	**(21,469)**
Benefits paid	**(2,247)**	(2,186)	**(20,243)**
Settlement paid to retirees	**(5,612)**	(6,367)	**(50,558)**
Settlement paid by transfer to defined contribution pension plan	**(503)**	(1,049)	**(4,531)**
Benefit obligation at end of year	**¥229,944**	¥228,703	**$2,071,568**
Change in plan assets:			
Fair value of plan assets at beginning of year	**¥141,637**	¥143,996	**$1,276,009**
Actual return on plan assets	**13,125**	(2,933)	**118,243**
Employer contribution	**3,825**	4,904	**34,460**
Benefits paid	**(2,247)**	(2,186)	**(20,243)**
Settlement paid to retirees	**(1,512)**	(2,144)	**(13,622)**
Fair value of plan assets at end of year	**¥154,828**	¥141,637	**$1,394,847**
Funded status at end of year	**¥ (75,116)**	¥ (87,066)	**$ (676,721)**
Amounts recognized in the consolidated balance sheets consist of:			
Investments and other assets: Other	**¥ 1,667**	¥ 598	**$ 15,018**
Accrued expenses and other	**(2,778)**	(3,062)	**(25,027)**
Termination and retirement benefits	**(74,005)**	(84,602)	**(666,712)**
Net amount recognized	**¥ (75,116)**	¥ (87,066)	**$ (676,721)**
Accumulated benefit obligation at end of year	**¥222,152**	¥220,925	**$2,001,369**

Accumulated benefit obligations for all of the Companies' termination and retirement plans were in excess of their plan assets at March 31, 2021 and 2020.

Amounts recognized in accumulated other comprehensive income (loss) at March 31, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Actuarial loss	**¥ (26,466)**	¥(43,839)	**$ (238,432)**
Prior service benefit	**4,367**	5,579	**39,342**
Pension liability adjustments, before tax	**¥ (22,099)**	¥(38,260)	**$ (199,090)**

Net periodic benefit cost for the years ended March 31:

	Millions of yen			Thousands of U.S. dollars
	2021	2020	2019	**2021**
Service cost	**¥ 11,370**	¥11,754	¥10,641	**$102,432**
Interest cost	**616**	684	1,023	**5,550**
Expected return on plan assets	**(2,539)**	(2,406)	(2,580)	**(22,874)**
Amortization of prior service benefit	**(1,211)**	(1,723)	(1,456)	**(10,910)**
Amortization of recognized actuarial loss	**4,328**	4,101	2,836	**38,991**
Settlement loss	**75**	123	565	**676**
Net periodic benefit cost	**¥ 12,639**	¥12,533	¥11,029	**$113,865**

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

	Millions of yen			Thousands of U.S. dollars
	2021	2020	2019	**2021**
Actuarial gain (loss)	**¥ 12,969**	¥ (8,833)	¥ (8,482)	**$ 116,838**
Amortization of prior service benefit	**(1,211)**	(1,723)	(1,456)	**(10,910)**
Amortization of recognized actuarial loss	**4,328**	4,101	2,836	**38,991**
Settlement loss	**75**	123	565	**676**
Total recognized in other comprehensive income (loss), before tax	**¥ 16,161**	¥ (6,332)	¥ (6,537)	**$ 145,595**

Termination and retirement benefits, accounted for in accordance with ASC 715, “Compensation - Retirement Benefits”, are provided at the amount incurred during the period, which is based on the estimated present value of the projected benefit obligation less the fair value of plan assets at the end of the period. The overfunded or underfunded status of a defined benefit postretirement plan is recognized as an asset or liability in the consolidated balance sheets, 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. 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 5 years.

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

	2021	2020
Discount rate	**0.5%**	0.3%
Compensation increase rate	**2.6%**	2.6%
Interest crediting rate for plans similar to a cash balance pension plan	**2.0%**	2.0%

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

	2021	2020	2019
Discount rate	**0.3%**	0.4%	0.6%
Compensation increase rate	**2.6%**	2.6%	2.7%
Interest crediting rate for plans similar to a cash balance pension plan	**2.0%**	2.0%	2.0%
Expected long-term rate of return on plan assets	**2.0%**	2.0%	2.0%

The Companies determine the discount rate considering the long-term rate of return on Japanese government bonds. The Companies determine 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.

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 the plan assets at March 31, 2021 consisted of 17% equity securities, 58% debt securities and life insurance company general accounts, and 25% other.

The 3 broad levels of inputs used to measure fair value are more fully described in Note 14.
The fair values of the Companies' plan assets at March 31, 2021 were as follows:

	Millions of yen			
	Fair value measurements			
	Level 1	Level 2	Level 3	Total
Assets measured at other than net asset value per share				
Private debt securities	¥ –	¥13,777	¥ –	¥ 13,777
Life insurance company general accounts	–	35,316	–	35,316
Other	–	781	–	781
Assets measured at net asset value per share				
Pooled funds (equity securities)	–	–	–	33,893
Pooled funds (debt securities)	–	–	–	45,921
Pooled funds (other)	–	–	–	25,140
Total	¥ –	¥49,874	¥ –	¥ 154,828

	Thousands of U.S. dollars			
	Fair value measurements			
	Level 1	Level 2	Level 3	Total
Assets measured at other than net asset value per share				
Private debt securities	$ –	$ 124,117	$ –	$ 124,117
Life insurance company general accounts	–	318,162	–	318,162
Other	–	7,037	–	7,037
Assets measured at net asset value per share				
Pooled funds (equity securities)....	–	–	–	305,342
Pooled funds (debt securities)....	–	–	–	413,703
Pooled funds (other)..................	–	–	–	226,486
Total	$ –	$ 449,316	$ –	$ 1,394,847

The fair values of the Companies' plan assets at March 31, 2020 were as follows:

	Millions of yen			
	Fair value measurements			
	Level 1	Level 2	Level 3	Total
Assets measured at other than net asset value per share				
Private debt securities	¥ –	¥14,287	¥ –	¥ 14,287
Life insurance company general accounts	–	35,347	–	35,347
Other	–	2,653	–	2,653
Assets measured at net asset value per share				
Pooled funds (equity securities)....	–	–	–	22,658
Pooled funds (debt securities)....	–	–	–	44,264
Pooled funds (other)..................	–	–	–	22,428
Total	¥ –	¥52,287	¥ –	¥ 141,637

Assets measured at net asset value per share (or its equivalent) are not categorized in the fair value hierarchy.

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, resulting in a Level 2 classification.

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, resulting in a Level 2 classification.

Pooled funds

Pooled funds are measured by the allocated net asset value of pooled fund assets by units of shares.

Pooled funds are typically valued using the net asset value per share provided by the administrator of the fund.

Pooled funds (equity securities) mainly contain marketable equity securities.

Pooled funds (debt securities) mainly contain government bonds and local government bonds.

The Companies expect to contribute ¥3,652 million ($32,901 thousand) to their defined benefit plans in the year ending March 31, 2022.

The future benefit payments are expected as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2022	¥ 7,028	$ 63,315
2023	7,363	66,333
2024	7,790	70,180
2025	8,165	73,559
2026	8,235	74,189
2027-2031	41,331	372,351

The Companies recognized the cost of ¥2,170 million ($19,550 thousand) related to annual contributions to the defined contribution plans in the year ended March 31, 2021, ¥2,121 million in the year ended March 31, 2020, and ¥2,143 million in the year ended March 31, 2019.

7. Shareholders' Equity

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below;

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors 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. With respect to the third condition above, the Board of Directors of companies with (a) board committees (namely, appointment committee, compensation committee and audit committee) or (b) an audit and supervisory committee (as implemented under the Companies Act effective May 1, 2015) may also declare dividends at any time because such companies, by nature, meet the criteria under the Companies Act. The Company is organized as a company with an audit and supervisory committee, effective June 29, 2016. The Company meets all the above criteria and, accordingly, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year.

The Companies Act 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 Companies Act 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 Companies Act was ¥431,265 million ($3,885,270 thousand) at March 31, 2021, 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 Companies Act 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 aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Companies Act 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 a specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity.

The Companies Act 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.

8. Comprehensive Income (loss)

The changes in the components of accumulated other comprehensive income (loss) were as follows:

	Millions of yen			
	2021			
	Unrealized gains (losses) on securities	Pension liability adjustment	Foreign currency translation adjustments	Total
Beginning balance	¥ (61)	¥(25,999)	¥ (33,275)	¥(59,335)
Other comprehensive income (loss), net of tax before reclassification	29	8,976	45,568	54,573
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	–	2,209	–	2,209
Net changes	29	11,185	45,568	56,782
Comprehensive income (loss) attributable to noncontrolling interests	–	–	74	74
Ending balance	¥ (32)	¥(14,814)	¥ 12,219	¥ (2,627)

	Millions of yen			
	2020			
	Unrealized gains (losses) on securities	Pension liability adjustment	Foreign currency translation adjustments	Total
Beginning balance	¥ 46	¥(21,574)	¥ (4,745)	¥(26,273)
Other comprehensive income (loss), net of tax before reclassification	(107)	(6,148)	(28,588)	(34,843)
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	–	1,723	–	1,723
Net changes	(107)	(4,425)	(28,588)	(33,120)
Comprehensive income (loss) attributable to noncontrolling interests	–	–	(58)	(58)
Ending balance	¥ (61)	¥(25,999)	¥ (33,275)	¥(59,335)

	Millions of yen			
	2019			
	Unrealized gains (losses) on securities	Pension liability adjustment	Foreign currency translation adjustments	Total
Beginning balance	¥ 7,576	¥(16,995)	¥ (6,633)	¥(16,052)
Cumulative effect adjustment from the adoption of ASU No. 2016-01	(7,850)	–	–	(7,850)
Other comprehensive income (loss), net of tax before reclassification	320	(5,923)	1,874	(3,729)
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	–	1,344	–	1,344
Net changes	320	(4,579)	1,874	(2,385)
Comprehensive income (loss) attributable to noncontrolling interests	–	–	(14)	(14)
Ending balance	¥ 46	¥(21,574)	¥ (4,745)	¥(26,273)

	Thousands of U.S. dollars			
	2021			
	Unrealized gains (losses) on securities	Pension liability adjustment	Foreign currency translation adjustments	Total
Beginning balance	$ (550)	$ (234,225)	$ (299,775)	$ (534,550)
Other comprehensive income (loss), net of tax before reclassification	262	80,864	410,523	491,649
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	–	19,901	–	19,901
Net changes	262	100,765	410,523	511,550
Comprehensive income (loss) attributable to noncontrolling interests	–	–	667	667
Ending balance	$ (288)	$ (133,460)	$ 110,081	$ (23,667)

* Represented the effects of ASU No. 2016-01, "Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities".

Amounts recognized in the consolidated statements of income reclassified from accumulated other comprehensive income (loss) were as follows:

	Millions of yen	
	2021	
	Amounts reclassified from accumulated other comprehensive income (loss)	Account
Pension liability adjustment:	¥ 3,192	Other - net
	(983)	Income taxes
	2,209	Total
Total reclassification amounts	¥ 2,209	

	Millions of yen	
	2020	
	Amounts reclassified from accumulated other comprehensive income (loss)	Account
Pension liability adjustment:	¥ 2,501	Other - net
	(778)	Income taxes
	1,723	Total
Total reclassification amounts	¥ 1,723	

	Millions of yen	
	2019	
	Amounts reclassified from accumulated other comprehensive income (loss)	Account
Pension liability adjustment:	¥ 1,945	Other - net
	(601)	Income taxes
	1,344	Total
Total reclassification amounts	¥ 1,344	

	Thousands of U.S. dollars	
	2021	
	Amounts reclassified from accumulated other comprehensive income (loss)	Account
Pension liability adjustment:	$ 28,757	Other - net
	(8,856)	Income taxes
	19,901	Total
Total reclassification amounts	$ 19,901	

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

	Millions of yen		
	2021		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized gains (losses) on securities:			
Unrealized holding gains arising during period …	¥ 43	¥ (14)	¥ 29
Reclassification adjustment for gains (losses) included in net income …	–	–	–
	43	(14)	29
Pension liability adjustment:			
Pension liability adjustment arising during period	12,969	(3,993)	8,976
Reclassification adjustment for gains (losses) included in net income …	3,192	(983)	2,209
	16,161	(4,976)	11,185
Foreign currency translation adjustments:			
Foreign currency translation adjustments arising during period	48,031	(2,463)	45,568
Other comprehensive income (loss)	¥ 64,235	¥(7,453)	¥ 56,782

	Millions of yen		
	2020		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized gains (losses) on securities:			
Unrealized holding gains arising during period …	¥ (152)	¥ 45	¥ (107)
Reclassification adjustment for gains (losses) included in net income …	–	–	–
	(152)	45	(107)
Pension liability adjustment:			
Pension liability adjustment arising during period	(8,833)	2,685	(6,148)
Reclassification adjustment for gains (losses) included in net income …	2,501	(778)	1,723
	(6,332)	1,907	(4,425)
Foreign currency translation adjustments:			
Foreign currency translation adjustments arising during period	(29,974)	1,386	(28,588)
Other comprehensive income (loss)	¥(36,458)	¥ 3,338	¥(33,120)

	Millions of yen		
	2019		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized gains (losses) on securities:			
Unrealized holding gains arising during period …	¥ 414	¥ (94)	¥ 320
Reclassification adjustment for gains (losses) included in net income …	–	–	–
	414	(94)	320
Pension liability adjustment:			
Pension liability adjustment arising during period ……………………	(8,482)	2,559	(5,923)
Reclassification adjustment for gains (losses) included in net income …	1,945	(601)	1,344
	(6,537)	1,958	(4,579)
Foreign currency translation adjustments:			
Foreign currency translation adjustments arising during period ……………………	1,697	177	1,874
Other comprehensive income (loss) …………	¥(4,426)	¥ 2,041	¥(2,385)

	Thousands of U.S. dollars		
	2021		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized gains (losses) on securities:			
Unrealized holding gains arising during period …	$ 387	$ (125)	$ 262
Reclassification adjustment for gains (losses) included in net income …	–	–	–
	387	(125)	262
Pension liability adjustment:			
Pension liability adjustment arising during period ……………………	116,838	(35,974)	80,864
Reclassification adjustment for gains (losses) included in net income …	28,757	(8,856)	19,901
	145,595	(44,830)	100,765
Foreign currency translation adjustments:			
Foreign currency translation adjustments arising during period ……………………	432,712	(22,189)	410,523
Other comprehensive income (loss) …………	$ 578,694	$ (67,144)	$ 511,550

9. Revenue

Operating segments of the Companies are classified based on the nature of products, and the Companies had the Components segment and the Modules segment. Revenue of other sales such as sales of software is included in Other because it is not a part of the abovementioned two operating segments. The Companies disaggregate revenue from contracts with customers by separating the Components segment into Capacitors, Piezoelectric Components and Other Components based on contracts with customers. The classification of products was changed from the year beginning April 1, 2019. "Communication Modules" and "Power supplies and Other modules" were reclassified into "Modules". The figures for the previous period have been reclassified for comparison. The relationship between disaggregated revenue and net sales by segment was as follows:

	Millions of yen			Thousands of U.S. dollars
	2021	2020	2019	**2021**
Capacitors	**¥ 626,546**	¥ 559,438	¥ 574,230	**$ 5,644,559**
Piezoelectric Components…	**129,288**	129,254	138,586	**1,164,757**
Other components.......	**387,648**	363,029	392,194	**3,492,324**
Components Total	**1,143,482**	1,051,721	1,105,010	**10,301,640**
Modules	**484,099**	478,619	466,699	**4,361,252**
Other	**2,612**	3,705	3,317	**23,531**
Total	**¥ 1,630,193**	¥ 1,534,045	¥ 1,575,026	**$ 14,686,423**

The Companies mainly sell electric components including Components (Capacitors, Piezoelectric Components and Other Components), Modules and related products. Revenue from sales of products is recognized upon delivery of the products because the customer obtains control of the products upon delivery, by which the Companies evaluate that the performance obligation is satisfied. Revenue is measured at the consideration promised in a contract with a customer, less estimated discounts, rebates, returned products and other items. Consideration for transactions is received mainly within one year from the time when the performance obligations have been satisfied and it includes no significant financing components.

Liabilities from contracts with customers were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2021	April 1, 2020	**March 31, 2021**
Contract liabilities	**¥ 5,624**	¥ 4,593	**$ 50,667**

Contract liabilities relate to the payments received in advance of the transfer of control of products to the customer. Contract liabilities were recognized in accrued expenses and other in the consolidated balance sheet at March 31, 2021. Of the revenues recognized in the consolidated statement of income for the year ended March 31, 2021, ¥4,559 million ($41,072 thousand) was included in the balance of contract liabilities at April 1, 2020. In addition, the amount of revenues recognized during the fiscal year ended March 31, 2021 from the performance obligations satisfied (or partially satisfied) in past periods was immaterial. The Companies have entered into no significant transactions for which an individual estimated contract period exceeds one year, and the Companies applied the optional exemption outlined under ASC 606-10-50-14. In addition, consideration arising from contracts with customers does not comprise any significant amount that is not included in transaction price.

10. Income Taxes

A reconciliation of the effective income tax rates of the Companies to the normal Japanese statutory tax rates was as follows for the years ended March 31:

	2021	2020	2019
Normal Japanese statutory tax rates	**30.5%**	30.5%	30.5%
Increase (decrease) in taxes resulting from:			
Tax credits	**(4.0)**	(4.1)	(5.0)
Permanently non-deductible and non-taxable items	**(0.0)**	0.1	0.0
Foreign earnings taxed at different rates	**(2.8)**	(3.2)	(3.9)
Net change in valuation allowance for deferred tax assets	**(0.4)**	0.9	(0.6)
Income taxes on undistributed earnings of foreign subsidiaries	**1.3**	1.6	1.8
Impairment losses on goodwill	**0.2**	0.3	–
Other-net	**0.3**	1.9	(0.2)
Effective tax rates	**25.1%**	28.0%	22.6%

The approximate effects of temporary differences and tax loss carryforwards that gave rise to deferred tax balances at March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Deferred tax assets:			
Intercompany profits	**¥ 13,671**	¥ 10,385	**$ 123,162**
Termination and retirement benefits	**26,943**	30,478	**242,730**
Enterprise taxes	**2,624**	1,626	**23,640**
Compensated absences	**3,190**	3,181	**28,739**
Inventory valuation	**8,077**	10,349	**72,766**
Tangible and intangible assets	**27,092**	29,466	**244,072**
Accrued bonuses	**8,472**	6,939	**76,324**
Other temporary differences	**18,930**	16,797	**170,540**
Tax loss carryforwards	**5,523**	6,000	**49,757**
Total	**114,522**	115,221	**1,031,730**
Valuation allowance	**(9,279)**	(10,852)	(83,595)
Total	**¥105,243**	¥104,369	**$ 948,135**
Deferred tax liabilities:			
Undistributed earnings of foreign subsidiaries	**¥ 33,242**	¥ 26,718	**$ 299,477**
Marketable securities and investments adjustments	**2,253**	630	**20,297**
Tangible and intangible assets	**28,003**	23,379	**252,279**
Goodwill	**8,369**	14,276	**75,396**
Other temporary differences	**3,183**	2,790	**28,677**
Total	**¥ 75,050**	¥ 67,793	**$ 676,126**

The total valuation allowance decreased by ¥1,573 million ($14,171 thousand) for the year ended March 31, 2021 and increased by ¥1,170 million for the year ended March 31, 2020.

Based upon the level of historical taxable income and projections for future taxable income over the periods in 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, 2021 and 2020.

The Companies had tax loss carryforwards approximating ¥13,384 million ($120,577 thousand), excluding a portion available only for local taxes approximating ¥23,116 million ($208,252 thousand), available to reduce future taxable income at March 31, 2021, which expire substantially in the period from 2022 to 2037.

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

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Balance at beginning of year	**¥ 99**	¥ 99	**$ 892**
Additions based on tax positions related to the current year	**5**	2	**45**
Reductions for tax positions of prior years	**–**	–	**–**
Other	**2**	(2)	**18**
Balance at end of year	**¥106**	¥ 99	**$ 955**

The 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 domestic subsidiaries, which adopted the consolidated taxation system, for the years before 2018. Further, the tax authorities completed the tax audit of the major foreign subsidiaries for the years before 2004. The Companies believe unrecognized tax benefits are reasonably estimated, but unrecognized tax benefits may change as a result of the tax examination. At March 31, 2021, the Companies do not anticipate a material change of unrecognized tax benefits in the next 12 months.

The Companies classify interest and penalties related to unrecognized tax benefits as income taxes in the consolidated statements of income. Accrued interest and penalties in the consolidated balance sheets at March 31, 2021 and 2020, and interest and penalties in the consolidated statements of income for the years ended March 31, 2021 and 2020 were not material.

11. Amounts per Share

The Company introduced a restricted stock compensation plan (hereinafter, the "Plan") for the Company's Directors (except directors serving as Audit and Supervisory Committee members and Outside Directors) and executive officers. Among the shares under the Plan, those transfer restrictions which have not been cancelled are distinguished as participating securities from common shares.

A holder of participating securities has the same rights as a holder of common shares to net income attributable to Murata Corporation.

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

Diluted earnings attributable to Murata Corporation per share are not stated since there were no potential dilutive securities.

	Millions of yen			Thousands of U.S. dollars
	2021	2020	2019	**2021**
Net income attributable to Murata Corporation	**¥237,057**	¥183,012	¥206,930	**$2,135,649**
Net income available to participating securities	**4**	4	4	**36**
Net income available to common shareholders	**¥237,053**	¥183,008	¥206,926	**$2,135,613**
	Numbers of shares			
Weighted-average number of common shares outstanding	**639,813,238**	639,792,288	639,767,918	
Weighted-average number of participating securities	**11,799**	15,221	12,708	
Weighted-average number of common shares	**639,801,439**	639,777,067	639,755,210	
	Yen			U.S. dollars
Basic earnings attributable to Murata Corporation per share	**¥370.51**	¥286.05	¥323.45	**$3.34**

12. Commitments

Outstanding commitments at March 31, 2021 and 2020 for the purchase of property, plant and equipment approximated ¥66,196 million ($596,360 thousand) and ¥101,637 million, respectively.

Outstanding commitments at March 31, 2021 and 2020 for the purchase of inventories approximated ¥16,024 million ($144,360 thousand) and ¥16,513 million, respectively.

13. Leases

The Companies determine if an arrangement is a lease at the inception of each contract. The Companies have operating and finance leases for plants, warehouses, sales offices, employee housing and vehicles.

The Companies account for lease and non-lease components as a single lease component on a practical expedient basis for all classes of underlying assets. Right of use assets and lease liabilities are measured by taking into account discounted present value calculations based on lease payments, lease term, and rate implicit in the lease under the lease agreement and other components. The Companies take options to extend or to terminate the lease into account to determine the lease term when it is reasonably certain that it will exercise these options. The Companies use an incremental borrowing rate if the interest rate implicit in the lease cannot be readily available. The Companies' leases do not have material residual value guarantees or material restrictive covenants.

Finance lease right of use assets is included in machinery and equipment, tools, dies, furniture and fixtures, and autos and trucks, and finance lease liabilities are included in accrued expenses and other and other long-term liabilities in the consolidated balance sheets.

The consolidated statements of income information related to leases was as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Operating lease cost	**¥ 8,429**	¥ 6,589	**$ 75,937**
Short-term lease cost	**978**	1,773	**8,811**
Depreciation and amortization of finance lease right of use assets	**412**	340	**3,712**
Interest paid on finance lease liabilities	**10**	21	**90**

The consolidated statements of cash flows information related to leases was as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating lease	**¥ 8,429**	¥ 6,589	**$ 75,937**
Operating cash flows from interest paid on finance lease	**10**	21	**90**
Financing cash flows from finance lease	**417**	501	**3,757**
Right-of-use assets obtained in exchange for lease obligation:			
Finance lease	**¥ 1,270**	¥ 241	**$ 11,441**
Operating lease	**9,034**	7,488	**81,387**

A schedule by year of the future minimum lease payments as of March 31, 2021 was as follows:

	Millions of yen		Thousands of U.S. dollars	
Years ending March 31	Finance lease	Operating lease	Finance lease	Operating lease
2022	¥ 416	¥ 7,130	$ 3,748	$ 64,234
2023	280	6,451	2,522	58,117
2024	178	5,124	1,604	46,162
2025	125	4,542	1,126	40,919
2026	84	1,026	757	9,243
Thereafter	555	11,485	5,000	103,469
Total future minimum lease payments	1,638	35,758	14,757	322,144
Less imputed interest	60	3,752	541	33,802
Total	¥ 1,578	¥32,006	$ 14,216	$ 288,342

Remaining lease term and discount rate as of March 31, 2021 and 2020 were as follows:

	2021	2020
Finance lease		
Weighted average remaining lease term (year)	**5**	2
Weighted average discount rate (%)	**0.75**	1.70
Operating lease		
Weighted average remaining lease term (year)	**6**	7
Weighted average discount rate (%)	**1.79**	1.55

14. Fair Value Measurements

The Companies account for fair value measurements in accordance with ASC 820, "Fair Value Measurement". ASC 820 clarifies the definitions of fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

ASC 820 prioritizes the inputs used to measure fair value into the 3 broad levels, and classifies the fair value hierarchy as follows:

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

Assets and liabilities measured at fair value on a recurring basis at March 31, 2021 were as follows:

	Millions of yen			
	Fair value measurements			
	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale securities				
Private debt securities	¥ –	¥30,382	¥ –	¥30,382
Equity securities	22,302	–	4,870	27,172
Investment trusts	–	2,204	–	2,204
Derivatives				
Forward exchange contracts	–	74	–	74
Liabilities				
Derivatives				
Forward exchange contracts	¥ –	¥10,247	¥ –	¥10,247

	Thousands of U.S. dollars			
	Fair value measurements			
	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale securities				
Private debt securities	$ –	$273,712	$ –	$273,712
Equity securities	200,919	–	43,874	244,793
Investment trusts	–	19,856	–	19,856
Derivatives				
Forward exchange contracts	–	667	–	667
Liabilities				
Derivatives				
Forward exchange contracts	$ –	$ 92,315	$ –	$ 92,315

Assets and liabilities measured at fair value on a recurring basis at March 31, 2020 were as follows:

	Millions of yen			
	Fair value measurements			
	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale securities				
Private debt securities	¥ –	¥ 50,700	¥ –	¥ 50,700
Equity securities	15,394	213	6,982	22,589
Investment trusts	–	1,988	–	1,988
Derivatives				
Forward exchange contracts	–	1,236	–	1,236
Liabilities				
Derivatives				
Forward exchange contracts	¥ –	¥ 1,529	¥ –	¥ 1,529

Assets measured at fair value of Level 3 on a recurring basis for the year ended March 31, 2021 were as follows:

	Millions of yen	Thousands of U.S. dollars
	Equity securities	
Beginning balance	¥ 6,982	$ 62,901
Total gains and losses (realized/unrealized)		
Included in consolidated statement of income as other income (expenses)	822	7,405
Investments and dividends	549	4,946
Sales	(3,483)	(31,378)
Ending balance	¥ 4,870	$ 43,874

Assets measured at fair value of Level 3 on a recurring basis for the year ended March 31, 2020 were as follows:

	Millions of yen
	Equity securities
Beginning balance	¥ 6,123
Total gains and losses (realized/unrealized)	
Included in consolidated statement of income as other income (expenses)	52
Investments and dividends	807
Ending balance	¥ 6,982

Available-for-sale 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. The Companies elected the fair value option under ASC 825, “Financial Instruments”, for some equity securities included in available-for-sale securities. Included in “Other - net” in the consolidated statements of income were losses of ¥23 million ($207 thousand), losses of ¥47 million and losses of ¥29 million from the change in the fair value of those investments for the years ended March 31, 2021, 2020 and 2019, respectively. The amount of aggregate fair value was ¥1,001 million ($9,018 thousand) and ¥13,025 million at March 31, 2021 and 2020, respectively.

Equity securities and Investment trusts

Fair values were measured as follows:

Level 1: By quoted prices in active markets.
Level 2: By observable price information provided by financial institutions, other than Level 1.
Level 3: By unobservable inputs provided by investment partnerships and others.

Derivatives

Forward exchange contracts are measured by the market approach using marketable data of observable foreign exchange rates, interest rates, and others; they are classified within Level 2.

Assets and liabilities measured at fair value on a nonrecurring basis at March 31, 2021 were as follows:

	Millions of yen			
	Fair value measurements			
	Level 1	Level 2	Level 3	Total
Assets				
Property, plant and equipment…	¥ –	¥ –	¥ 166	¥ 166
Goodwill	–	–	2,978	2,978
Equity securities	–	651	0	651
	Thousands of U.S. dollars			
	Fair value measurements			
	Level 1	Level 2	Level 3	Total
Assets				
Property, plant and equipment…	$ –	$ –	$ 1,495	$ 1,495
Goodwill.....................	–	–	26,829	26,829
Equity securities	–	5,865	0	5,865

Property, plant and equipment

The Companies recognized impairment losses of ¥518 million ($4,667 thousand) in selling, general and administrative expenses for the year ended March 31, 2021 related to facilities, etc., which were recognized to be less profitable in the Components segment. The Companies also recognized impairment losses of ¥1,013 million ($9,126 thousand) in selling, general and administrative expenses related to facilities, etc., which were not expected to be used in the Modules segment and Corporate. The fair values of facilities were measured by estimated future cash flows. The above assets were measured by unobservable inputs; they were classified within Level 3.

Goodwill

The Companies recognized impairment losses of ¥3,554 million ($32,018 thousand) for the year ended March 31, 2021 related to goodwill as for the reporting unit which were recognized to be less profitable in the Modules segment. The fair values of goodwill were measured by estimated future cash flows. The above assets were measured by unobservable inputs; they were classified within Level 3.

Equity securities

Fair values were measured as follows:

Level 2: By observable price changes in orderly transactions for identical or similar investments of the same issuer.

Level 3: By unobservable inputs provided by investment partnerships and others. The Companies recognized impairment losses of ¥206 million ($1,856 thousand) for the year ended March 31, 2021.

Assets and liabilities measured at fair value on a nonrecurring basis at March 31, 2020 were as follows:

	Millions of yen			
	Fair value measurements			
	Level 1	Level 2	Level 3	Total
Assets				
Property, plant and equipment…	¥ –	¥ –	¥ 510	¥ 510
Goodwill	–	–	6,579	6,579
Equity securities	–	1,371	62	1,433

Property, plant and equipment

The Companies recognized impairment losses of ¥21,279 million in selling, general and administrative expenses for the year ended March 31, 2020 related to facilities, etc., which were recognized to be less profitable in the Components segment. The Companies also recognized impairment losses of ¥2,476 million in selling, general and administrative expenses related to facilities, etc., which were not expected to be used in the Modules segment and Corporate. The fair values of facilities were measured by estimated future cash flows. The above assets were measured by unobservable inputs; they were classified within Level 3.

Goodwill

The Companies recognized impairment losses of ¥3,934 million for the year ended March 31, 2020 related to goodwill as for the reporting unit which were recognized to be less profitable in the Modules segment. The fair values of goodwill were measured by estimated future cash flows. The above assets were measured by unobservable inputs; they were classified within Level 3.

Equity securities

Fair values were measured as follows:

Level 2: By observable price changes in orderly transactions for identical or similar investments of the same issuer.

Level 3: By unobservable inputs provided by investment partnerships and others. The Companies recognized impairment losses of ¥928 million for the year ended March 31, 2020.

15. Financial Instruments and Concentration of Credit Risk

In the normal course of business, the Companies invest in various financial assets and incur various financial liabilities.

Financial assets and liabilities

(1) Cash, short-term investments, notes and accounts receivable, financial instruments which are included in other assets, short-term borrowings, accounts payable, bonds and long-term debt. The carrying amounts indicated in the consolidated balance sheets approximated fair values at March 31, 2021 and 2020.

(2) Marketable securities and Investments
Fair value is primarily based on quoted market prices or is estimated using the discounted cash flow method, 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 Notes 3 and 14.

Derivatives

The Companies enter into forward exchange contracts in order to manage foreign currency risk. The Companies do not enter into forward exchange contracts for trading purposes. 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 Companies reclassified changes in the fair value of forward exchange contracts as earnings in the same period.

The notional amounts of forward exchange contracts for the years ended March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Notional amounts:			
Forward exchange contracts	**¥192,688**	¥223,395	**$1,735,928**

The fair values of forward exchange contracts for the years ended March 31, 2021 and 2020 were as follows:

		Millions of yen		Thousands of U.S. dollars
		2021	2020	**2021**
	Account	Fair values		
Forward exchange contracts	Prepaid expenses and other	**¥ 74**	¥1,236	**$ 667**
	Accrued expenses and other	**10,247**	1,529	**92,315**

Gains and losses on forward exchange contracts not designated as hedges recognized in the consolidated statements of income for the years ended March 31, 2021, 2020 and 2019 were as follows:

		Millions of yen			Thousands of U.S. dollars
		2021	2020	2019	**2021**
	Account	Amounts			
Forward exchange contracts	Foreign currency exchange gain (loss)	**¥(13,202)**	¥ (5,173)	¥ (10,277)	**$(118,937)**

While the Companies no longer apply hedge accounting to forward exchange contracts, the Companies continue to utilize them and consider them to be effective economic hedges for managing foreign currency risk and for interest expense fluctuation risk resulting from long-term debt.

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, and 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, 2021 and 2020 were as follows:

	Millions of yen		
	2021		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortized intangible assets			
Software	¥ 31,727	¥15,227	¥16,500
Technology	19,338	15,470	3,868
Customer relationships	20,133	16,247	3,886
Patents	3,332	554	2,778
Other	7,998	1,671	6,327
Total	¥ 82,528	¥49,169	¥33,359
Unamortized intangible assets	¥ 165	–	¥ 165

	Millions of yen		
	2020		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortized intangible assets			
Software	¥ 28,790	¥13,039	¥15,751
Technology	19,177	12,278	6,899
Customer relationships	19,868	13,636	6,232
Patents	4,096	901	3,195
Other	7,502	1,194	6,308
Total	¥ 79,433	¥41,048	¥38,385
Unamortized intangible assets	¥ 191	–	¥ 191

	Thousands of U.S. dollars		
	2021		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortized intangible assets			
Software	$285,829	$137,180	$148,649
Technology	174,216	139,369	34,847
Customer relationships	181,378	146,369	35,009
Patents	30,018	4,991	25,027
Other	72,054	15,054	57,000
Total	$743,495	$442,963	$300,532
Unamortized intangible assets	$ 1,486	–	$ 1,486

Intangible assets other than goodwill acquired for the year ended March 31, 2021 totaled ¥6,780 million ($61,081 thousand) and primarily consisted of software of ¥6,155 million ($55,450 thousand). The weighted-average useful life for software is 4.99 years.

Total amortization expenses of intangible assets for the years ended March 31, 2021, 2020 and 2019 amounted to ¥11,748 million ($105,838 thousand), ¥14,371 million and ¥14,808 million, respectively. The estimated amortization expenses for intangible assets for the next 5 years are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2022	¥10,786	$ 97,171
2023	6,619	59,631
2024	3,839	34,586
2025	2,144	19,315
2026	1,239	11,162

The changes in the carrying amount of goodwill of each operating segment for the years ended March 31, 2021 and 2020 were as follows:

	Millions of yen		
	2021		
	Components	Modules	Total
Balance at beginning of year			
Acquisition cost	¥22,446	¥ 67,029	¥ 89,475
Accumulated impairment losses	(2,096)	(14,347)	(16,443)
Net carrying amounts	20,350	52,682	73,032
Increase (decrease) in goodwill resulting from			
Goodwill acquired during year	–	–	–
Impairment losses	–	(3,554)	(3,554)
Translation adjustments and other	987	593	1,580
Balance at end of year			
Acquisition cost	23,433	67,622	91,055
Accumulated impairment losses	(2,096)	(17,901)	(19,997)
Net carrying amounts	¥21,337	¥ 49,721	¥ 71,058

	Millions of yen		
	2020		
	Components	Modules	Total
Balance at beginning of year			
Acquisition cost	¥22,925	¥ 67,973	¥ 90,898
Accumulated impairment losses	(2,096)	(10,413)	(12,509)
Net carrying amounts	20,829	57,560	78,389
Increase (decrease) in goodwill resulting from			
Goodwill acquired during year	–	–	–
Impairment losses	–	(3,934)	(3,934)
Translation adjustments and other	(479)	(944)	(1,423)
Balance at end of year			
Acquisition cost	22,446	67,029	89,475
Accumulated impairment losses	(2,096)	(14,347)	(16,443)
Net carrying amounts	¥20,350	¥ 52,682	¥ 73,032

	Thousands of U.S. dollars		
	2021		
	Components	Modules	Total
Balance at beginning of year			
Acquisition cost	$202,216	$ 603,865	$ 806,081
Accumulated impairment losses	(18,883)	(129,252)	(148,135)
Net carrying amounts	183,333	474,613	657,946
Increase (decrease) in goodwill resulting from			
Goodwill acquired during year	–	–	–
Impairment losses	–	(32,018)	(32,018)
Translation adjustments and other	8,892	5,342	14,234
Balance at end of year			
Acquisition cost	211,108	609,207	820,315
Accumulated impairment losses	(18,883)	(161,270)	(180,153)
Net carrying amounts	$192,225	$ 447,937	$ 640,162

Under ASC 350,“Intangibles - Goodwill and Other”, entities that have one or more reporting units with zero or negative carrying amounts shall identify those reporting units and disclose the amount of goodwill allocated to each and provide the segment information about the reporting units.

In the Modules segment, the amount of goodwill allocated to one reporting unit with negative carrying amount at March 31, 2021 was ¥2,978 million ($26,829 thousand).

17. Segment 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 had the Components segment, the Modules segment, and Others.

Operating segment information for the years ended March 31, 2021, 2020 and 2019 was as follows:

	Millions of yen			Thousands of U.S. dollars
	2021	2020	2019	**2021**
Components				
Sales to:				
Unaffiliated customers	**¥1,143,482**	¥1,051,721	¥1,105,010	**$10,301,640**
Intersegment	**31,929**	46,599	34,993	**287,648**
Total revenue	**1,175,411**	1,098,320	1,140,003	**10,589,288**
Segment income (loss)	**312,998**	249,651	312,141	**2,819,802**
Assets	**1,088,211**	1,022,688	921,775	**9,803,703**
Depreciation and amortization	**92,639**	93,262	81,833	**834,586**
Expenditure for long-lived assets	**130,962**	209,067	175,250	**1,179,838**
Modules				
Sales to:				
Unaffiliated customers	**¥484,099**	¥478,619	¥466,699	**$4,361,252**
Intersegment	**2**	11	11	**18**
Total revenue	**484,101**	478,630	466,710	**4,361,270**
Segment income (loss)	**54,277**	49,431	14,471	**488,982**
Assets	**338,436**	342,153	331,190	**3,048,973**
Depreciation and amortization	**37,549**	35,696	36,081	**338,279**
Expenditure for long-lived assets	**28,969**	40,379	88,547	**260,982**
Others				
Sales to:				
Unaffiliated customers	**¥ 2,612**	¥ 3,705	¥ 3,317	**$ 23,531**
Intersegment	**58,455**	55,529	99,082	**526,622**
Total revenue	**61,067**	59,234	102,399	**550,153**
Segment income (loss)	**7,778**	5,717	10,596	**70,072**
Assets	**11,764**	11,342	12,013	**105,982**
Depreciation and amortization	**1,592**	1,376	1,290	**14,342**
Expenditure for long-lived assets	**1,486**	2,469	1,375	**13,387**
Corporate and eliminations				
Sales to:				
Unaffiliated customers	–	–	–	–
Intersegment	**¥ (90,386)**	¥(102,139)	¥ (134,086)	**$ (814,288)**
Total revenue	**(90,386)**	(102,139)	(134,086)	**(814,288)**
Corporate expenses	**(61,813)**	(51,552)	(70,401)	**(556,874)**
Assets	**1,023,850**	874,047	783,915	**9,223,874**
Depreciation and amortization	**11,294**	9,933	5,215	**101,748**
Expenditure for long-lived assets	**42,023**	36,357	34,182	**378,586**

Consolidated				
Sales to:				
Unaffiliated customers	**¥1,630,193**	¥1,534,045	¥1,575,026	**$14,686,423**
Intersegment	–	–	–	–
Total revenue	**1,630,193**	1,534,045	1,575,026	**14,686,423**
Operating income	**313,240**	253,247	266,807	**2,821,982**
Assets	**2,462,261**	2,250,230	2,048,893	**22,182,532**
Depreciation and amortization	**143,074**	140,267	124,419	**1,288,955**
Expenditure for long-lived assets	**203,440**	288,272	299,354	**1,832,793**

Notes :
*1 Major products and businesses included in the operating segments:
(1) Components : Capacitors, Piezoelectric Components, and Lithium Ion Batteries
(2) Modules : Communication Modules
(3) Others : Machinery manufacturing, welfare services, and sales of software
*2 Intersegment transactions are based on market prices.
*3 Segment income (loss) for each operating segment represents net sales less related costs. Corporate expenses represent expenses of the headquarters' functions and fundamental research.
*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 is composed of expenditures for property, plant, and equipment, and intangible assets, and does not include expenditures related to acquisitions.

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 their physical locations.

Net sales

	Millions of yen			Thousands of U.S. dollars
	2021	2020	2019	**2021**
Japan	**¥ 139,459**	¥ 142,911	¥ 144,740	**$ 1,256,387**
The Americas	**171,035**	190,908	236,786	**1,540,856**
Europe	**126,393**	132,037	139,839	**1,138,676**
Greater China	**951,199**	810,121	794,357	**8,569,360**
Asia and others	**242,107**	258,068	259,304	**2,181,144**
Total	**¥1,630,193**	¥1,534,045	¥1,575,026	**$14,686,423**

Notes : Major countries and areas included in the segments other than Japan:
(1) The Americas : USA and Mexico
(2) Europe : Germany, Hungary, and United Kingdom
(3) Greater China : China and Taiwan
(4) Asia and others : South Korea, Vietnam, and Thailand

Long-lived assets

	Millions of yen			Thousands of U.S. dollars
	2021	2020	2019	**2021**
Japan	**¥ 748,252**	¥ 700,614	¥580,057	**$6,741,009**
The Americas	**7,061**	7,466	4,447	**63,613**
Europe	**24,590**	23,701	19,535	**221,531**
Greater China	**172,345**	151,045	155,326	**1,552,658**
Asia and others	**126,590**	119,384	97,088	**1,140,450**
Total	**¥1,078,838**	¥1,002,210	¥856,453	**$9,719,261**

Notes : Major countries and areas included in the segments other than Japan:
(1) The Americas : USA
(2) Europe : Finland, France, and Netherlands
(3) Greater China : China and Taiwan
(4) Asia and others : Philippines, Singapore, Thailand, and Malaysia

3) Information about major customers

There is one customer group which accounted for more than 10% of consolidated sales for the years ended March 31, 2021, 2020, and 2019. Consolidated sales to the customer group for the years ended March 31, 2021, 2020, and 2019 were ¥251,130 million ($2,262,432 thousand), ¥169,627 million, and ¥172,934 million, respectively. Sales to such customer groups are included in the Components segment and the Modules segment.

18. Subsequent Events

1. The Companies have evaluated subsequent events through June 29, 2021, which is the date that the consolidated financial statements were issued.

2. The ordinary general meeting of shareholders on June 29, 2021 resolved to pay a cash dividend of ¥60 ($0.54) per share to shareholders of record at March 31, 2021, or a total of ¥38,389 million ($345,847 thousand).

Independent Auditors' Report

Deloitte.

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

Opinion

We have audited the consolidated financial statements of Murata Manufacturing Co., Ltd. and its subsidiaries (the "Company"), which comprise the consolidated balance sheet as of March 31, 2021, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of shareholders' equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Convenience Translation

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

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th>Key Audit Matter Description</th><th>How the Key Audit Matter Was Addressed in the Audit</th></tr>
<tr><td colspan="2">Valuation of long-lived assets</td></tr>
<tr><td>
As of March 31, 2021, the amount of long-lived assets recorded on the Company's consolidated financial statements was 1,078,838 million yen, which constitutes 44% of its total assets. Being in the electronics industry where operating environments change rapidly, the Company has made substantial investments in equipment and facilities in anticipation of mid-and-long-term increase in the market demands such as increases of the number of electronic components arising from higher functionalities for communications market, increase in demands for telecommunication infrastructures, and the advancement of electrification and automated driving for automotive market.
As stated in "1. Summary of Significant Accounting Policies" under "Notes to Consolidated Financial Statements", when events or changes in circumstances indicate that the Company's carrying amount of the business-specific asset group for long-lived assets may not be recoverable, the Company tests recoverability of the long-lived assets for impairment.
The Company determines the recoverability of the long-lived assets to be held and used by comparing the carrying amount of each asset group by business to the estimated undiscounted future cash flows generated from the asset group.
Estimated undiscounted future cash flows used in determining the recoverability of the long-lived assets reflect the Company's mid-term outlooks for its product demands and require the Company to mainly estimate sales volume, sales price and related costs. These estimates are highly affected by management's assumptions and judgments, and the Company's future plans in particular are influenced by its forecast on sales volume increases and market growth rate. Therefore, we have determined that long-lived asset impairment tests require careful consideration.
Due to the reasons above, we have identified valuation of long-lived assets as a key audit matter.
</td><td>
Our audit procedures related to valuation of long-lived assets included the following, among others:
(1) Regarding internal controls, we evaluated the design and operating effectiveness of internal controls over determining whether impairment losses shall be recognized for long-lived assets.
(2) Regarding the recoverability test for impairment upon identification of impairment indicators, we inspected supporting documents such as materials for management's recoverability analysis and minutes of board meeting of directors, and inquired with the business departments and the finance department in order to evaluate whether there were any events or changes in circumstances that would indicate that the Company's carrying amount of each asset group for long-lived assets may not recoverable.
(3) Regarding the recoverability of the long-lived assets based on estimated undiscounted future cash flows, we conducted the following procedures:
・ Regarding future plans approved by management which were the basis of estimated future cash flows, we inspected supporting documents and data, and inquired with the business departments and the finance department to evaluate whether mainly estimated sales volume, sales price and related costs were reasonable considering market condition outlooks, the Company's planned activities and latest obtainable facts. In addition, we assessed the precision of the future plans by comparing the future plans prepared in the past with the actual results.
・ Regarding market growth rate, we inspected internal meeting documents and external data such as the outlooks for market condition, and inquired with the business departments and the finance department to evaluate whether the future plans are prepared by appropriately taking into consideration the facts that have been recently available.
</td></tr>
</table>

Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
Valuation of goodwill	
As of March 31, 2021, the amount of goodwill recorded on the Company's consolidated financial statements was 71,058 million yen. The Company has performed a number of stock acquisitions or asset acquisitions in the telecommunication market and automotive market in order to acquire new technology, advance into new business areas and strengthen the competitiveness of its existing businesses. As stated in "1. Summary of Significant Consolidated Accounting Policies" under "Notes to Consolidated Financial Statements", the Company conducts impairment tests on goodwill at least annually. In these impairment tests, recoverable amounts are calculated based on fair values, and the fair values are primarily present value calculated using the discount rate and estimated future cash flows based on future plans and growth rates for the reporting units. The future plans used in the impairment tests reflect mid-term outlooks for product demands and require the Company to mainly estimate sales volume, sales price and related costs. In addition, growth rates need to be calculated by taking the average long-term growth rates into account. These estimates are highly affected by management's assumptions and judgments, and the Company's future plans in particular are influenced by its forecast on sales volume increases and market growth rate. Therefore, we have determined that goodwill impairment tests require careful consideration. Due to the reasons above, we have identified valuation of goodwill as a key audit matter.	Our audit procedures related to valuation of goodwill included the following, among others: (1) Regarding internal controls, we evaluated the design and operating effectiveness of internal controls over determining whether impairment losses shall be recognized for goodwill. (2) Regarding the discount rate and calculation method for fair values, we inspected the background information of management's third-party valuation experts that the Company used and inquired with these management's valuation experts in order to evaluate their competence by assessing their knowledge and experience. (3) Regarding fair values based on discounted future cash flows, we conducted the following procedures: ・ Regarding future plans approved by management which were the basis of estimated future cash flows, we inspected supporting documents and data, and inquired with the business departments and the finance department to evaluate whether mainly estimated sales volume, sales price and related costs were reasonable considering market condition outlooks, the Company's planned activities and latest obtainable facts. In addition, we assessed the precision of the future plans by comparing the future plans prepared in the past with the actual results. ・ Regarding discount rates, we used our valuation specialists to assist us to evaluate the reasonableness of the calculation methods, indexes and calculation assumptions for discount rates by comparing them to market conditions or observable data. ・ Regarding growth rates, we inspected internal meeting documents and external data such as market condition outlooks, and inquired with the business departments and the finance department to evaluate whether the future plans are prepared appropriately by taking into consideration the facts that have been recently available. ・ Regarding the reasonableness and accuracy of calculation logic for impairment tests which included fair value calculations, we inspected calculation documents and performed recalculations to evaluate whether the calculations were accurately carried out in accordance with the accounting standards that should be applied.

Responsibilities of Management and the Audit and Supervisory Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in the United States of America and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Audit and Supervisory Committee is responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in the United States of America, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Supervisory Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Supervisory Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with it all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit and Supervisory Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Company which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Deloitte Touche Tohmatsu LLC

June 29, 2021

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.

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 (the United States of America) ("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 other balances reached two-thirds of total sales and other balances 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

Norio Nakajima, President and Representative Director, and Masanori Minamide, Executive Vice President and Board Member, are responsible for designing and operating effective internal control over financial reporting of Murata Manufacturing Co.,Ltd. (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 "On the Revision of the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting (Council Opinions)" 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

Norio Nakajima, President and Representative Director, and Masanori Minamide, Executive Vice President and Board Member, performed the assessment of internal control over financial reporting as of March 31, 2021, 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 consolidated 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 and subsidiaries accounted for by the equity method, 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 the 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 other balances reached two-thirds of total sales and other balances 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 and inventories 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 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.

Norio Nakajima
President
Representative Director
Murata Manufacturing Co., Ltd.

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

Independent Auditors' Report (filed under the Financial Instruments and Exchange Act of Japan)

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 (the United States of America) ("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 other balances reaches two thirds of total sales and other balances for the prior year on a consolidation basis were selected as "significant locations and/or business units."

(TRANSLATION)

INDEPENDENT AUDITORS' REPORT

June 29, 2021

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

Deloitte Touche Tohmatsu LLC
Kyoto office

Designated Engagement Partner,
Certified Public Accountant: Koichiro Tsukuda

Designated Engagement Partner,
Certified Public Accountant: Yuya Minobe

[Audit of Financial Statements]

Opinion

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements of Murata Manufacturing Co., Ltd. and its consolidated subsidiaries (the "Company") included in the Financial Section, namely, the consolidated balance sheet as of March 31, 2021, and the consolidated statement of income, comprehensive income, shareholders' equity and cash flows for the fiscal year from April 1, 2020 to March 31, 2021, and the related notes, and consolidated supplementary schedules.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of March 31, 2021, and its consolidated results of its operations and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America pursuant to the third paragraph of the Supplementary Provisions of the Cabinet Office Ordinance for Partial Amendment of the Ordinance for Terminology, Forms and Preparation Methods of Consolidated Financial Statements (No.11 of the Cabinet Office Ordinance in 2002).

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th>Key Audit Matter Description</th><th>How the Key Audit Matter Was Addressed in the Audit</th></tr>
<tr><td colspan="2">Valuation of long-lived assets</td></tr>
<tr><td>
As of March 31, 2021, the amount of long-lived assets recorded on the Company's consolidated financial statements was 1,078,838 million yen, which constitutes 44% of its total assets. Being in the electronics industry where operating environments change rapidly, the Company has made substantial investments in equipment and facilities in anticipation of mid-and-long-term increase in the market demands such as increases of the number of electronic components arising from higher functionalities for communications market, increase in demands for telecommunication infrastructures, and the advancement of electrification and automated driving for automotive market.
As stated in "1. Summary of Significant Accounting Policies" under "Notes to Consolidated Financial Statements", when events or changes in circumstances indicate that the Company's carrying amount of the business-specific asset group for long-lived assets may not be recoverable, the Company tests recoverability of the long-lived assets for impairment.
The Company determines the recoverability of the long-lived assets to be held and used by comparing the carrying amount of each asset group by business to the estimated undiscounted future cash flows generated from the asset group.
Estimated undiscounted future cash flows used in determining the recoverability of the long-lived assets reflect the Company's mid-term outlooks for its product demands and require the Company to mainly estimate sales volume, sales price and related costs. These estimates are highly affected by management's assumptions and judgments, and the Company's future plans in particular are influenced by its forecast on sales volume increases and market growth rate. Therefore, we have determined that long-lived asset impairment tests require careful consideration.
Due to the reasons above, we have identified valuation of long-lived assets as a key audit matter.
</td><td>
Our audit procedures related to valuation of long-lived assets included the following, among others:
(1) Regarding internal controls, we evaluated the design and operating effectiveness of internal controls over determining whether impairment losses shall be recognized for long-lived assets.
(2) Regarding the recoverability test for impairment upon identification of impairment indicators, we inspected supporting documents such as materials for management's recoverability analysis and minutes of board meeting of directors, and inquired with the business departments and the finance department in order to evaluate whether there were any events or changes in circumstances that would indicate that the Company's carrying amount of each asset group for long-lived assets may not recoverable.
(3) Regarding the recoverability of the long-lived assets based on estimated undiscounted future cash flows, we conducted the following procedures:
・ Regarding future plans approved by management which were the basis of estimated future cash flows, we inspected supporting documents and data, and inquired with the business departments and the finance department to evaluate whether mainly estimated sales volume, sales price and related costs were reasonable considering market condition outlooks, the Company's planned activities and latest obtainable facts. In addition, we assessed the precision of the future plans by comparing the future plans prepared in the past with the actual results.
・ Regarding market growth rate, we inspected internal meeting documents and external data such as the outlooks for market condition, and inquired with the business departments and the finance department to evaluate whether the future plans are prepared by appropriately taking into consideration the facts that have been recently available.
</td></tr>
</table>

<table>
<tr><th>Key Audit Matter Description</th><th>How the Key Audit Matter Was Addressed in the Audit</th></tr>
<tr><td colspan="2">Valuation of goodwill</td></tr>
<tr><td>As of March 31, 2021, the amount of goodwill recorded on the Company's consolidated financial statements was 71,058 million yen. The Company has performed a number of stock acquisitions or asset acquisitions in the telecommunication market and automotive market in order to acquire new technology, advance into new business areas and strengthen the competitiveness of its existing businesses.

As stated in "1. Summary of Significant Consolidated Accounting Policies" under "Notes to Consolidated Financial Statements", the Company conducts impairment tests on goodwill at least annually.

In these impairment tests, recoverable amounts are calculated based on fair values, and the fair values are primarily present value calculated using the discount rate and estimated future cash flows based on future plans and growth rates for the reporting units.

The future plans used in the impairment tests reflect mid-term outlooks for product demands and require the Company to mainly estimate sales volume, sales price and related costs. In addition, growth rates need to be calculated by taking the average long-term growth rates into account. These estimates are highly affected by management's assumptions and judgments, and the Company's future plans in particular are influenced by its forecast on sales volume increases and market growth rate. Therefore, we have determined that goodwill impairment tests require careful consideration.

Due to the reasons above, we have identified valuation of goodwill as a key audit matter.</td><td>Our audit procedures related to valuation of goodwill included the following, among others:

(1) Regarding internal controls, we evaluated the design and operating effectiveness of internal controls over determining whether impairment losses shall be recognized for goodwill.

(2) Regarding the discount rate and calculation method for fair values, we inspected the background information of management's third-party valuation experts that the Company used and inquired with these management's valuation experts in order to evaluate their competence by assessing their knowledge and experience.

(3) Regarding fair values based on discounted future cash flows, we conducted the following procedures:

・ Regarding future plans approved by management which were the basis of estimated future cash flows, we inspected supporting documents and data, and inquired with the business departments and the finance department to evaluate whether mainly estimated sales volume, sales price and related costs were reasonable considering market condition outlooks, the Company's planned activities and latest obtainable facts. In addition, we assessed the precision of the future plans by comparing the future plans prepared in the past with the actual results.

・ Regarding discount rates, we used our valuation specialists to assist us to evaluate the reasonableness of the calculation methods, indexes and calculation assumptions for discount rates by comparing them to market conditions or observable data.

・ Regarding growth rates, we inspected internal meeting documents and external data such as market condition outlooks, and inquired with the business departments and the finance department to evaluate whether the future plans are prepared appropriately by taking into consideration the facts that have been recently available.

・ Regarding the reasonableness and accuracy of calculation logic for impairment tests which included fair value calculations, we inspected calculation documents and performed recalculations to evaluate whether the calculations were accurately carried out in accordance with the accounting standards that should be applied.</td></tr>
</table>

Responsibilities of Management and the Audit and Supervisory Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in the United States of America.

The Audit and Supervisory Committee is responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in the United States of America , as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Supervisory Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Supervisory Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with it all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit and Supervisory Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

[Audit of Internal Control]

Opinion

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. as of March 31, 2021.

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. as of March 31, 2021, is effectively maintained, presents fairly, in all material respects, the results of the assessment of internal control over financial reporting in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

Basis for Opinion

We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Internal Control Audit section of our report. We are independent of the Company in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibility of Management and the Audit and Supervisory Committee for Report on Internal Control

Management is responsible for designing and operating effective internal control over financial reporting and for the preparation and fair presentation of its report on internal control in accordance with assessment standards for internal control over financial reporting generally accepted in Japan. The Audit and Supervisory Committee is responsible for overseeing and verifying the design and operating effectiveness of internal control over financial reporting. There is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

Auditors' Responsibilities for the Internal Control Audit

Our objectives are to obtain reasonable assurance about whether management's report on internal control over financial reporting is free from material misstatement and to issue an auditors' report that includes our opinion.

As part of an audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Perform audit procedures to obtain audit evidence regarding the results of the assessment of internal control over financial reporting in management's report on internal control. The procedures selected depend on the auditor's judgment, including the significance of effects on reliability of financial reporting.
- Examine representations on the scope, procedures and results of the assessment of internal control over financial reporting made by management, as well as evaluating the overall presentation of management's report on internal control.
- Obtain sufficient appropriate audit evidence regarding the results of the assessment of internal control over financial reporting. We are responsible for the direction, supervision and performance of the internal control audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Supervisory Committee regarding, among other matters, the planned scope and timing of the internal control audit, result of the internal control audit, including any identified material weakness which should be disclosed and the result of remediation.

We also provide the Audit and Supervisory Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with it all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Company which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Notes to the Readers of Independent Auditors' Report

This is an English translation of the independent auditors' report as required by the Financial Instruments and Exchange Act of Japan for the conveniences of the reader and "consolidated supplementary schedules" referred to in this report are not included in the attached financial documents.

INNOVATOR IN ELECTRONICS