

BUSINESS REPORT

FOR THE 80TH FISCAL TERM

FROM APRIL 1, 2015
TO MARCH 31, 2016

10-1, Higashikotari 1-chome, Nagaokakyo-shi, Kyoto, Japan
Murata Manufacturing Co., Ltd.

Tsuneo Murata
President
Statutory Representative Director
Member of the Board of Directors

Business Report

From April 1, 2015
to March 31, 2016

1. Matters Concerning Status of the Corporate Group

(1) Main business areas

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

(2) Business progress and results

1) Business conditions

In the global economic environment during the year ended March 31, 2016, while the U.S. economy continued to steadily grow due to good employment numbers and domestic consumption, a weakened economy in China and a decline in resource prices hinted at a global economic slowdown. Although Europe gradually recovered, its current situation was unclear.

In the electronics market, the smartphone market continuously grew despite a weakening of the growth rate. Moreover, improvements in the functions of smartphones contributed to an increased number of electronic components. As a result, the electronic components market showed significant continuous growth. Additionally, increased production of vehicles and advanced electrification contributed to an increase in demand for electronic components.

Under these circumstances, the net sales of the Group were 1,210,841 million yen for the period under review, up 16.0% from the year ended March 31, 2015 with the average exchange rate against the U.S. dollar rising by 10.20 yen from the previous year end.

Operating income was 275,406 million yen, up 28.4%, income before income taxes was 279,173 million yen, up 17.1%, and net income attributable to Murata Corporation was 203,776 million yen, up 21.5%, all increased significantly from the previous fiscal year. The primary factors for the profit increase were the launching of a high value-added new product, the increase in capacity utilization, comprehensive cost reductions and depreciation of the yen, while negative factors included price declines and increased fixed costs due to expansion in production capacity.

2) Sales by product category

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

(Orders and sales by product category)

	80th Fiscal Term (From April 1, 2015 to March 31, 2016)			
	Orders received	Net sales		
	Amount	Amount	Component ratio as a percentage of net sales	Year-on-year change
	Millions of yen	Millions of yen	%	%
Capacitors	366,881	367,319	30.4	109.9
Piezoelectric Components	178,696	161,880	13.4	132.8
Other Components	229,021	230,967	19.2	103.6
Components total	774,598	760,166	63.0	111.9
Communication Modules	390,519	395,197	32.7	128.3
Power Supplies and Other Modules	51,029	51,652	4.3	97.5
Modules total	441,548	446,849	37.0	123.8
Total	1,216,146	1,207,015	100.0	116.1

<Components>

Sales of Components for the period under review increased by 11.9% year-on-year to 760,166 million yen.

[Capacitors]

The Capacitors category includes multilayer ceramic capacitors (MLCCs).

For the period under review, sales of MLCCs, the main product in this category, rose due to an increase in sales of smartphones and demand of automotive electronics backed by advanced electrification of automobiles, although sales growth for AV devices, computers and peripherals slowed down.

As a result, overall net sales increased by 9.9% year-on-year to 367,319 million yen.

[Piezoelectric Components]

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

For the period under review, sales of SAW filters greatly increased due to the widespread penetration of multi-band smartphones mainly in China. In addition, sales of ultrasonic sensors increased for automotives. Sales of actuators increased for HDD.

As a result, overall net sales increased by 32.8% year-on-year to 161,880 million yen.

[Other Components]

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

For the period under review, sales of connectors and TOKO products increased significantly for smartphones, although inductors (coils) and thermistors decreased.

As a result, overall net sales increased by 3.6% year-on-year to 230,967 million yen.

<Modules>

Sales of Modules for the period under review increased by 23.8% year-on-year to 446,849 million yen.

[Communication Modules]

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

For the period under review, sales of RF sub modules greatly increased for smartphones.

As a result, overall net sales increased by 28.3% year-on-year to 395,197 million yen.

[Power Supplies and Other Modules]

This product category includes power supplies.

For the period under review, sales of power supplies for car audio equipment decreased.

As a result, overall net sales decreased by 2.5% year-on-year to 51,652 million yen.

(3) Challenges facing the Company

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

For the rapidly growing markets, the Group intends to strengthen their sales and marketing abilities and enhance production capacity, launch new, high value-added products earlier than their competitors and contribute to the trend of reduced size and thickness of electronic devices, add more manifold functions, and also create new business models and customer value. In addition, with TOKO INC., which became a wholly owned subsidiary on May 1, 2016, the Group expects to achieve greater synergies at an early stage through an integrated operation of the corporate group and further enhance their businesses.

In addition, the Group will seek to improve profitability by increasing production capacity outside Japan to reduce costs and mitigate foreign exchange fluctuations. Together with the increase in capacity at existing factories in China, Thailand, Malaysia and the Philippines, we intend to further expand production capacity outside Japan.

In regards to its responsibility to society, the Group places equal emphasis on economic, environmental and social perspectives, and strives to fulfill their corporate responsibilities from each perspective. As for corporate governance, the Group established the "Corporate Governance Guidelines" during the fiscal year under review in order to emphasize principles underlying corporate governance of the Group and consolidate the operating structure. Additionally, in order to further promote corporate governance and improve corporate value, the Group plans to transition to a Company with Audit and

Supervisory Committee structure upon receiving approval for the required amendments to the Articles of Incorporation at the Ordinary General Meeting of Shareholders of the Group scheduled to be held in June 2016.

The Group positions corporate governance as one of its most important management issues, and while taking into consideration feedback from all stakeholders, the Group is building a sound corporate management structure and system. Concrete actions to be taken by the Group include improving management efficiency, strengthening management-monitoring functions, plan and implement management strategies, and ensuring through compliance with all relevant laws and regulations.

(4) Status of capital expenditures

During the period under review, the Group had capital expenditures totaling 172,540 million yen.

Primary components were 122,845 million yen in reinforcement and rationalization of production facilities of the Company and its subsidiaries, 14,681 million yen in the acquisition of land and buildings, and 12,419 million yen in reinforcement of research and development facilities.

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

(5) Status of property and profits

1) Status of property and profits of the corporate group

(Millions of yen, %)

	77th Fiscal Term From April 1, 2012 to March 31, 2013	78th Fiscal Term From April 1, 2013 to March 31, 2014		79th Fiscal Term From April 1, 2014 to March 31, 2015		80th Fiscal Term From April 1, 2015 to March 31, 2016	
	Amount	Amount	Year-on-year change	Amount	Year-on-year change	Amount	Year-on-year change
Net sales	681,021	846,716	124.3	1,043,542	123.2	1,210,841	116.0
Income before Income taxes	59,534	132,336	222.3	238,400	180.1	279,173	117.1
Net income attributable to Murata Corporation	42,386	93,191	219.9	167,711	180.0	203,776	121.5
Total assets	1,087,144	1,243,687	114.4	1,431,303	115.1	1,517,784	106.0
Shareholders' equity	860,963	955,760	111.0	1,123,090	117.5	1,229,159	109.4
Basic earnings attributable to Murata Corporation per share	Yen 200.81	Yen 440.63	-	Yen 792.19	-	Yen 962.55	-
Shareholders' equity ratio	% 79.2	% 76.8	-	% 78.5	-	% 81.0	-

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

2) Status of property and profits of the Company

(Millions of yen, %)

	77th Fiscal Term From April 1, 2012 to March 31, 2013	78th Fiscal Term From April 1, 2013 to March 31, 2014		79th Fiscal Term From April 1, 2014 to March 31, 2015		80th Fiscal Term From April 1, 2015 to March 31, 2016	
	Amount	Amount	Year-on-year change	Amount	Year-on-year change	Amount	Year-on-year change
Net sales	535,155	635,028	118.7	752,660	118.5	889,121	118.1
Income before income taxes and extraordinary items	31,195	57,892	185.6	120,840	208.7	95,732	79.2
Net income	30,601	51,231	167.4	98,694	192.6	80,721	81.8
Total assets	616,263	714,395	115.9	855,498	119.8	840,658	98.3
Net assets	397,445	430,671	108.4	499,356	115.9	533,022	106.7
Basic earnings per share	Yen 144.98	Yen 242.23	-	Yen 466.18	-	Yen 381.29	-
Shareholders' equity ratio	% 64.5	% 60.3	-	% 58.4	-	% 63.4	-

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

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

1) The Company (As of March 31, 2016)

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

2) Subsidiaries (As of March 31, 2016)

Company name	Capital	Share of voting rights held by the Company	Primary business areas	Head office location
Fukui Murata Manufacturing Co., Ltd.	Millions of yen 300	100 %	Production of components	Echizen-shi, Fukui
Izumo Murata Manufacturing Co., Ltd.	430	100	Production of components	Izumo-shi, Shimane
Toyama Murata Manufacturing Co., Ltd.	450	100	Production of components and modules	Toyama-shi, Toyama
Komatsu Murata Manufacturing Co., Ltd.	300	100	Production of modules	Komatsu-shi, Ishikawa
Kanazawa Murata Manufacturing Co., Ltd.	480	100	Production of components	Hakusan-shi, Ishikawa
Okayama Murata Manufacturing Co., Ltd.	480	100	Production of components and modules	Setouchi-shi, Okayama
TOKO, INC.	17,446	64.2	Production and sales of components	Tsurugashima-shi, Saitama
Murata Electronics North America, Inc.	Thousands of US\$ 14,406	100	Sales of products of the Company and its subsidiaries	United States of America
Murata Company Limited	Thousands of HK\$ 1,400,000	100	Sales of products of the Company and its subsidiaries	People's Republic of China
Murata (China) Investment Co., Ltd.	Thousands of US\$ 120,000	100	Marketing and engineering activities in Greater China, General management of Chinese sales companies	People's Republic of China
Murata Electronics Trading (Shanghai) Co., Ltd.	Thousands of US\$ 23,400	100 ^(Note)	Sales of products of the Company and its subsidiaries	People's Republic of China
Wuxi Murata Electronics Co., Ltd.	Thousands of US\$ 192,000	100 ^(Note)	Production of components	People's Republic of China
Murata Electronics Europe B.V.	Thousands of EURO 220,000	100	Sales of products of the Company and its subsidiaries	Kingdom of the Netherlands

(Note) Ratio includes indirect holdings.

3) Progress and results of business combinations

The number of consolidated subsidiaries is 101, including 13 significant subsidiaries above. The results of business combinations are as stated in "1. Matters concerning status of the corporate group (2) Business progress and results."

(7) Employees

1) Employees of the corporate group

Number of employees	
As of March 31, 2016	Year-on-year change
Persons	Persons
54,674	2,880

(Note) The number of employees is the number of persons in regular employment at the Company (excluding persons seconded outside of the Group), and does not include seasonal, part-time, or temporary employees (1,730 persons).

2) Employees of the Company

Number of employees		Average age	Average length of service
As of March 31, 2016	Year-on-year change		
Persons	Persons	Years	Years
7,568	143	40.0	14.8

(Note) The number of employees is the number of persons in regular employment at the Company (excluding persons seconded to subsidiaries, etc., but including persons seconded from subsidiaries, etc.), and does not include seasonal, part-time, or temporary employees (186 persons).

(8) Source of borrowings (As of March 31, 2016)

(Millions of yen)

Counterparty	Balance of borrowings
Mizuho Bank, Ltd.	4,400
Saitama Resona Bank, Limited	4,400
The Bank of Kyoto, Ltd.	1,200
Other	1,786
Total	11,786

2. Matters Concerning Stock (As of March 31, 2016)

- (1) Total number of authorized shares 581,000,000 shares (Share unit: 100 shares)
(2) Total number of issued shares 225,263,592 shares (Includes 13,560,912 shares of treasury stock)
(3) Number of shareholders 55,589 persons
(4) Major shareholders (Top 10)

Shareholder name	Number of shares held (Thousands of shares)	Ownership ratio (%)
JP Morgan Chase Bank 380055	15,526	7.3
Japan Trustee Services Bank, Ltd. (Trust Account)	12,082	5.7
Nippon Life Insurance Company	7,361	3.5
The Master Trust Bank of Japan, Ltd. (Trust Account)	6,801	3.2
State Street Bank and Trust Company	6,710	3.2
The Bank of Kyoto, Ltd.	5,260	2.5
Meiji Yasuda Life Insurance Company	5,240	2.5
The Shiga Bank, Ltd.	3,551	1.7
CBNY - Government of Norway	3,350	1.6
State Street Bank West Client - Treaty 505234	3,014	1.4

(Note) Ownership ratio is calculated after subtracting treasury stock (13,560 thousand shares) from the number of issued shares.

3. Matters Concerning Corporate Officers of the Company

(1) Members of the Board of Directors and Statutory Auditors (As of March 31, 2016)

Post	Positions and responsibilities	Name	Significant concurrent positions	
President	Statutory Representative Director	Tsuneo Murata	Fukui Murata Manufacturing Co., Ltd. Murata Science Foundation	Statutory Representative Director, President Chairman
Executive Deputy President	Statutory Representative Director	Yoshitaka Fujita	The Murata (China) Investment Co., Ltd.	President
Member of the Board of Directors	Executive Vice President Director of Components Business Unit	Toru Inoue	Izumo Murata Manufacturing Co., Ltd. Toyama Murata Manufacturing Co., Ltd.	Statutory Representative Director, President Statutory Representative Director, President
Member of the Board of Directors	Executive Vice President Director of Communication & Sensor Business Unit Director of Energy Business Division	Norio Nakajima	Komatsu Murata Manufacturing Co., Ltd. Kanazawa Murata Manufacturing Co., Ltd. Okayama Murata Manufacturing Co., Ltd.	Statutory Representative Director, President Statutory Representative Director, President Statutory Representative Director, President
Member of the Board of Directors	Executive Vice President Director of Corporate Technology & Business Development Unit	Hiroshi Iwatsubo		
Member of the Board of Directors	Senior Vice President General Manager of Accounting, Finance, and Corporate Planning Group	Yoshito Takemura	TOKO, INC.	Member of the Board of Directors
Member of the Board of Directors	Senior Vice President Director of Healthcare Business Division Director of New Products & Business Division Director of Business Incubation Center	Satoshi Ishino		
Member of the Board of Directors		Hiroaki Yoshihara	Hitachi, Ltd.	Outside Director
Member of the Board of Directors		Takashi Shigematsu	FUJITSU TEN LIMITED. Bando Chemical Industries, Ltd.	Chairman and Representative Director Outside Director
Statutory Auditor	Standing Statutory Auditor	Junichi Tanaka		
Statutory Auditor	Standing Statutory Auditor	Kiyoshi Iwai		
Statutory Auditor		Masakazu Toyoda	The Institute of Energy Economics, Japan Nitto Denko Corporation CANON ELECTRONICS INC.	Chairman & CEO Outside Statutory Auditor Outside Director
Statutory Auditor		Shizuo Nakanishi	Konan Graduate School of Accountancy	Professor
Statutory Auditor		Kazuto Nishikawa	Sumitomo Dainippon Pharma Co., Ltd.	Outside Statutory Auditor

(Notes) 1. The transfer of Members of the Board of Directors and Statutory Auditors during the fiscal year under review are as follows.

(1) The term of office of Members of the Board of Directors Messrs. Koji Makino and Yasuro Tanahashi and Statutory Auditor Mr. Yukio Yoshino expired at the end of the 79th Ordinary General Meeting of Shareholders held on June 26, 2015.

(2) Messrs. Toru Inoue, Hiroshi Iwatsubo, Satoshi Ishino, and Takashi Shigematsu were elected as Members of the Board of Directors and Mr. Kiyoshi Iwai was newly elected as a Statutory Auditor at the 79th Ordinary General Meeting of Shareholders held on June 26, 2015, and they assumed the positions.

2. Members of the Board of Directors Messrs. Hiroaki Yoshihara and Takashi Shigematsu are Outside Directors as stipulated by Article 2, Paragraph 15 of the Companies Act.
3. Statutory Auditors Messrs. Masakazu Toyoda, Shizuo Nakanishi, and Kazuto Nishikawa are Outside Statutory Auditors as stipulated by Article 2, Paragraph 16 of the Companies Act.
4. Statutory Auditor Mr. Junichi Tanaka has experience in finance and accounting operations at the Company, and possesses adequate knowledge in the fields of finance and accounting.
Statutory Auditor Mr. Shizuo Nakanishi is a certified public accountant, and possesses adequate knowledge in the fields of finance and accounting.
5. There are no special interests between the Group and companies, etc. at which Members of the Board of Directors Messrs. Hiroaki Yoshihara and Takashi Shigematsu and Statutory Auditors Messrs. Masakazu Toyoda, Shizuo Nakanishi, and Kazuto Nishikawa hold concurrent positions.
6. The Company has designated Members of the Board of Directors Messrs. Hiroaki Yoshihara and Takashi Shigematsu and Statutory Auditors Messrs. Masakazu Toyoda, Shizuo Nakanishi, and Kazuto Nishikawa as Independent Directors/Auditors as specified in the regulations of the Tokyo Stock Exchange and notified the exchange accordingly.
7. The Company has a total of 15 Vice Presidents. Aside from Members of the Board of Directors above that hold concurrent positions as Director, the Company has 10 Vice Presidents.

(2) Summary of liability limitation agreements

The Company has entered into liability limitation agreements with Outside Directors and Outside Statutory Auditors to restrict liabilities for damages as stipulated by Article 423, Paragraph 1 of the Companies Act based on the provisions of Article 427, Paragraph 1 of the Companies Act. The liability limit under these agreements is the minimum liability amount stipulated in Article 425, Paragraph 1 of the Companies Act.

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

Category	Persons	Amount of compensation, etc.
Members of the Board of Directors	Persons 11	Millions of yen 392
Statutory Auditors	6	73
Total	17	465

- (Notes) 1. The above number includes two (2) Members of the Board of Directors and one (1) Statutory Auditor who retired at the end of the 79th Ordinary General Meeting of Shareholders held on June 26, 2015.
2. The above amounts of compensation, etc. for Members of the Board of Directors do not include employee compensation provided to Members of the Board of Directors concurrently serving as employees.
3. Of the above, total compensation, etc., provided to six (6) Outside Officers, is 49 million yen.
4. By resolution of the General Meeting of Shareholders, the maximum amount of compensation (per annum) is 600 million yen for Members of the Board of Directors (resolved at the Ordinary General Meeting Shareholders in June 2007) and 80 million yen for Statutory Auditors (resolved at the Ordinary General Meeting Shareholders in June 1998). However, this does not include employee compensation and bonuses provided to Members of the Board of Directors concurrently serving as Vice Presidents. Additionally, solely for instances where a change of residence is unavoidable due to operational requirements, upon collecting usage fees for corporate housing based on standards set by the Company, the Company shall provide corporate housing that allows for commute to the branch or division to execute business, and the maximum amount of compensation in lieu of cash that shall be borne by the Company in this instance is 20 million yen (resolved at the Ordinary General Meeting Shareholders in June 2003).

(4) Key activities of outside officers

Category	Name	Key activities
Outside Director	Hiroaki Yoshihara	Mr. Hiroaki Yoshihara attended all 12 meetings of the Board of Directors, and made comments as required based on his abundant experience in consulting for global companies and extensive knowledge as an accounting specialist.
	Takashi Shigematsu	Mr. Takashi Shigematsu attended 9 of 10 meetings of the Board of Directors held after the assumption on June 26, 2015, and made comments as required based on his extensive knowledge as a corporate manager and abundant experience in the automotive field.
Outside Statutory Auditor	Masakazu Toyoda	Mr. Masakazu Toyoda attended all 12 meetings of the Board of Directors and all 12 meetings of the Board of Statutory Auditors, and made comments as required based on his views and abundant experience as a specialist in the field of industrial economics.
	Shizuo Nakanishi	Mr. Shizuo Nakanishi attended all 12 meetings of the Board of Directors and all 12 meetings of the Board of Statutory Auditors, and made comments as required based on his extensive knowledge as an accounting specialist.
	Kazuto Nishikawa	Mr. Kazuto Nishikawa attended all 12 meetings of the Board of Directors and all 12 meetings of the Board of Statutory Auditors, and made comments as required based on his extensive knowledge as a specialist in the fields of taxation and finance.

4. Matters Concerning the Independent Auditor

(1) Name of Independent Auditor

Deloitte Touche Tohmatsu LLC

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

	Category	Amount of compensation, etc.
(1)	Compensation, etc., as Independent Auditor	Millions of yen 155
(2)	Total amount of cash and other beneficial property payable by the Company and its subsidiaries	204

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

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

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

5. Systems to Secure the Appropriateness of Company Operations

The Company positions corporate governance as one of its most important management issues, and the Board of Directors has defined a basic policy regarding the maintenance of a system to secure the appropriateness of company operations (internal control system), as shown below.

Based on the above, the Company works to consider all stakeholders, maintain a management control organization and system, improve management efficiency, strengthen management monitoring functions, and strictly adhere to laws and regulations.

[Systems to Secure the Appropriateness of Company Operations]

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

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

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

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

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

- Regulations shall be defined regarding risk management, and the division that supervises each business function shall conduct risk management.

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

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

- (1) System to secure compatibility between business execution of Members of the Board of Directors and employees with laws and regulations and the Articles of Incorporation
 - Based on internal regulations such as "Regulations of the Board of Directors," the Board of Directors conducts monitoring of decision making of management policies and important business executions as well as the execution of duties of Members of the Board of Directors.
 - "Independent Officer Appointment Standards" have been established based on which a number of Outside Directors are elected who give their

opinions based on their specialized views and abundant experience to the Board of Directors and conduct vigorous discussions.

- The “Compliance Promotion Committee,” “Risk Management Committee,” “Environmental Committee,” “Global Warming Prevention Special Committee,” and “Social & Community Contributions Committee” have been established, as well as a “CSR Management Committee” that acts as a controlling committee. A full-time organization responsible for promoting CSR activities has also been established.
- An Internal Control Committee has been established to develop the internal control system, evaluate and investigate operational conditions, and periodically report such content to the Board of Directors.
- Compliance-related regulations are formulated such as “Compliance Program Regulations” and “Corporate Ethics Policy and Code of Conduct,” and through measures such as selecting compliance promotion leaders in each division, an appropriate compliance system is maintained and continued while actions for further improvement are also taken. Also, regarding the Compliance Promotion Committee, the status of its activities and others are periodically reported to the Board of Directors.
- The Company has established a reporting hotline both within and outside of the Company that receives anonymous, pseudonymous, and identifiable reports. A systematic approach is taken with regards to the treatment of reporters so that they are not subject to detrimental treatment and efforts are taken toward appropriate responses.
- A response manual regarding anti-social forces is distributed to all offices and related companies.
- In order to realize effectiveness and efficiency in each division’s business operations, credibility of financial statements and compliance, the Company has each division conduct continuous self-assessment on the development and operational status of important items in a risk approach, as well as third-party assessment by the Internal Audit Department, as means to enhance transparency and effectiveness of operations.

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

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

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

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

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

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

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

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

(6) Matters regarding employees in the event that Statutory Auditors request employees to assist in their duties, matters regarding the independence of these employees from Members of the Board of Directors, and matters regarding securing the ability to execute orders from Statutory Auditors given to these employees

- A Statutory Auditor Office that assists the duties of Statutory Auditors has been established and dedicated staff assists Statutory Auditors in their duties.
- Staff of the Statutory Auditor Office receive direction regarding their duties directly from Statutory Auditors, and the appointment, transfer, and other personnel evaluations of these staff are made by Statutory Representative Directors upon discussion with Statutory Auditors in a system where consent is received from Statutory Auditors.

(7) System for reporting to Statutory Auditors and system to ensure that parties that report to Statutory Auditors do not receive detrimental treatment as a result of reporting

- Minutes and materials from the Management Executive Committee, etc., group approval documents, and periodic business reports are available for inspection as necessary by Statutory Auditors. Additionally, a system is in place where Standing Statutory Auditors may attend meeting bodies such as the Management Executive Committee, CSR Management Committee, Internal Control Committee, Compliance Promotion Committee, and Risk

Management Committee at any time, and their minutes, audit results from internal and external bodies, and others are delivered and reported to Standing Statutory Auditors. Additionally, documents, information, etc., requested by Statutory Auditors as needed are individually submitted and reported.

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

(8) Other systems to secure the effectiveness of audits by Statutory Auditors

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

Consolidated Balance Sheets

(As of March 31, 2016)

(Millions of yen)

Item	Amount	Item	Amount
Assets	1,517,784	Liabilities	273,805
Current assets	835,369	Current liabilities	185,623
Cash	150,627	Short-term borrowings	6,446
Short-term investments	174,228	Trade accounts payable	56,380
Marketable securities	45,188	Accrued payroll and bonuses	36,456
Trade notes receivable	399	Income taxes payable	28,734
Trade accounts receivable	194,549	Accrued expenses and other	57,607
Allowance for doubtful notes and accounts	(845)	Long-term liabilities	88,182
Inventories	217,462	Long-term debt	3,301
Deferred income taxes	31,365	Termination and retirement benefits	71,884
Prepaid expenses and other	22,396	Deferred income taxes	11,643
Property, plant and equipment	455,862	Other	1,354
Land	49,757	Equity	1,243,979
Buildings	350,279	Murata Corporation's Shareholders' equity	1,229,159
Machinery and equipment	873,410	Common stock	69,377
Construction in progress	37,750	Capital surplus	103,865
Accumulated depreciation	(855,334)	Retained earnings	1,131,809
Investments and other assets	226,553	Accumulated other comprehensive income	(15,532)
Investments	100,131	Unrealized gains on securities	2,945
Intangible assets	51,708	Pension liability adjustments	(23,587)
Goodwill	53,738	Foreign currency translation adjustments	5,110
Deferred income taxes	11,258	Treasury stock, at cost	(60,360)
Other	9,718	Noncontrolling interests	14,820
Total assets	1,517,784	Total liabilities and total equity	1,517,784

Consolidated Statements of Income

(From April 1, 2015
to March 31, 2016)

(Millions of yen)

Item	Amount	
Net sales		1,210,841
Operating expenses		
Cost of sales	712,054	
Selling, general and administrative	145,399	
Research and development	77,982	935,435
Operating income		275,406
Other income		
Interest and dividend income	2,430	
Interest expense	(138)	
Foreign currency exchange gain (loss)	(2,127)	
Other - net	3,602	3,767
Income before income taxes		279,173
Income taxes		
Current income tax	73,495	
Deferred income tax	1,457	74,952
Net income		204,221
Net income attributable to noncontrolling interests		445
Net income attributable to Murata Corporation		203,776

(Note) The presentation of “net income (before net income/loss attributable to noncontrolling interests)” has been changed to “net income” from the period under review.

Consolidated Statements of Shareholders' Equity

(From April 1, 2015
to March 31, 2016)

(Shares, millions of yen)

Item	Number of common shares issued						Controlling interests	Non-controlling interests	Total equity
		Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income	Treasury stock			
Balance at March 31, 2015	225,263,592	69,377	103,864	970,374	39,793	(60,318)	1,123,090	15,841	1,138,931
Purchases of treasury stock at cost						(42)	(42)		(42)
Disposal of treasury stock			1			0	1		1
Net income				203,776			203,776	445	204,221
Cash dividends				(42,341)			(42,341)	(116)	(42,457)
Other comprehensive loss, net of tax					(55,325)		(55,325)	(1,499)	(56,824)
Equity transaction with noncontrolling interests and other								149	149
Balance at March 31, 2016	225,263,592	69,377	103,865	1,131,809	(15,532)	(60,360)	1,229,159	14,820	1,243,979

Notes to the Consolidated Financial Statements

(Basis of Preparation of Consolidated Financial Statements)

1. Scope of consolidation and application of the equity method

1) Number of consolidated subsidiaries: 101

Major consolidated subsidiaries:

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

2) Number of unconsolidated subsidiaries

None

3) Number of affiliated companies

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

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

(Consolidated subsidiaries)

One company was newly consolidated.

One subsidiary of TOKO, INC. Group

Four companies were excluded from consolidation.

Two subsidiaries of Murata Electronics Oy group

Two subsidiaries of RF Monolithics, Inc. group

3. Significant Accounting Policies

(1) Standards for preparation of consolidated financial statements

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

(2) Inventories

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

(3) Marketable securities and investments

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

(4) Depreciation of property, plant and equipment

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

(5) Goodwill and other intangible assets

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

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

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

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

(6) Termination and retirement benefits

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

The Company and two domestic consolidated subsidiaries amended part of their lump-sum retirement pension plans to defined contribution pension plans in January 2015, and converted in April 2015. In January 2015, one domestic consolidated subsidiary converted part of its reserves for April 2015 onward of its defined benefit corporate pension plan to a defined contribution pension plan. In July 2015, one domestic subsidiary amended part of its retirement plans to a defined contribution pension plan and converted in October 2015.

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

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

(7) Accounting for consumption taxes

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

(Notes to Consolidated Balance Sheet)

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

2. Notes discounted 28 million yen

(Marketable securities and investment securities)

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

(Millions of yen)

Type	Cost and amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Governmental debt securities	1,898	11	-	1,909
Private debt securities	120,769	350	540	120,579
Equity securities	7,397	4,723	64	12,056
Investment trusts	2,756	-	-	2,756
Total	132,820	5,084	604	137,300

The aggregate carrying amount of non-listed shares that do not have a readily determinable fair value that are valued at cost is 8,019 million yen. Of this, 8,019 million yen is not subject to events or environmental changes that would have a significant effect on the fair value, and as the fair value is not readily determinable from a practical standpoint, impairment evaluations have not been made.

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

(Millions of yen)

Maturity date	Available-for-sale securities Governmental debt securities, private debt securities, and investment trusts
Within 1 year	45,188
Over 1 year, within 5 years	77,145
Over 5 years	2,911
Total	125,244

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

(Millions of yen)

	Amount
Sale amount	120
Realized gains	47
Realized losses	-

(Financial instruments and concentration of risk)

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

1. Assets and liabilities

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

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

(2) Marketable securities and investment securities

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

2. Financial derivatives

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

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

Estimated principal on forward exchange contracts, currency option transactions and interest rate swap transactions

(Millions of yen)

	Estimated principal
Forward exchange contracts	140,780
Currency option contracts	31,242
Interest rate swap contracts	3,400

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

(Millions of yen)

	Assets		Liabilities	
	Item	Fair value	Item	Fair value
Forward exchange contracts	Prepaid expenses and other current assets	3,340	Accrued expenses and other current liabilities	135
Currency option contracts	Prepaid expenses and other current assets	19	Accrued expenses and other current liabilities	61
Interest rate swap contracts	Prepaid expenses and other current assets	-	Accrued expenses and other current liabilities	29

3. Concentration of credit risk

The Group conducts sales in the global electronic device market.

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

(Notes to amounts per share)

- | | |
|--|--------------|
| 1. Shareholders' equity per share | 5,806.06 yen |
| 2. Basic earnings attributable to Murata Corporation per share | 962.55 yen |

(Subsequent events)

On May 1, 2016, the Company carried out a share exchange in which TOKO, INC. became the wholly-owned subsidiary. The Company allotted 1,041,795 shares of treasury stock by the share exchange. As a result of the share exchange, treasury stock of the Company decreased by 4,637 million yen.

(Other)

On November 13, 2007 (local time), US-based SynQor, Inc. (hereinafter "SynQor") alleged that certain power supply products sold by the Group infringed on US patents it held, and filed a patent infringement lawsuit in the Eastern District of Texas Federal Court (hereinafter "Federal Court"). On November 18, 2013 (local time), a judgment was reached, ordering the Company and its subsidiaries to pay approximately 20,980 thousand US dollars in damages. As expenses related to the litigation, the Group recorded 25,291 thousand US dollars during the year ended March 31, 2012, and completed payment during the year ended March 31, 2013.

Additionally, on October 6, 2011 (local time), SynQor filed a lawsuit for damages in the Federal Court regarding shipments of these items after the injunction had been put into place (January 24, 2011 [local time]). On March 31, 2014 (local time), the Federal Court reached first judgment, ordering the payment of 1,327 thousand US dollars in damages by a subsidiary of the Company. SynQor filed an appeal with the United States Federal Court of Appeals.

In November 2015, a settlement was reached between SynQor and a customer of a Company subsidiary that also settled a lawsuit that had been filed by SynQor against the Company subsidiary. As a result of an agreement, the Group will bear none of the costs regarding this case.

Income Statements

(From April 1, 2015
to March 31, 2016)

(Millions of yen)

Description	Amount	
Net sales		889,121
Cost of sales		699,528
Gross profit		189,593
Selling, general and administrative		134,135
Operating income		55,457
Non-operating income		
Interest and dividend income	43,096	
Other	2,587	45,683
Non-operating expenses		
Interest expense	361	
Product replacement and repair costs	1,616	
Other	3,431	5,408
Ordinary income		95,732
Extraordinary income		
Gain on revision of retirement benefit plan	2,215	2,215
Extraordinary losses		
Loss on valuation of shares of subsidiaries and associates	7,458	7,458
Income before income taxes		90,489
Current income tax	6,184	
Deferred income tax	3,584	9,768
Net income		80,721

Statements of Shareholders' Equity

(From April 1, 2015
to March 31, 2016)

(Millions of yen)

	Murata Corporation's Shareholders' equity							
	Common stock	Capital surplus			Retained earnings			
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		
						Reserve for reduction entry of land	Reserve for special depreciation	Reserve for reduction entry of replaced property
Balance at April 1, 2015	69,376	107,666	1,536	109,202	7,899	13	530	51
Changes of items during period								
Cash dividends								
Net income								
Purchases of treasury stock at cost								
Disposal of treasury stock			0	0				
Reversal of reserve for special depreciation							(113)	
Reversal of reserve for reduction entry of replaced property								(2)
Change in reserve due to change in statutory tax rate						0	9	1
Net changes of items other than shareholders' equity								
Total changes of items during period	-	-	0	0	-	0	(104)	(1)
Balance at March 31, 2016	69,376	107,666	1,536	109,203	7,899	13	426	50

	Murata Corporation's Shareholders' equity						Valuation and translation adjustments		Total net assets
	Retained earnings			Treasury stock	Total Murata Corporation's Shareholders' equity	Valuation difference on other marketable securities	Total valuation and translation adjustments		
	Other retained earnings		Total retained earnings						
	General reserve	Retained earnings brought forward							
Balance at April 1, 2015	162,707	202,828	374,031	(60,317)	492,293	7,063	7,063	499,356	
Changes of items during period									
Cash dividends		(42,340)	(42,340)		(42,340)			(42,340)	
Net income		80,721	80,721		80,721			80,721	
Purchases of treasury stock at cost				(41)	(41)			(41)	
Disposal of treasury stock				0	0			0	
Reversal of reserve for special depreciation		113	-		-			-	
Reversal of reserve for reduction entry of replaced property		2	-		-			-	
Change in reserve due to change in statutory tax rate		(10)	-		-			-	
Net changes of items other than shareholders' equity						(4,672)	(4,672)	(4,672)	
Total changes of items during period	-	38,485	38,380	(41)	38,338	(4,672)	(4,672)	33,666	
Balance at March 31, 2016	162,707	241,313	412,412	(60,359)	530,631	2,391	2,391	533,022	

Notes to Unconsolidated Financial Statements

(Notes to significant accounting policies)

1. Valuation standards and valuation methods of assets

(1) Valuation standards and valuation methods of marketable securities

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

(2) Valuations standards and valuation methods of derivatives

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

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

2. Depreciation method for noncurrent assets

(1) Property, plant and equipment

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

(2) Intangible assets

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

3. Standards for recording of allowances

(1) Allowance for doubtful notes and accounts

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

(2) Termination and retirement benefits

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

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

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

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

Amounts are exclusive of consumption tax.

(2) Application of consolidated taxation system

The consolidated taxation system is applied.

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

(Notes to unconsolidated balance sheets)

1. Accumulated depreciation of property, plant and equipment	176,179 million yen
2. Short-term monetary claims with affiliated companies	186,701 million yen
Long-term monetary claims with affiliated companies	19,576 million yen
Short-term monetary liabilities with affiliated companies	213,614 million yen
Long-term monetary liabilities with affiliated companies	2,060 million yen

3. Guarantee liabilities

49 million yen

(Millions of yen)

Guarantee	Guarantee amount	Content of guarantee
Philippines Murata Land and Building, Inc.	45	Borrowings
Other	4	Borrowings
Total	49	

(Notes to the unconsolidated income statements)

1. Transactions with affiliated companies

Business transactions

Net sales 818,341 million yen
Purchase turnover 648,888 million yen

Non-business transactions

Interest income 121 million yen
Dividend income 41,499 million yen
Asset transfer 1,288 million yen
Interest expense 361 million yen
Asset purchase 2,898 million yen

2. Research and development expenses 68,597 million yen

(Notes to statements of shareholders' equity)

1. Type and total number of issued shares as of March 31, 2016

Common stock 225,263,592 shares

2. Type and number of treasury stock as of March 31, 2016

Common stock 13,560,912 shares

3. Matters concerning dividends

(1) Amount of dividends paid

Resolution	Type of stock	Total amount of dividends (Millions of yen)	Dividends per share (yen)	Record date	Effective date
June 26, 2015 Ordinary General Meeting of Shareholders	Common stock	21,170	100	March 31, 2015	June 29, 2015
October 30, 2015 Meeting of the Board of Directors	Common stock	21,170	100	September 30, 2015	November 30, 2015

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

As a proposal at the Ordinary General Meeting of Shareholders on June 29, 2016, the Company plans to propose the following concerning dividends for common stock.

- 1) Total amount of dividends 23,287 million yen
2) Dividends per share 110 yen
3) Record date March 31, 2016
4) Effective date June 30, 2016

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

(Notes to tax effect accounting)

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

(1) Current

Deferred tax assets	
Accrued bonuses	2,830 million yen
Inventories	1,854 million yen
Accrued expenses	829 million yen
Accounts payable - other	650 million yen
Accrued enterprise tax	284 million yen
Other marketable securities valuation adjustment	67 million yen
Other	<u>789 million yen</u>
Total deferred tax assets	7,305 million yen

(2) Noncurrent

Deferred tax assets		Deferred tax liabilities	
Termination and retirement benefits	5,988 million yen	Other marketable securities valuation adjustment	915 million yen
Stock of affiliated companies	3,520 million yen	Reserve for special depreciation	187 million yen
Tangible and intangible assets	2,184 million yen	Other	<u>34 million yen</u>
Long-term liabilities - other	1,296 million yen	Total deferred tax liabilities	1,137 million yen
Investment securities	464 million yen	Elimination with deferred tax assets	<u>(1,137) million yen</u>
Other	<u>206 million yen</u>	Net deferred tax liabilities	-
Deferred tax assets subtotal	13,661 million yen		
Valuation allowance	<u>(4,711) million yen</u>		
Total deferred tax assets	8,950 million yen		
Elimination with deferred tax liabilities	<u>(1,137) million yen</u>		
Net deferred tax assets	7,812 million yen		

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

Effective statutory tax rate	32.8 %
(Adjustments)	
Exemption for dividend income	(15.1) %
Tax exemption for R&D promotion tax system	(10.8) %
Valuation allowance for deferred tax assets	2.5 %
Downward adjustment in year-end deferred tax assets due to changes in tax rate	1.1 %
Other	<u>0.3 %</u>
Income tax rate after application of tax effect accounting	<u>10.8 %</u>

(Notes to transactions with related parties)

1. Subsidiaries and affiliated companies, etc.

(Millions of yen)

Type	Name of company, etc.	Percentage ownership of voting rights held	Relationship with related parties	Summary of transactions	Transaction amount	Item	Balance at period end
Subsidiary	Fukui Murata Manufacturing Co., Ltd.	Direct holdings 100%	Production of the Company's products Concurrently serving officers	Procurement of products, etc. (Note 1)	112,992 (Note 2)	Trade accounts payable	-
				Borrowing of funds Payment of interest (Note 3)	62,664 171	Short-term borrowings Current position of long-term borrowings	49,251
Subsidiary	Izumo Murata Manufacturing Co., Ltd.	Direct holdings 100%	Production of the Company's products Concurrently serving officers	Procurement of products, etc. (Note 1)	106,723 (Note 2)	Trade accounts payable	2,873 (Note 2)
				Borrowing of funds Payment of interest (Note 3)	13,954 17	Short-term borrowings	17,543
Subsidiary	Toyama Murata Manufacturing Co., Ltd.	Direct holdings 100%	Production of the Company's products Concurrently serving officers	Borrowing of funds Payment of interest (Note 3)	11,205 22	Short-term borrowings Current position of long-term borrowings	9,993
Subsidiary	Kanazawa Murata Manufacturing Co., Ltd.	Direct holdings 100%	Production of the Company's products Concurrently serving officers	Borrowing of funds Payment of interest (Note 3)	37,346 42	Short-term borrowings Current position of long-term borrowings	34,810
Subsidiary	Okayama Murata Manufacturing Co., Ltd.	Direct holdings 100%	Production of the Company's products Concurrently serving officers	Procurement of products, etc. (Note 1)	98,236 (Note 2)	Trade accounts payable	4,553 (Note 2)
				Borrowing of funds Payment of interest (Note 3)	13,388 22	Short-term borrowings Current position of long-term borrowings	17,764
Subsidiary	Murata Company Limited	Direct holdings 100%	Sales of products of the Company and subsidiaries	Sales of products, etc. (Note 1)	257,915	Trade accounts receivable	52,758
Subsidiary	Murata Electronics Trading (Shanghai) Co., Ltd.	Indirect holdings 100%	Sales of products of the Company and subsidiaries Concurrently serving officers	Sales of products, etc. (Note 1)	137,829	Trade accounts receivable	35,316
Subsidiary	Korea Murata Electronics Company, Limited	Direct holdings 100%	Sales of products of the Company and subsidiaries Concurrently serving officers	Sales of products, etc. (Note 1)	137,353	Trade accounts receivable	20,383

Transaction conditions and standard for determining transaction conditions

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

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

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

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

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

2. Officers and primary shareholders, etc.

(Millions of yen)

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

* For a third party.

(Notes to amounts per share)

Net assets per share	2,517.79 yen
Net income per share	381.29 yen

(Notes to subsequent events)

Procedures to make TOKO, INC. a wholly owned subsidiary by share exchange are stated in “Notes to the Consolidated Financial Statements (Subsequent events).”

(Other notes)

1. Accounting for termination and retirement benefits

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

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

(2) Matters concerning the defined-benefit type termination and retirement benefit liabilities (As of March 31, 2016)

a. Termination and retirement benefit liabilities	95,943 million yen
b. Pension assets	64,555 million yen
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c. Termination and retirement benefit liabilities in excess of pension assets (a – b)	31,388 million yen
d. Unrecognized actuarial differences	17,088 million yen
e. Unrecognized prior service cost	(5,331) million yen
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f. Termination and retirement benefits (c – d – e)	19,631 million yen

(3) Matters concerning the defined-benefit type termination and retirement expenses (From April 1, 2015 to March 31, 2016)

a. Service cost	3,715 million yen
b. Interest expenses	873 million yen
c. Expected operational profit	(1,370) million yen
d. Recorded amount of actuarial difference expenses	1,117 million yen
e. Recorded amount of prior service cost	(1,502) million yen
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f. Termination and retirement expenses (a + b + c + d + e)	2,834 million yen

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

a. Distribution period method for expected termination and retirement benefits	Benefit formula standard
b. Discount rate	0.5 %
c. Expected operational profit rate	2.2 %
d. Number of years for evaluating prior service cost	16 to 20 years (Amortized using the straight-line method based on the average remaining years of service of employees as of the time of occurrence)
e. Number of years for evaluating actuarial differences	5 years (Amortized using the straight-line method over a certain number of years within the average remaining years of service commencing the following fiscal year after incurrence.)

(5) Matters concerning defined contribution pension plans (from April 1, 2015 to March 31, 2016)

The Company converted part of its lump-sum retirement pension plans to defined contribution pension plans in April 2015. As a result, 2,215 million yen of a gain on revision of retirement benefit plan was reported.

Total assets converted as a result of this change to defined contribution pension plans are 8,986 million yen and will be converted within four years of June 2015. Total unconverted assets as of March 31, 2016 are 6,362 million yen.

Recognized costs involved in contributions to defined contribution pension plans during the fiscal year under review are 718 million yen.