Consolidated Financial Statements and Auditor's Report

Year Ended March 31, 2018

INNOVATOR IN ELECTRONICS

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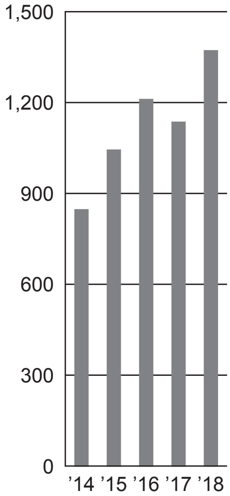
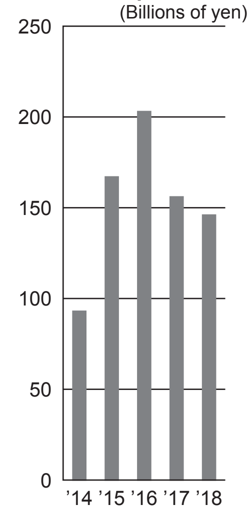
Financial Data

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2014–2018

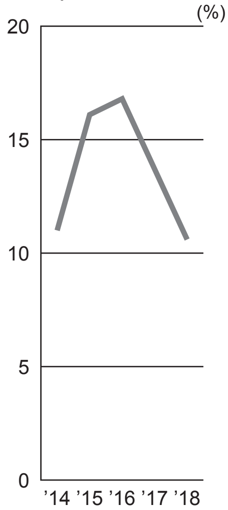
Net sales
(Billions of yen)



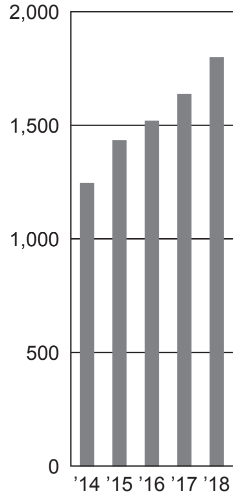
Net income attributable to Murata Corporation
(Billions of yen)



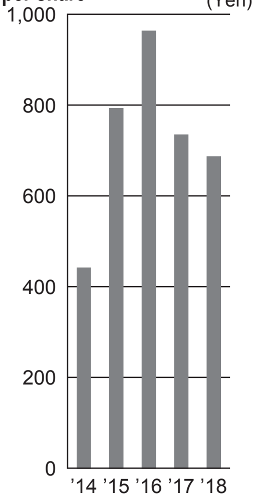
Net income attributable to Murata Corporation / Net sales
(%)



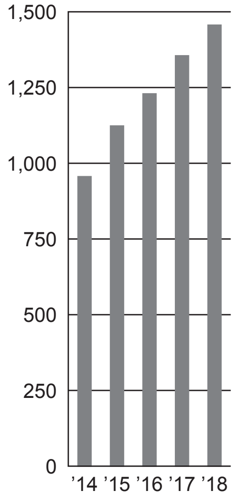
Total assets
(Billions of yen)



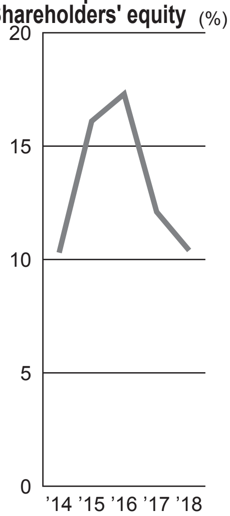
Basic earnings attributable to Murata Corporation per share[*1]
(Yen)



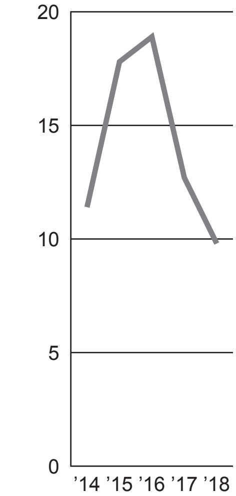
Shareholders’ equity
(Billions of yen)



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

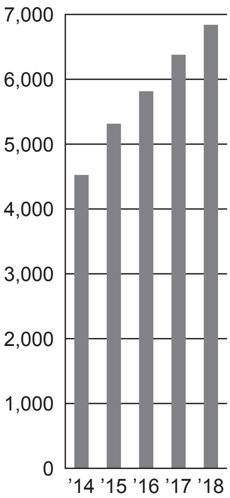


Income before income taxes / Total assets
(%)

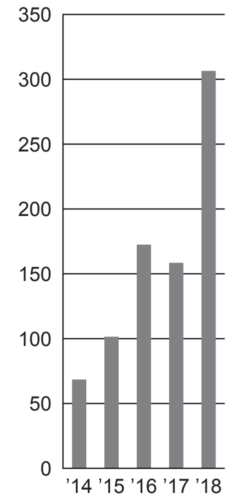


*1 Based on the average number of common shares outstanding. There are no dilutive potential securities.

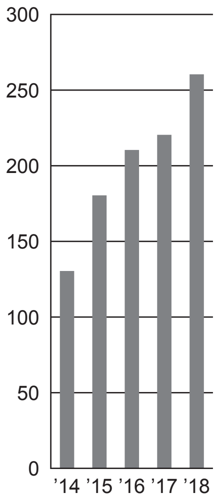
Shareholders’ equity per share[*2]
(Yen)



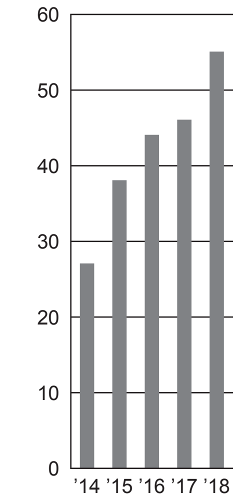
Capital expenditures
(Billions of yen)



Cash dividends per share
(Yen)



Total return[*3]
(Billions of yen)



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

Productions, Orders, Backlogs, and Sales by Product

Murata Manufacturing Co., Ltd. and Subsidiaries
Year ended March 31, 2018

	Millions of yen	Component ratio	Ratio against the previous year	Thousands of U.S. dollars
	2018			
Productions by Product		%	%	
Capacitors	¥ 472,216	33.2	28.0	$ 4,454,868
Piezoelectric Components	152,527	10.7	(14.3)	1,438,934
Other Components	343,681	24.1	56.7	3,242,274
Components Total	968,424	68.0	26.4	9,136,076
Communication Modules	407,886	28.6	28.8	3,847,981
Power Supplies and Other Modules	47,995	3.4	6.4	452,783
Modules Total	455,881	32.0	26.0	4,300,764
Total	¥1,424,305	100.0	26.3	$13,436,840

*1 Figures on the tables by 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.
*4 The productions, orders, and backlogs in Other Components for this year have increased drastically compared to the previous year. This is because the battery business transferred from Sony Corporation has been included in Other Components since September 1, 2017.

	Millions of yen	Component ratio	Ratio against the previous year	Thousands of U.S. dollars
	2018			
Orders by Product		%	%	
Capacitors	¥ 535,859	36.5	34.9	$ 5,055,274
Piezoelectric Components	153,153	10.5	(0.4)	1,444,840
Other Components	336,076	22.9	48.7	3,170,528
Components Total	1,025,088	69.9	31.9	9,670,642
Communication Modules	390,748	26.6	17.3	3,686,302
Power Supplies and Other Modules	50,830	3.5	10.1	479,528
Modules Total	441,578	30.1	16.4	4,165,830
Total	¥1,466,666	100.0	26.8	$13,836,472

	Millions of yen	Component ratio	Ratio against the previous year	Thousands of U.S. dollars
	2018			
Backlogs by Product		%	%	
Capacitors	¥148,542	53.3	137.7	$1,401,340
Piezoelectric Components	19,791	7.1	6.1	186,707
Other Components	62,319	22.4	176.0	587,915
Components Total	230,652	82.8	122.4	2,175,962
Communication Modules	38,794	13.9	(9.9)	365,981
Power Supplies and Other Modules	9,064	3.3	27.9	85,510
Modules Total	47,858	17.2	(4.5)	451,491
Total	¥278,510	100.0	81.0	$2,627,453

*1 The orders and backlogs in Capacitors for this year have increased drastically compared to the previous year. This is because of the increased demand for smartphones and automotive electronics.

	Millions of yen	Component ratio	Ratio against the previous year	Thousands of U.S. dollars
	2018			
Sales by Product		%	%	
Capacitors	¥ 449,801	32.9	21.7	$ 4,243,406
Piezoelectric Components	152,016	11.1	(10.6)	1,434,113
Other Components	322,332	23.6	45.0	3,040,868
Components Total	924,149	67.6	21.3	8,718,387
Communication Modules	395,003	28.9	21.3	3,726,443
Power Supplies and Other Modules	48,851	3.5	8.3	460,859
Modules Total	443,854	32.4	19.7	4,187,302
Total	¥1,368,003	100.0	20.8	$12,905,689

Capital Expenditures

Murata Manufacturing Co., Ltd. and Subsidiaries
Year ended March 31, 2018

1) Capital expenditures for the fiscal year ended March 31, 2018 amounted to ¥306,608 million ($2,892,528 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 was as follows:

	Millions of yen				
2018	Land	Buildings	Machinery and equipment	Construction in progress	Total
Parent Company					
Plant, Office and other					
Head Office in Kyoto	¥ 815	¥ 1,555	¥ 3,578	¥5,367	¥11,317
Nagaoka Plant in Kyoto	29	4,749	357	30	5,167
Yokaichi Plant in Shiga	487	14,988	8,201	1,974	25,652
Yasu Plant in Shiga	7,600	16,078	12,227	3,204	39,110
Yokohama Technical Center in Kanagawa	1,797	1,493	918	–	4,209
Other	16,162	693	732	34	17,623

	Millions of yen				
2018	Land	Buildings	Machinery and equipment	Construction in progress	Total
Domestic Subsidiaries					
Company Name					
Kanazawa Murata Manufacturing Co., Ltd.	¥5,125	¥21,497	¥32,520	¥10,912	¥70,054
Toyama Murata Manufacturing Co., Ltd.	1,596	13,945	37,762	10,925	64,228
Fukui Murata Manufacturing Co., Ltd.	2,378	23,425	25,649	1,977	53,429
Izumo Murata Manufacturing Co., Ltd.	2,487	19,236	24,960	5,687	52,370
Okayama Murata Manufacturing Co., Ltd.	–	9,079	17,719	1,887	28,685
Murata Land & Building Co., Ltd.	4,745	5,820	2	–	10,567

	Millions of yen				
2018	Land	Buildings	Machinery and equipment	Construction in progress	Total
Foreign Subsidiaries					
Company Name					
Wuxi Murata Electronics Co., Ltd.	¥ –	¥14,464	¥51,053	¥5,284	¥70,801
Murata Energy Device Wuxi Co., Ltd	–	6,779	13,239	8,655	28,673
Murata Energy Device Singapore Pte. Ltd.	–	4,658	16,842	2,199	23,699
Shenzhen Murata Technology Co., Ltd.	–	6,968	11,677	419	19,064
Philippine Manufacturing Co. of Murata, Inc.	–	5,388	8,220	2,854	16,462
Murata Electronics (Thailand), Ltd.	331	5,505	7,949	2,188	15,973

Consolidated Balance Sheets

Murata Manufacturing Co., Ltd. and Subsidiaries
At March 31, 2018 and 2017

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 2)
	2018	2017	**2018**
Current assets:			
Cash	**¥ 168,902**	¥ 170,929	**$ 1,593,415**
Short-term investments	**30,747**	173,401	**290,066**
Marketable securities (Note 3)	**20,790**	53,043	**196,132**
Notes and accounts receivable:			
Trade notes	**2,895**	271	**27,311**
Trade accounts	**256,140**	209,596	**2,416,415**
Allowance for doubtful notes and accounts	**(1,159)**	(905)	**(10,934)**
Inventories (Note 4)	**290,257**	211,447	**2,738,274**
Deferred income taxes (Note 9)	**–**	25,890	**–**
Prepaid expenses and other	**41,688**	27,759	**393,283**
Total current assets	**810,260**	871,431	**7,643,962**
Property, plant and equipment:			
Land	**64,772**	50,761	**611,057**
Buildings	**467,427**	394,239	**4,409,689**
Machinery and equipment	**1,104,592**	950,280	**10,420,679**
Construction in progress	**97,090**	40,035	**915,943**
Total	**1,733,881**	1,435,315	**16,357,368**
Accumulated depreciation	**(1,028,652)**	(927,346)	**(9,704,264)**
Net property, plant and equipment	**705,229**	507,969	**6,653,104**
Investments and other assets:			
Investments (Note 3)	**87,288**	103,468	**823,472**
Intangible assets (Note 15)	**54,347**	48,883	**512,707**
Goodwill (Note 15)	**76,914**	62,102	**725,604**
Deferred income taxes (Note 9)	**36,346**	5,259	**342,887**
Other (Note 6)	**26,629**	35,887	**251,217**
Total investments and other assets	**281,524**	255,599	**2,655,887**
Total assets	**¥ 1,797,013**	¥ 1,634,999	**$16,952,953**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars (Note 2) 2018
Current liabilities:			
Short-term borrowings (Note 5)	**¥ 13,500**	¥ 46,118	**$ 127,359**
Trade accounts payable	**94,074**	57,918	**887,491**
Accrued payroll and bonuses	**38,041**	34,075	**358,877**
Income taxes payable	**24,968**	7,240	**235,547**
Accrued expenses and other (Note 6)	**91,229**	63,383	**860,651**
Total current liabilities	**261,812**	208,734	**2,469,925**
Long-term liabilities:			
Long-term debt (Note 5)	**742**	545	**7,000**
Termination and retirement benefits (Note 6)	**67,843**	59,324	**640,028**
Deferred income taxes (Note 9)	**7,675**	9,677	**72,406**
Other	**1,725**	1,385	**16,274**
Total long-term liabilities	**77,985**	70,931	**735,708**
Commitments (Note 11)			
Murata Corporation's Shareholders' equity (Notes 7 and 17):			
Common stock (authorized 581,000,000 shares in 2018 and 2017; issued 225,271,427 shares in 2018 and 225,263,592 shares in 2017)	**69,444**	69,377	**655,132**
Capital surplus	**120,596**	114,290	**1,137,698**
Retained earnings	**1,336,208**	1,241,180	**12,605,736**
Accumulated other comprehensive income (loss) (Note 8):			
Unrealized gains on securities	**7,576**	6,127	**71,472**
Pension liability adjustments (Note 6)	**(16,995)**	(15,652)	**(160,330)**
Foreign currency translation adjustments	**(6,633)**	(4,694)	**(62,576)**
Total accumulated other comprehensive loss	**(16,052)**	(14,219)	**(151,434)**
Treasury stock, at cost 12,020,374 shares in 2018 and 12,525,306 shares in 2017	**(53,596)**	(55,809)	**(505,623)**
Total Murata Corporation's Shareholders' equity	**1,456,600**	1,354,819	**13,741,509**
Noncontrolling interests	**616**	515	**5,811**
Total equity	**1,457,216**	1,355,334	**13,747,320**
Total liabilities and equity	**¥ 1,797,013**	¥ 1,634,999	**$16,952,953**

See notes to consolidated financial statements.

Consolidated Statements of Income

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2018, 2017 and 2016

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2018	2017	2016	**2018**
Net sales	**¥1,371,842**	¥1,135,524	¥1,210,841	**$12,941,906**
Operating costs and expenses (Note 6):				
Cost of sales	**927,565**	703,129	712,054	**8,750,614**
Selling, general and administrative	**187,950**	149,371	145,399	**1,773,113**
Research and development	**94,181**	81,809	77,982	**888,500**
Total operating costs and expenses	**1,209,696**	934,309	935,435	**11,412,227**
Operating income	**162,146**	201,215	275,406	**1,529,679**
Other income (expenses):				
Interest and dividend income	**2,854**	2,449	2,430	**26,924**
Interest expense	**(581)**	(272)	(138)	**(5,481)**
Foreign currency exchange loss	**(7,299)**	(4,815)	(2,127)	**(68,858)**
Gain on bargain purchase (Note 14):	**6,442**	–	–	**60,774**
Other-net	**4,239**	1,841	3,602	**39,990**
Other income (expenses)-net	**5,655**	(797)	3,767	**53,349**
Income before income taxes	**167,801**	200,418	279,173	**1,583,028**
Income taxes (Note 9):				
Current	**48,538**	39,813	73,495	**457,906**
Deferred	**(26,789)**	4,529	1,457	**(252,727)**
Provision for income taxes	**21,749**	44,342	74,952	**205,179**
Net income	**146,052**	156,076	204,221	**1,377,849**
Less: Net income (loss) attributable to noncontrolling interests	**(34)**	16	445	**(321)**
Net income attributable to Murata Corporation	**¥ 146,086**	¥ 156,060	¥ 203,776	**$ 1,378,170**

	Yen			U.S. dollars (Note 2)
Amounts per share (Note 10):				
Basic earnings attributable to Murata Corporation per share	**¥685.86**	¥733.87	¥962.55	**$6.47**
Cash dividends per share	**¥240.00**	¥220.00	¥200.00	**$2.26**

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2018, 2017 and 2016

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2018	2017	2016	**2018**
Net income	**¥146,052**	¥156,076	¥204,221	**$1,377,849**
Other comprehensive income (loss), net of tax (Note 8):				
Unrealized gains (losses) on securities	**1,449**	3,141	(4,345)	**13,670**
Pension liability adjustments	**(1,343)**	8,822	(18,581)	**(12,670)**
Foreign currency translation adjustments	**(1,925)**	(9,895)	(33,898)	**(18,160)**
Other comprehensive income (loss)	**(1,819)**	2,068	(56,824)	**(17,160)**
Comprehensive income	**144,233**	158,144	147,397	**1,360,689**
Less: Comprehensive loss attributable to noncontrolling interests	**(20)**	(2)	(1,054)	**(188)**
Comprehensive income attributable to Murata Corporation	**¥144,253**	¥158,146	¥148,451	**$1,360,877**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2018, 2017 and 2016

	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, 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 (Note 8)					(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
Purchases of treasury stock at cost						(88)	(88)		(88)
Disposal of treasury stock			3			2	5		5
Net income				156,060			156,060	16	156,076
Cash dividends				(46,689)			(46,689)		(46,689)
Other comprehensive income, net of tax (Note 8)					2,086		2,086	(18)	2,068
Equity transaction with noncontrolling interests and other....................			10,422		(773)	4,637	14,286	(14,303)	(17)
Balance at March 31, 2017	**225,263,592**	**69,377**	**114,290**	**1,241,180**	**(14,219)**	**(55,809)**	**1,354,819**	**515**	**1,355,334**
Purchases of treasury stock at cost						**(53)**	**(53)**		**(53)**
Disposal of treasury stock			**6,272**			**2,266**	**8,538**		**8,538**
Net income				**146,086**			**146,086**	**(34)**	**146,052**
Cash dividends				**(51,058)**			**(51,058)**		**(51,058)**
Other comprehensive loss, net of tax (Note 8)					**(1,833)**		**(1,833)**	**14**	**(1,819)**
Restricted stock compensation...........	**7,835**	**67**	**34**				**101**		**101**
Equity transaction with noncontrolling interests and other....................								**121**	**121**
Balance at March 31, 2018	**225,271,427**	**¥ 69,444**	**¥ 120,596**	**¥1,336,208**	**¥ (16,052)**	**¥(53,596)**	**¥1,456,600**	**¥ 616**	**¥1,457,216**

	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, 2017	**$654,500**	**$1,078,207**	**$11,709,245**	**$(134,141)**	**$ (526,500)**	**$12,781,311**	**$ 4,857**	**$12,786,168**
Purchases of treasury stock at cost					**(500)**	**(500)**		**(500)**
Disposal of treasury stock		**59,170**			**21,377**	**80,547**		**80,547**
Net income			**1,378,170**			**1,378,170**	**(321)**	**1,377,849**
Cash dividends			**(481,679)**			**(481,679)**		**(481,679)**
Other comprehensive loss, net of tax (Note 8)				**(17,293)**		**(17,293)**	**133**	**(17,160)**
Restricted stock compensation........	**632**	**321**				**953**		**953**
Equity transaction with noncontrolling interests and other							**1,142**	**1,142**
Balance at March 31, 2018	**$655,132**	**$1,137,698**	**$12,605,736**	**$(151,434)**	**$ (505,623)**	**$13,741,509**	**$ 5,811**	**$13,747,320**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2018, 2017 and 2016

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2018	2017	2016	**2018**
Operating activities:				
Net income	**¥ 146,052**	¥ 156,076	¥ 204,221	**$ 1,377,849**
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	**141,625**	113,523	99,105	**1,336,085**
Losses on sales and disposals of property, plant and equipment	**1,620**	1,867	1,406	**15,283**
Impairment losses on long-lived assets (Note 12)	**7,269**	–	–	**68,575**
Provision for termination and retirement benefits, less payments	**(771)**	(1,040)	(16,006)	**(7,274)**
Deferred income taxes	**(26,789)**	4,529	1,457	**(252,726)**
Gain on bargain purchase (Note 14)	**(6,442)**	–	–	**(60,774)**
Changes in assets and liabilities:				
(Increase) decrease in trade notes and accounts receivable	**(30,135)**	(14,317)	19,507	**(284,292)**
(Increase) decrease in inventories	**(47,268)**	5,032	(38,549)	**(445,925)**
Increase in prepaid expenses and other	**(11,970)**	(4,916)	(12,546)	**(112,925)**
Increase in trade notes and accounts payable	**24,873**	650	4,336	**234,651**
Increase (decrease) in accrued payroll and bonuses	**970**	(2,394)	500	**9,151**
Increase (decrease) in income taxes payable	**17,784**	(22,678)	(20,739)	**167,774**
Increase in accrued expenses and other	**10,433**	7,586	10,050	**98,425**
Other-net	**(2,002)**	2	(291)	**(18,886)**
Net cash provided by operating activities	**225,249**	243,920	252,451	**2,124,991**
Investing activities:				
Capital expenditures	**(306,608)**	(158,579)	(172,540)	**(2,892,528)**
Payment for purchases of marketable securities, investments and other	**(13,016)**	(58,967)	(64,173)	**(122,792)**
Maturities and sales of marketable securities, investments and other	**57,131**	45,192	71,807	**538,972**
(Increase) decrease in long-term deposits	**1,081**	(22,591)	–	**10,198**
(Increase) decrease in short-term investments	**98,424**	5,982	(41,999)	**928,528**
Acquisitions of businesses, net of cash acquired (Note 14)	**(33,648)**	(14,725)	–	**(317,434)**
Other-net	**2,471**	991	1,589	**23,311**
Net cash used in investing activities	**(194,165)**	(202,697)	(205,316)	**(1,831,745)**
Financing activities:				
Net increase (decrease) in short-term borrowings	**(32,618)**	39,673	(4,671)	**(307,717)**
Proceeds from long-term debt	**403**	–	1,000	**3,802**
Repayment of long-term debt	**(353)**	(4,662)	(10,494)	**(3,330)**
Dividends paid	**(51,058)**	(46,689)	(42,341)	**(481,679)**
Other-net	**41**	(51)	(108)	**386**
Net cash used in financing activities	**(83,585)**	(11,729)	(56,614)	**(788,538)**
Effect of exchange rate changes on cash and cash equivalents	**1,227**	(2,880)	9,113	**11,575**
Net increase (decrease) in cash and cash equivalents	**(51,274)**	26,614	(366)	**(483,717)**
Cash and cash equivalents at beginning of year	**239,184**	212,570	212,936	**2,256,453**
Cash and cash equivalents at end of year	**¥ 187,910**	¥ 239,184	¥ 212,570	**$ 1,772,736**
Additional cash flow information:				
Interest paid	**¥ 581**	¥ 289	¥ 134	**$ 5,481**
Income taxes paid	**21,635**	62,736	95,083	**204,104**
Additional cash and cash equivalents information:				
Cash	**¥ 168,902**	¥ 170,929	¥ 150,627	**$ 1,593,415**
Short-term investments	**30,747**	173,401	174,228	**290,066**
Short-term investments with the original maturities over 3 months	**(11,739)**	(105,146)	(112,285)	**(110,745)**
Cash and cash equivalents at end of year	**¥ 187,910**	¥ 239,184	¥ 212,570	**$ 1,772,736**

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. Modules consist of Communication Modules, Power Supplies, and Other Modules. The Companies’ products are sold mainly to electronics companies for use as components in telecommunication, computer, audio, video, automotive electronics, and other electronic products.

(b) Basis of financial statements

The consolidated financial statements, stated in Japanese yen, reflect certain adjustments, not recorded on the books of account, to present these statements in accordance with accounting principles generally accepted in the United States 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, accounting for derivatives, and the provision for deferred income taxes relating to these adjustments.

(c) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. All significant intercompany 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, “Investment - Debt and Equity Securities”, and ASC 825 "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 gains or losses (net of tax) as a separate component of shareholders’ equity, except investments whose unrealized holding gains and losses 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 (see Note 3). The Companies review the fair value of their marketable securities and investments on a regular basis to determine if the fair value of any individual investment has declined below its cost 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 investment. Losses from other-than-temporary impairments, if any, are charged to income as incurred.

(f) Inventories

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

(g) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is principally computed using the declining-balance method (straight-line method for certain overseas subsidiaries) based upon the estimated useful lives of the assets. The range of useful lives is principally from 10 to 50 years for buildings and from 4 to 17 years for machinery and equipment.

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

(j) Advertising expenses

Advertising costs are expensed as incurred. Advertising expenses for the years ended March 31, 2018, 2017, and 2016 were ¥4,263 million ($40,217 thousand), ¥3,824 million, and ¥3,833 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 using the enacted tax rates. Deferred income tax expenses and credits are primarily based on the change in the deferred tax assets and liabilities from period to period. A valuation allowance is established, when necessary, to reduce deferred tax assets to the amount that is more likely than not to be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

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. ASC 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. 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 authority.

In November 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-17, "Income Taxes: Balance Sheet Classification of Deferred Taxes." To simplify the presentation of deferred income taxes, the ASU requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. On June 30, 2017, the Company adopted the ASU. For the adoption of the ASU, the Company did not adjust prior period's financial statement retrospectively.

(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 reflects the potential dilution from potential shares outstanding such as shares issuable upon the exercise of stock options. A reconciliation of the numerator and denominator of the basic and diluted earnings attributable to Murata Corporation per share computation is included in Note 10.

(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, 2018, 2017, and 2016 were ¥12,444 million ($117,396 thousand), ¥9,345 million, and ¥9,353 million, respectively.

(q) Consideration given by a vendor to a customer

The Companies account for consideration given to a customer as a reduction of revenue in accordance with ASC 605-50, “Customer Payments and Incentives”. ASC 605-50 defines the income statement classification of consideration given by a vendor to a customer or reseller of the vendor’s products.

(r) Impairment or disposal of long-lived assets

The Companies account for impairment or disposal of long-lived assets and discontinued operations in accordance with 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 asset to the estimated undiscounted future cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount exceeds the fair value of the assets. If the Companies determine to dispose of assets, depreciation estimates for the assets shall be revised to reflect those remaining useful lives. Assets classified as held for sale shall be measured at the lower of its carrying amount or fair value less cost to sell.

(s) 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.

(t) 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. 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. The effect of the ASU did not have any impact on the Companies' results of operations and financial position.

(u) Use of estimates

The preparation of 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 financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(v) New accounting standards

Revenue

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers". Further, in August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers: Deferral of the Effective Date". The ASUs outline a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance. The ASUs require entities to disclose both quantitative and qualitative information that enables “users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.” The ASUs are effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2017. The Companies will adopt the ASUs from the fiscal year beginning April 1, 2018. The Companies have tentatively concluded that the adoption of this guidance is not expected to have a material impact on their consolidated financial statements.

Financial Instruments

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities". The ASU requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. The ASU is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2017. The Companies will adopt the ASU from the fiscal year beginning April 1, 2018. The Companies will recognize a cumulative-effect adjustment to retained earnings of ¥7,850 million ($74,057 thousand) at April 1, 2018 for the after-tax unrealized gains of available-for-sale equity investments previously recognized in accumulated other comprehensive income.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments". 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, 2019. The Companies will adopt the ASU from the fiscal year beginning April 1, 2020. The Companies are currently evaluating the effect that the adoption of this guidance will have on their consolidated financial statements.

Leases

In February 2016, the FASB issued ASU No. 2016-02, "Leases". The ASU requires a lessee to recognize the assets and liabilities that arise from all leases on the consolidated balance sheet in principle. The ASU is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2018. The Companies will adopt the ASU from the fiscal year beginning April 1, 2019. The Companies are currently evaluating the effect that the adoption of this guidance will have on their consolidated financial statements.

Compensation - Retirement Benefits

In March 2017, the FASB issued ASU No. 2017-07, "Compensation - Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost". The ASU requires entities to disaggregate the current-service-cost component from the other components of net benefit cost (the “other components”) and present it with other current compensation costs for related employees in the income statement, and present the other components elsewhere in the income statement and outside of income from operations if such a subtotal is presented. The ASU also requires entities to disclose the income statement lines that contain the other components if they are not presented on appropriately described separate lines. In addition, only the service-cost component of net benefit cost is eligible for capitalization. The ASU is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2017. The Companies will adopt the ASU from the fiscal year beginning April 1, 2018. The adoption of this guidance will result in an increase in operating profit and a decrease in other income (expenses) of ¥1,108 million ($10,453 thousand) and ¥3,196 million for the years ended March 31, 2018 and 2017, respectively. The adoption of this guidance will result in a decrease in operating profit and an increase in other income (expenses) of ¥1,001 million for the year ended March 31, 2016. The Companies don't expect the adoption of this guidance, that only the service-cost components of net benefit cost is eligible for capitalization, to have a material impact 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 ¥106 to $1, the approximate rate of exchange at March 31, 2018. 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 securities by major security type, at March 31, 2018 and 2017 were as follows:

	Millions of yen			
	2018			
	Cost and Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Governmental debt securities	¥ 1,000	¥ 1	¥ –	¥ 1,001
Private debt securities	69,342	178	534	68,986
Equity securities	8,905	10,802	–	19,707
Investment trusts	2,000	–	59	1,941
Total available-for-sale securities	¥81,247	¥10,981	¥593	¥91,635

	Millions of yen			
	2017			
	Cost and Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Governmental debt securities	¥ 1,000	¥ 2	¥ –	¥ 1,002
Private debt securities	122,000	469	130	122,339
Equity securities	9,481	8,332	–	17,813
Investment trusts	2,000	–	48	1,952
Total available-for-sale securities	¥134,481	¥8,803	¥178	¥143,106

	Thousands of U.S. dollars			
	2018			
	Cost and Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Governmental debt securities	$ 9,434	$ 9	$ –	$ 9,443
Private debt securities	654,170	1,679	5,038	650,811
Equity securities	84,009	101,906	–	185,915
Investment trusts	18,868	–	557	18,311
Total available-for-sale securities	$766,481	$103,594	$5,595	$864,480

The fair value and gross unrealized losses for available-for-sale securities by major security type and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2018 and 2017 were as follows:

	Millions of yen			
	2018			
	Less than 12 months		12 months or longer	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Private debt securities	¥12,155	¥521	¥4,051	¥13
Investment trusts	1,941	59	–	–
Total	¥14,096	¥580	¥4,051	¥13

	Millions of yen			
	2017			
	Less than 12 months		12 months or longer	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Private debt securities	¥29,316	¥ 63	¥9,933	¥67
Investment trusts	1,952	48	–	–
Total	¥31,268	¥111	¥9,933	¥67

	Thousands of U.S. dollars			
	2018			
	Less than 12 months		12 months or longer	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Private debt securities	$114,670	$4,915	$38,217	$123
Investment trusts	18,311	557	–	–
Total	$132,981	$5,472	$38,217	$123

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, 2018, because (1) the Companies did not intend to sell such securities at March 31, 2018 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.

The aggregate carrying amounts of equity securities at March 31, 2018 and 2017 which are accounted for at cost, were ¥16,442 million ($155,124 thousand) and ¥13,405 million, respectively.

Of these securities, at March 31, 2018 and 2017, equity securities of ¥16,442 million ($155,124 thousand) and ¥13,393 million, respectively, were not evaluated for impairment because (a) the Companies did not identify any events or changes in circumstances that might have a significant adverse effect on the fair value of the securities and (b) the Companies determined that it was not practicable to estimate the fair value of the securities.

Contractual maturities of debt securities (governmental, private debt securities, and investment trusts) at March 31, 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within 1 year	¥20,872	¥20,790	$ 196,906	$ 196,132
After 1 year through 5 years	51,470	51,138	485,566	482,433
After 5 years	–	–	–	–
Total	¥72,342	¥71,928	$ 682,472	$ 678,565

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

	Millions of yen			Thousands of U.S. dollars
	2018	2017	2016	**2018**
Proceeds from sales	**¥1,131**	¥2,908	¥120	**$10,670**
Gross realized gains	**350**	50	47	**3,302**
Gross realized losses	**–**	0	–	**–**

4. Inventories

Inventories at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Finished products	**¥122,076**	¥ 93,451	**$1,151,661**
Work in process	**102,104**	71,264	**963,245**
Materials and supplies	**66,077**	46,732	**623,368**
Total	**¥290,257**	¥211,447	**$2,738,274**

Inventory write-downs for the year ended March 31, 2018 were ¥16,297 million ($153,745 thousand). Inventory write-downs for the years ended March 31, 2017 and 2016 were omitted because the amounts were immaterial.

5. Short-Term Borrowings and Long-Term Debt

Short-Term Borrowings at March 31, 2018 and 2017 consisted of the following:

	Millions of yen	Weighted -Average Interest Rate	Millions of yen	Weighted -Average Interest Rate	Thousands of U.S. dollars
	2018		2017		**2018**
Unsecured bank loans	**¥13,500**	**0.1%**	¥46,114	1.4%	**$127,359**
Other	**–**	**–**	4	0.0	**–**
Total	**¥13,500**	**0.1%**	¥46,118	1.4%	**$127,359**

Long-term debt at March 31, 2018 and 2017 consisted of the following:

	Millions of yen	Weighted -Average Interest Rate	Millions of yen	Weighted -Average Interest Rate	Thousands of U.S. dollars
	2018		2017		**2018**
Unsecured bank loans, due 2021	**¥ 523**	**0.4%**	¥ 813	0.7%	**$ 4,934**
Secured bank loans, due 2021	**11**	**1.3**	18	1.3	**104**
Other	**453**	**0.5**	57	0.0	**4,273**
Total	**987**	**0.5**	888	0.6	**9,311**
Less: Portion due within one year	**(245)**	**0.5**	(343)	0.8	**(2,311)**
Total	**¥ 742**	**0.5%**	¥ 545	0.5%	**$ 7,000**

The aggregate future maturities of long-term debt outstanding at March 31, 2018 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2019	¥245	$2,311
2020	209	1,972
2021	510	4,811
2022	6	57
2023	6	57
2024 and thereafter	11	103
Total	¥987	$9,311

Property, plant and equipment having a net book value of ¥24 million ($226 thousand) and ¥23 million was pledged as collateral for long-term debt at March 31, 2018 and 2017, respectively.

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.

Domestic subsidiaries amended a part of their defined benefit plans to a defined contribution pension plan in September 2017. As a result of this amendment, the projected benefit obligation decreased by ¥889 million ($8,387 thousand) in the year ended March 31, 2018. In addition, domestic subsidiaries amended the amount of payment of their retirement plans. As a result of this amendment, the projected benefit obligation increased by ¥2,763 million ($26,066 thousand) in the year ended March 31, 2018.

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Change in benefit obligation:			
Benefit obligation at beginning of year	**¥190,582**	¥197,356	**$1,797,943**
Service cost	**9,945**	9,323	**93,821**
Interest cost	**1,125**	714	**10,613**
Amendments	**1,745**	–	**16,462**
Actuarial loss	**3,067**	(6,261)	**28,934**
Benefits paid	**(2,270)**	(2,195)	**(21,415)**
Settlement paid to retirees	**(4,037)**	(4,105)	**(38,085)**
Settlement paid by transfer to defined contribution pension plan	**(4,761)**	(4,369)	**(44,915)**
Acquisitions of businesses	**18,683**	119	**176,255**
Benefit obligation at end of year	**¥214,079**	¥190,582	**$2,019,613**
Change in plan assets:			
Fair value of plan assets at beginning of year	**¥127,919**	¥120,476	**$1,206,783**
Actual return on plan assets	**2,852**	3,839	**26,905**
Employer contribution	**4,479**	6,564	**42,255**
Benefits paid	**(2,270)**	(2,195)	**(21,415)**
Settlement paid to retirees	**(1,369)**	(838)	**(12,915)**
Acquisitions of businesses	**10,018**	73	**94,509**
Fair value of plan assets at end of year	**¥141,629**	¥127,919	**$1,336,122**
Funded status at end of year	**¥ (72,450)**	¥ (62,663)	**$ (683,491)**
Amounts recognized in the consolidated balance sheet consist of:			
Investments and other assets: Other	**¥ 775**	¥ 1,724	**$ 7,311**
Accrued expenses and other	**(5,382)**	(5,063)	**(50,774)**
Termination and retirement benefits	**(67,843)**	(59,324)	**(640,028)**
Net amount recognized	**¥ (72,450)**	¥ (62,663)	**$ (683,491)**
Accumulated benefit obligation at end of year	**¥176,317**	¥177,805	**$1,663,368**

Accumulated benefit obligations for all of the Companies' termination and retirement plans were in excess of their plan assets at March 31, 2018 and 2017.

Amounts recognized in accumulated other comprehensive loss (income) at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Actuarial loss	**¥ 34,149**	¥ 35,645	**$ 322,160**
Prior service benefit	**(8,758)**	(12,231)	**(82,623)**
Pension liability adjustments, before tax	**¥ 25,391**	¥ 23,414	**$ 239,537**

Net periodic benefit cost for the years ended March 31:

	Millions of yen			Thousands of U.S. dollars
	2018	2017	2016	**2018**
Service cost	**¥ 9,945**	¥ 9,323	¥ 7,666	**$ 93,821**
Interest cost	**1,125**	714	1,518	**10,613**
Expected return on plan assets	**(2,478)**	(2,398)	(2,410)	**(23,377)**
Amortization of prior service benefit	**(1,729)**	(2,557)	(2,546)	**(16,311)**
Amortization of recognized actuarial loss	**3,335**	6,351	1,763	**31,462**
Settlement loss	**855**	1,086	674	**8,066**
Net periodic benefit cost	**¥ 11,053**	¥ 12,519	¥ 6,665	**$104,274**

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

	Millions of yen			Thousands of U.S. dollars
	2018	2017	2016	**2018**
Prior service benefit due to amendments	**¥ 1,745**	¥ –	¥ (792)	**$ 16,462**
Actuarial loss (gain)	**2,693**	(7,702)	27,936	**25,406**
Amortization of prior service benefit	**1,729**	2,557	2,546	**16,311**
Amortization of recognized actuarial loss	**(3,335)**	(6,351)	(1,763)	**(31,462)**
Settlement loss	**(855)**	(1,086)	(674)	**(8,066)**
Total recognized in other comprehensiveloss (income), before tax	**¥ 1,977**	¥(12,582)	¥ 27,253	**$ 18,651**

The estimated prior service benefit and net loss for the termination and retirement benefit plans that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost over the next fiscal year was a gain of ¥1,180 million ($11,132 thousand) and a loss of ¥3,405 million ($32,123 thousand), respectively.

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:

	2018	2017
Discount rate	**0.6%**	0.7%
Compensation increase rate	**2.7%**	2.7%

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

	2018	2017	2016
Discount rate	**0.7%**	0.5%	1.1%
Compensation increase rate	**2.7%**	2.0~2.6%	2.0~2.6%
Expected long-term rate of return on plan assets	**2.0%**	2.2%	2.2~2.5%

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, 2018 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 12.
The fair values of the Companies' plan assets at March 31, 2018 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				
Governmental debt securities	¥ 1,177	¥ 55	–	¥ 1,232
Private debt securities	–	13,619	–	13,619
Life insurance company general accounts	–	32,391	–	32,391
Other	–	11,488	–	11,488
Assets measured at net asset value per share				
Pooled funds (equity securities)	–	–	–	24,516
Pooled funds (debt securities)	–	–	–	34,046
Pooled funds (other)	–	–	–	24,337
Total	¥ 1,177	¥57,553	–	¥ 141,629

	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				
Governmental debt securities	$11,104	$ 519	–	$ 11,623
Private debt securities	–	128,481	–	128,481
Life insurance company general accounts	–	305,575	–	305,575
Other	–	108,377	–	108,377
Assets measured at net asset value per share				
Pooled funds (equity securities)....	–	–	–	231,283
Pooled funds (debt securities)....	–	–	–	321,189
Pooled funds (other)..................	–	–	–	229,594
Total	$11,104	$ 542,952	–	$ 1,336,122

The fair values of the Companies' plan assets at March 31, 2017 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				
Governmental debt securities	¥1,125	¥ 71	–	¥ 1,196
Private debt securities	–	11,218	–	11,218
Life insurance company general accounts	–	32,172	–	32,172
Other	–	5,798	–	5,798
Assets measured at net asset value per share				
Pooled funds (equity securities)....	–	–	–	21,882
Pooled funds (debt securities)....	–	–	–	32,774
Pooled funds (other)..................	–	–	–	22,879
Total	¥1,125	¥49,259	–	¥ 127,919

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

Governmental debt securities

Governmental debt securities contain government bonds. Government bonds are measured by the market approach using quoted prices in active markets; they are classified within Level 1.

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 ¥4,622 million ($43,604 thousand) to their defined benefit plans in the year ending March 31, 2019.

The future benefit payments are expected as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2019	¥ 5,636	$ 53,170
2020	5,859	55,274
2021	5,908	55,736
2022	6,373	60,123
2023	6,704	63,245
2024-2028	36,905	348,160

In connection with the above-mentioned amendments, the amount of benefit obligations to be transferred to the defined contribution plans was determined to be ¥3,305 million ($31,179 thousand) at March 31, 2018, which will be settled by the year ending March 31, 2021. The amount of benefit obligations to be transferred to the defined contribution plans was determined to be ¥3,193 million at March 31, 2016, which will be settled by the year ending March 31, 2019. The amount of benefit obligations to be transferred to the defined contribution plans was determined to be ¥9,170 million at March 31, 2015, which will be settled by the year ending March 31, 2019. The amount of benefit obligations including the effect of the previous amendments, which will be transferred to the defined contribution plan was ¥5,127 million ($48,368 thousand) at March 31, 2018, and ¥6,582 million at March 31, 2017.

The Companies recognized the cost of ¥1,832 million ($17,283 thousand) related to annual contributions to the defined contribution plans in the year ended March 31, 2018, ¥1,516 million in the year ended March 31, 2017, and ¥1,302 million in the year ended March 31, 2016.

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 ¥395,607 million ($3,732,142 thousand) at March 31, 2018, 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			
	2018			
	Unrealized gains (losses) on securities	Pension liability adjustment	Foreign currency translation adjustments	Total
Beginning balance	¥6,127	¥(15,652)	¥(4,694)	¥(14,219)
Other comprehensive income (loss), net of tax before reclassification	1,682	(3,051)	(1,925)	(3,294)
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	(233)	1,708	–	1,475
Net changes	1,449	(1,343)	(1,925)	(1,819)
Comprehensive income (loss) attributable to noncontrolling interests	–	–	14	14
Ending balance	¥7,576	¥(16,995)	¥(6,633)	¥(16,052)

	Millions of yen			
	2017			
	Unrealized gains (losses) on securities	Pension liability adjustment	Foreign currency translation adjustments	Total
Beginning balance	¥2,945	¥(23,587)	¥ 5,110	¥(15,532)
Other comprehensive income (loss), net of tax before reclassification	3,063	5,441	(9,895)	(1,391)
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	78	3,381	–	3,459
Net changes	3,141	8,822	(9,895)	2,068
Comprehensive income (loss) attributable to noncontrolling interests	–	–	(18)	(18)
Equity transaction with noncontrolling interests	41	(887)	73	(773)
Ending balance	¥6,127	¥(15,652)	¥(4,694)	¥(14,219)

	Millions of yen			
	2016			
	Unrealized gains (losses) on securities	Pension liability adjustment	Foreign currency translation adjustments	Total
Beginning balance	¥ 7,114	¥ (5,511)	¥ 38,190	¥ 39,793
Other comprehensive income (loss), net of tax before reclassification	(4,625)	(18,507)	(33,898)	(57,030)
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	280	(74)	–	206
Net changes	(4,345)	(18,581)	(33,898)	(56,824)
Comprehensive income (loss) attributable to noncontrolling interests	(176)	(505)	(818)	(1,499)
Ending balance	¥ 2,945	¥(23,587)	¥ 5,110	¥(15,532)

	Thousands of U.S. dollars			
	2018			
	Unrealized gains (losses) on securities	Pension liability adjustment	Foreign currency translation adjustments	Total
Beginning balance	$57,802	$(147,660)	$(44,283)	$(134,141)
Other comprehensive income (loss), net of tax before reclassification	15,868	(28,783)	(18,160)	(31,075)
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	(2,198)	16,113	–	13,915
Net changes	13,670	(12,670)	(18,160)	(17,160)
Comprehensive income (loss) attributable to noncontrolling interests	–	–	133	133
Ending balance	$71,472	$(160,330)	$(62,576)	$(151,434)

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

	Millions of yen	
	2018	
	Amounts reclassified from accumulated other comprehensive income (loss)	Account
Unrealized gains (losses) on securities:	¥ (346)	Other - net
	113	Income taxes
	(233)	Total
Pension liability adjustment:	2,461	Net periodic benefit cost
	(753)	Income taxes
	1,708	Total
Total reclassification amounts	¥ 1,475	

	Millions of yen	
	2017	
	Amounts reclassified from accumulated other comprehensive income (loss)	Account
Unrealized gains (losses) on securities:	¥ 63	Other - net
	15	Income taxes
	78	Total
Pension liability adjustment:	4,880	Net periodic benefit cost
	(1,499)	Income taxes
	3,381	Total
Total reclassification amounts	¥ 3,459	

	Millions of yen	
	2016	
	Amounts reclassified from accumulated other comprehensive income (loss)	Account
Unrealized gains (losses) on securities:	¥ 352	Other - net
	(72)	Income taxes
	280	Total
Pension liability adjustment:	(108)	Net periodic benefit cost
	34	Income taxes
	(74)	Total
Total reclassification amounts	¥ 206	

	Thousands of U.S. dollars	
	2018	
	Amounts reclassified from accumulated other comprehensive income (loss)	Account
Unrealized gains (losses) on securities:	$ (3,264)	Other - net
	1,066	Income taxes
	(2,198)	Total
Pension liability adjustment:	23,217	Net periodic benefit cost
	(7,104)	Income taxes
	16,113	Total
Total reclassification amounts	$ 13,915	

* Net periodic benefit cost is included in cost of sales, selling, general and administrative expenses, and research and development expenses in the consolidated statements of income.

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		
	2018		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized gains (losses) on securities:			
Unrealized holding gains arising during period …	¥ 2,509	¥ (827)	¥ 1,682
Reclassification adjustment for gains included in net income	(346)	113	(233)
	2,163	(714)	1,449
Pension liability adjustment:			
Pension liability adjustment arising during period	(4,438)	1,387	(3,051)
Reclassification adjustment for losses included in net income	2,461	(753)	1,708
	(1,977)	634	(1,343)
Foreign currency translation adjustments:			
Foreign currency translation adjustments arising during period	(1,669)	(256)	(1,925)
Other comprehensive income (loss)	¥ (1,483)	¥ (336)	¥(1,819)

	Millions of yen		
	2017		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized gains (losses) on securities:			
Unrealized holding gains arising during period …	¥ 4,092	¥(1,029)	¥ 3,063
Reclassification adjustment for losses included in net income	63	15	78
	4,155	(1,014)	3,141
Pension liability adjustment:			
Pension liability adjustment arising during period	7,702	(2,261)	5,441
Reclassification adjustment for losses included in net income	4,880	(1,499)	3,381
	12,582	(3,760)	8,822
Foreign currency translation adjustments:			
Foreign currency translation adjustments arising during period	(10,155)	260	(9,895)
Other comprehensive income (loss)	¥ 6,582	¥(4,514)	¥ 2,068

	Millions of yen		
	2016		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized gains (losses) on securities:			
Unrealized holding losses arising during period ...	¥ (5,835)	¥ 1,210	¥ (4,625)
Reclassification adjustment for losses included in net income	352	(72)	280
	(5,483)	1,138	(4,345)
Pension liability adjustment:			
Pension liability adjustment arising during period	(27,145)	8,638	(18,507)
Reclassification adjustment for gains included in net income	(108)	34	(74)
	(27,253)	8,672	(18,581)
Foreign currency translation adjustments:			
Foreign currency translation adjustments arising during period	(35,091)	1,193	(33,898)
Other comprehensive income (loss)	¥(67,827)	¥11,003	¥(56,824)

	Thousands of U.S. dollars		
	2018		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized gains (losses) on securities:			
Unrealized holding gains arising during period ...	$ 23,670	$ (7,802)	$ 15,868
Reclassification adjustment for gains included in net income	(3,264)	1,066	(2,198)
	20,406	(6,736)	13,670
Pension liability adjustment:			
Pension liability adjustment arising during period	(41,868)	13,085	(28,783)
Reclassification adjustment for losses included in net income	23,217	(7,104)	16,113
	(18,651)	5,981	(12,670)
Foreign currency translation adjustments:			
Foreign currency translation adjustments arising during period	(15,745)	(2,415)	(18,160)
Other comprehensive income (loss)	$ (13,990)	$ (3,170)	$(17,160)

9. Income Taxes

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

	2018	2017	2016
Normal Japanese statutory tax rates	**30.7%**	30.7%	32.8%
Increase (decrease) in taxes resulting from:			
Tax credits	**(5.3)**	(6.4)	(5.9)
Permanently non-deductible and non-taxable items	**(0.0)**	(0.0)	0.1
Foreign earnings taxed at different rates	**(4.9)**	(2.4)	(2.2)
Effect of enacted future tax rate reduction on deferred taxes	–	–	1.1
Net change in valuation allowance for deferred tax assets	**(9.3)**	(1.4)	(1.0)
Income taxes on undistributed earnings of foreign subsidiaries	**2.3**	1.2	1.0
Effect from change in U.S.tax laws	**2.7**	–	–
Gain on bargain purchase	**(1.2)**	–	–
Other-net	**(2.0)**	0.4	0.9
Effective tax rates	**13.0%**	22.1%	26.8%

The Companies follow the provisions of ASC 740, “Income Taxes”, to account for enacted future tax rates. Under the provisions of ASC 740, the effect of a change in tax laws or rates is included in income in the period the change is enacted and the provisions require recalculation of deferred tax assets and liabilities based on the new tax laws or rates.

The Tax Cuts and Jobs Act of 2017 (the "Act") was enacted in the U.S on December 22, 2017. Due to the Act, the federal corporate tax rate in the U.S is reduced from 35% to 21% from the year beginning January 1, 2018 thereafter. As a result, deferred tax assets (after the deduction of deferred tax liabilities) decreased by ¥4,564 million ($43,057 thousand), and deferred income tax provision increased by ¥4,564 million ($43,057 thousand) during the fiscal year ended March 31, 2018.

On March 29, 2016, changes were enacted which decreased the normal Japanese statutory tax rate from 32.1% to 30.7% effective from the year beginning April 1, 2016 and 2017, and to 30.5% effective from the year beginning April 1, 2018, and thereafter. As a result, deferred tax assets (after the deduction of deferred tax liabilities) decreased by ¥2,057 million, and the deferred income tax provision increased by ¥2,057 million during the fiscal year ended March 31, 2016.

The approximate effects of temporary differences and tax loss carryforwards that gave rise to deferred tax balances at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Deferred tax assets:			
Intercompany profits	**¥ 8,054**	¥ 6,128	**$ 75,981**
Termination and retirement benefits	**25,497**	22,656	**240,538**
Enterprise taxes	**1,421**	579	**13,406**
Compensated absences	**2,645**	2,399	**24,953**
Inventory valuation	**9,377**	4,938	**88,462**
Tangible and intangible assets	**28,286**	13,068	**266,849**
Accrued bonuses	**5,869**	6,163	**55,368**
Other temporary differences	**13,331**	11,053	**125,763**
Tax loss carryforwards	**8,834**	11,447	**83,340**
Total	**103,314**	78,431	**974,660**
Valuation allowance	**(10,925)**	(24,925)	**(103,066)**
Total	**¥ 92,389**	¥ 53,506	**$ 871,594**
Deferred tax liabilities:			
Undistributed earnings of foreign subsidiaries	**¥ 19,279**	¥ 15,127	**$ 181,877**
Marketable securities and investments adjustments	**1,783**	1,075	**16,821**
Tangible and intangible assets	**15,912**	14,049	**150,113**
Goodwill	**26,161**	–	**246,802**
Other temporary differences	**583**	2,028	**5,500**
Total	**¥ 63,718**	¥ 32,279	**$ 601,113**

The total valuation allowance decreased by ¥14,000 million ($132,075 thousand) for the year ended March 31, 2018 and decreased by ¥1,890 million for the year ended March 31, 2017.This is because of changes in estimates of the realizability of deferred tax assets at certain subsidiaries.

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, 2018 and 2017.

The Company and subsidiaries had tax loss carryforwards approximating ¥26,647 million ($251,387 thousand), excluding a portion available only for local taxes approximating ¥20,149 million ($190,085 thousand), available to reduce future taxable income at March 31, 2018, which expire substantially in the period from 2019 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
	2018	2017	**2018**
Balance at beginning of year	**¥ 79**	¥ 69	**$ 745**
Additions based on tax positions related to the current year	**21**	10	**198**
Reductions for tax positions of prior years	**(2)**	(0)	**(19)**
Other	**(5)**	0	**(47)**
Balance at end of year	**¥ 93**	¥ 79	**$ 877**

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 2015. 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, 2018, 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, 2018 and 2017, and interest and penalties in the consolidated statement of income for the years ended March 31, 2018 and 2017 were not material.

10. Amounts per Share

The Company introduced a restricted 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 new shares issued 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 is not stated since there were no potential dilutive securities.

	Millions of yen			Thousands of U.S. dollars
	2018	2017	2016	**2018**
Net income attributable to Murata Corporation	**¥146,086**	¥156,060	¥203,776	**$1,378,170**
Net income available to participating securities	**3**	–	–	**28**
Net income available to common shareholders	**¥146,083**	¥156,060	¥203,776	**$1,378,142**
	Numbers of shares			
	2018	2017	2016	
Weighted-average number of common shares outstanding	**212,997,190**	212,654,609	211,703,608	
Weighted-average number of participating securities	**4,080**	–	–	
Weighted-average number of common shares	**212,993,110**	212,654,609	211,703,608	
	Yen			U.S. dollars
	2018	2017	2016	**2018**
Basic earnings attributable to Murata Corporation per share	**¥685.86**	¥733.87	¥962.55	**$6.47**

11. Commitments

Outstanding commitments at March 31, 2018 and 2017 for the purchase of property, plant, and equipment approximated ¥123,028 million ($1,160,642 thousand) and ¥72,333 million, respectively.

Outstanding commitments at March 31, 2018 for the purchase of inventories approximated ¥24,059 million ($226,972 thousand). Outstanding commitments at March 31, 2017 were omitted because the amounts were immaterial.

12. 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, 2018 were as follows:

	Millions of yen			
	Fair value measurements			
	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale securities				
Governmental debt securities	¥ –	¥ 1,001	–	¥ 1,001
Private debt securities	–	68,986	–	68,986
Equity securities	19,707	–	–	19,707
Investment trusts	–	1,941	–	1,941
Derivatives				
Forward exchange contracts	–	2,845	–	2,845
Liabilities				
Derivatives				
Forward exchange contracts	¥ –	¥ 432	–	¥ 432

	Thousands of U.S. dollars			
	Fair value measurements			
	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale securities				
Governmental debt securities	$ –	$ 9,443	–	$ 9,443
Private debt securities	–	650,811	–	650,811
Equity securities	185,915	–	–	185,915
Investment trusts	–	18,311	–	18,311
Derivatives				
Forward exchange contracts	–	26,840	–	26,840
Liabilities				
Derivatives				
Forward exchange contracts	$ –	$ 4,075	–	$ 4,075

The Companies had no assets and liabilities measured at fair value that were classified as Level 3 on a recurring basis for the year ended March 31, 2018.

Assets and liabilities measured at fair value on a recurring basis at March 31, 2017 were as follows:

	Millions of yen			
	Fair value measurements			
	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale securities				
Governmental debt securities ...	¥ –	¥ 1,002	–	¥ 1,002
Private debt securities	–	122,339	–	122,339
Equity securities	17,813	–	–	17,813
Investment trusts	–	1,952	–	1,952
Derivatives				
Forward exchange contracts	–	1,188	–	1,188
Liabilities				
Derivatives				
Forward exchange contracts	¥ –	¥ 1,283	–	¥ 1,283

The Companies had no assets and liabilities measured at fair value that were classified as Level 3 on a recurring basis for the year ended March 31, 2017.

Available-for-sale securities

Marketable equity securities are measured by the market approach using quoted prices in active markets; they are classified within Level 1. Governmental debt securities, private debt securities, and investment trusts are measured by the market approach using quoted prices for identical or similar assets in markets that are not active; they are classified within Level 2. 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 ¥22 million ($208 thousand), gains of ¥183 million and losses of ¥60 million from the change in the fair value of those investments for the years ended March 31, 2018, 2017 and 2016, respectively. The amount of aggregate fair value was ¥13,101 million ($123,594 thousand) and ¥13,123 million at March 31, 2018 and 2017, respectively.

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.

There were no assets and liabilities measured at fair value on a nonrecurring basis at March 31, 2017.

Assets and liabilities measured at fair value on a nonrecurring basis at March 31, 2018 were as follows:

		Millions of yen			
	Total amount of income (loss)	Fair value measurements			
		Level 1	Level 2	Level 3	Total
Assets					
Property, plant and equipment...	¥(7,269)	¥ –	¥ –	¥1,522	¥1,522
		Thousands of U.S. dollars			
	Total amount of income (loss)	Fair value measurements			
		Level 1	Level 2	Level 3	Total
Assets					
Property, plant and equipment...	$(68,575)	$ –	$ –	$14,358	$14,358

The Companies recognized impairment losses of ¥7,269 million ($68,575 thousand) in selling, general and administrative expenses for the year ended March 31, 2018 related to production facilities which were not expected to be used in the Modules segment. The fair values of production facilities were measured by estimated future cash flows. The above assets were measured by unobservable inputs; they were classified within Level 3.

13. 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, notes and accounts payable and long-term debt
The carrying amounts indicated in the consolidated balance sheets approximated fair values at March 31, 2018 and 2017.

(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 Note 3.

Derivatives

The Companies enter into forward exchange contracts and currency option contracts in order to manage foreign currency risk, and interest rate swap contracts in order to manage interest expense fluctuation risk caused by long-term debt. The Companies do not enter into forward exchange contracts, currency option contracts, or interest rate swap 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, currency option contracts, and interest rate swap contracts as earnings in the same period.

The notional amounts of forward exchange contracts, currency option contracts, and interest rate swap contracts for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Notional amounts:			
Forward exchange contracts	**¥192,483**	¥139,971	**$1,815,877**
Currency option contracts	**–**	–	**–**
Interest rate swap contracts	**–**	–	**–**

The fair values of forward exchange contracts, currency option contracts, and interest rate swap contracts for the years ended March 31, 2018 and 2017 were as follows:

		Millions of yen		Thousands of U.S. dollars
		2018	2017	**2018**
	Account		Fair values	
Forward exchange contracts	Prepaid expenses and other	**¥2,845**	¥1,188	**$26,840**
	Accrued expenses and other	**432**	1,283	**4,075**
Currency option contracts	Prepaid expenses and other	**–**	–	**–**
	Accrued expenses and other	**–**	–	**–**
Interest rate swap contracts	Accrued expenses and other	**–**	–	**–**

Gains and losses on forward exchange contracts, currency option contracts, and interest rate swap contracts not designated as hedges recognized in the consolidated statements of income for the years ended March 31, 2018, 2017 and 2016 were as follows:

		Millions of yen			Thousands of U.S. dollars
		2018	2017	2016	**2018**
	Account	Amounts			
Forward exchange contracts	Foreign currency exchange gain (loss)	**¥ 4,685**	¥ (13,689)	¥ 9,691	**$44,198**
Currency option contracts	Foreign currency exchange gain (loss)	**–**	42	(41)	**–**
Interest rate swap contracts	Interest expense	**–**	41	68	**–**

While the Companies no longer apply hedge accounting to forward exchange contracts, currency option contracts, and interest rate swap 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.

14. Acquisitions

Significant acquisitions for the year ended March 31, 2018 were as follows:

(1) The acquisition of Arctic Sand Technologies, Inc.

On April 3, 2017, pSemi Corporation ("PSC"), one of the Companies, completed the acquisition of Arctic Sand Technologies, Inc. ("AST"). AST became a wholly-owned subsidiary of PSC. The total acquisition price was ¥6,439 million ($60,745 thousand) . As a result of the acquisition, AST and its subsidiary (collectively, the "AST Group") were newly consolidated into the Companies' consolidated financial statements. The amount of gain recognized as a result of remeasuring to fair value the equity interest held before the acquisition of ¥435 million ($4,104 thousand) is included in Other-net in the consolidated statements of income for the year ended March 31, 2018. The fair value was measured based on various factors, including the purchase price of AST's shares and the discounted cash flow method that uses future expected cash flows generated from the investee.

AST is a manufacturer engaged in the design and sale of low-power semiconductors. Its technologies deliver industry-leading power conversion efficiency. Combining them with the Company's modular technologies will make it possible to provide solutions with high integration and excellent conversion efficiency in a wide range of low-power fields. Demand for these technologies is expected to grow even further as electrical and electronic components become smaller and thinner. Through this acquisition, AST's low-power semiconductors will be added to the Company's existing product lineup in order to enhance and expand its power module business in not just the telecommunications market, but also the data communication and industrial electronic markets.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date.

	Millions of yen	Thousands of U.S. dollars
Cash	¥ 177	$ 1,670
Other current assets	16	151
Property, plant and equipment	22	207
Intangible assets	3,067	28,934
Goodwill	5,561	52,462
Other non-current assets	9	85
Total assets acquired	8,852	83,509
Current liabilities	41	387
Long-term liabilities	1,079	10,179
Total liabilities assumed	1,120	10,566
Cash paid for acquisition	6,439	60,745
Equity interest held before acquisition	1,293	12,198
Net assets acquired	¥ 7,732	$ 72,943

Intangible assets acquired are mainly technologies of ¥3,062 million ($28,887 thousand), which are subject to amortization. The Companies have estimated the amortization period for technologies to be 6 years. Goodwill recognized, which is assigned to the Modules segment, is attributable primarily to expected synergies from combining operations of the AST Group and the Companies. The recognized goodwill is not considered to be tax-deductible.

Acquisition-related costs of ¥113 million ($1,066 thousand) are included in selling, general and administrative expenses in the consolidated statements of income for the year ended March 31, 2018.

The results of operations of the AST Group from the acquisition date are included in the consolidated financial statements and the amounts are immaterial.

The pro forma results are immaterial.

(2) The acquisition of battery business from Sony Corporation

On September 1, 2017, the Companies completed the acquisition of the battery business from Sony Corporation (Sony). The Company acquired 100.0% of the total outstanding shares of Tohoku Murata Manufacturing Co., Ltd. ("TMM"). As a result of the acquisition, TMM and its 2 subsidiaries were newly consolidated into the Companies' consolidated financial statements. In addition, the sales base and research and development base held by the Sony Group overseas which are related to the battery business and subject to acquisition were directly acquired by the Murata Group’s bases in the various countries. The total acquisition price was ¥39,022 million ($368,132 thousand). The payment of the acqusition price was by cash.

Sony has operated its battery business since 1975, and in 1991 commercialized the world's first lithium-ion battery. Sony has continued to pursue the development and business launch of various advanced battery products, primarily as key components for electronics products. The Companies obtained the technological strengths, and knowledge and experience of international markets of Sony's global battery business, and intend to position the global battery business as a core operation within its energy business in order to target further business growth and expansion.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date.

	Millions of yen	Thousands of U.S. dollars
Cash	¥ 16,151	$ 152,368
Other current assets	53,743	507,009
Property, plant and equipment	26,483	249,840
Intangible assets	4,394	41,453
Other non-current assets	5,524	52,113
Total assets acquired	106,295	1,002,783
Current liabilities	29,586	279,113
Long-term liabilities	31,245	294,764
Total liabilities assumed	60,831	573,877
Cash paid for acquisition	39,022	368,132
Gain on bargain purchase	6,442	60,774
Net assets acquired	¥ 45,464	$ 428,906

Intangible assets acquired are mainly technologies of ¥2,340 million ($22,075 thousand), which are subject to amortization. The Companies have estimated the amortization period for technologies to be 4 years. The Companies recognized negative goodwill of ¥6,442 million ($60,774 thousand) since the fair value of Net assets acquired was higher than the acquisition price and recorded it as Gain on bargain purchase in the consolidated financial statements. Acquisition-related costs of ¥669 million ($6,311 thousand) are included in selling, general and administrative expenses in the consolidated statements of income for the year ended March 31, 2018.

The Net sales and Operating loss of the battery business included in the consolidated financial statements are ¥91,206 million ($860,434 thousand) and ¥14,223 million ($134,179 thousand) for the year ended March 31, 2018.

The following table represents the unaudited pro forma results of operations of the Companies for the years ended March 31, 2017 and 2018, as if the acquisition of the battery business had occurred on April 1, 2016 and 2017, respectively. The unaudited pro forma results of operations are presented for comparative purposes only and are not necessarily indicative of the results of operations that may occur in the future or that would have occurred had the acquisitions been in effect on the dates indicated.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Net sales	¥1,435,367	¥1,261,156	$13,541,198
Operating income	155,342	190,432	1,465,491

(3) The acquisition of Vios Medical, Inc.

On October 13, 2017, the Company completed the acquisition of Vios Medical, Inc. (“Vios”). Vios became a wholly-owned subsidiary of the Company. The total acquisition price was ¥11,466 million ($108,170 thousand), consisted of 507,104 shares of the Company's common stock equivalent to ¥8,519 million ($80,368 thousand) and a cash payment of ¥2,947 million ($27,802 thousand). As a result of the acquisition, Vios and its 2 subsidiaries (collectively, the “Vios Group”) were newly consolidated into the Companies' consolidated financial statements. The amount of gain recognized as a result of remeasuring to fair value the equity interest held before the acquisition of ¥274 million ($2,585 thousand) is included in Other-net in the consolidated statements of income for the year ended March 31, 2018. The fair value was measured based on various factors, including the purchase price of Vios's shares and the discounted cash flow method that uses future expected cash flows generated from the investee.

Vios is a healthcare IT startup that has developed a chest sensor that can measure heart and respiratory rates and run electrocardiograms, etc. It also develops and provides software, cloud services, etc. to monitor them. The Company is now working toward further expanding its business by focusing on the acquisition as a foothold for expanding its healthcare and medical business abroad by effectively utilizing Vios's network of overseas hospitals.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date.

	Millions of yen	Thousands of U.S. dollars
Cash	¥ 1,123	$ 10,594
Other current assets	11	104
Property, plant and equipment	3	28
Intangible assets	1,223	11,538
Goodwill	10,842	102,283
Other non-current assets	87	821
Total assets acquired	13,289	125,368
Current liabilities	1,134	10,699
Long-term liabilities	312	2,943
Total liabilities assumed	1,446	13,642
Cash paid for acquisition	11,466	108,170
Equity interest held before acquisition	377	3,556
Net assets acquired	¥11,843	$111,726

Intangible assets acquired are mainly technologies of ¥1,184 million ($11,170 thousand), which are subject to amortization. The Companies have estimated the amortization period for technologies to be 5 years. Goodwill recognized, which is assigned to the Modules segment, is attributable primarily to expected synergies from combining operations of the Vios Group and the Companies. The recognized goodwill is not considered to be tax-deductible.

Acquisition-related costs of ¥220 million ($2,075 thousand) are included in selling, general and administrative expenses in the consolidated statements of income for the year ended March 31, 2018.

The results of operations of the Vios Group from the acquisition date are included in the consolidated financial statements and the amounts are immaterial.

The pro forma results are immaterial.

Acquisitions for the year ended March 31, 2017 were as follows:

(1) The acquisition of IPDiA S.A.

On October 17, 2016, Murata Electronics Europe B.V., one of the Companies, acquired 98.0% of the total outstanding shares of IPDiA S.A. (“IPD”). The total acquisition price was ¥6,721 million. As a result of the acquisition, IPD and its subsidiary (collectively, the “IPD Group”) were newly consolidated into the Companies' consolidated financial statements.

IPD is dedicated to the manufacturing of leading edge Integrated Passive Devices, specializing in silicon sub-mounts for lighting and 3D silicon capacitors for medical, industrial, communication and high reliability applications.

Its technology has been adopted by world leaders in medical electronics, semiconductor area and the high reliability industry. This acquisition will enhance the Companies’ position as the leading provider of high reliability capacitors. It is part of the Companies’ strategy to strengthen its core business within the communication mobile market, and to expand into new applications within the automotive and medical markets.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date.

	Millions of yen
Cash	¥ 486
Other current assets	857
Property, plant and equipment	443
Intangible assets	2,263
Goodwill	4,030
Other non-current assets	1
Total assets acquired	8,080
Current liabilities	878
Long-term liabilities	345
Total liabilities assumed	1,223
Noncontrolling interest	136
Net assets acquired	¥ 6,721

Intangible assets acquired are mainly technologies of ¥1,536 million, which are subject to amortization. The Companies have estimated the amortization period for technologies to be 6 years. Goodwill recognized, which is assigned to the Components segment, is attributable primarily to expected synergies from combining operations of the IPD Group and the Companies. The recognized goodwill is not considered to be tax-deductible.

Acquisition-related costs of ¥193 million are included in selling, general and administrative expenses in the consolidated statements of income for the year ended March 31, 2017.

The results of operations of the IPD Group from the acquisition date are included in the consolidated financial statements and the amounts are immaterial.

The pro forma results are immaterial.

(2) The acquisition of Primatec Inc.

On November 1, 2016, the Company completed the acquisition of Primatec Inc. (“PTI”). PTI became a wholly-owned subsidiary of the Company. The total acquisition price was ¥9,500 million. The amount of gain recognized as a result of remeasuring to fair value the equity interest held before the acquisition of ¥150 million is included in Other-net in the consolidated statements of income for the year ended March 31, 2017. The fair value was measured based on various factors, including the purchase price of PTI's shares and the discounted cash flow method that uses future expected cash flows generated from the investee.

PTI is dedicated to developing, manufacturing, and selling various products founded upon highly functional polymer products such as LCP (liquid crystal polymer) electronic materials. PTI’s materials have been well received for use in high-performance circuit boards in the energy and display sectors, and demand for their products is estimated to further increase in the electronics and electronic component sectors in which miniaturized and thin products are increasingly in demand.

The Company will utilize the materials technology of PTI to expand sales of MetroCirc™ (a multi-layered resin substrate) used in smartphones, etc., and additionally develop new advanced products that lead the global market in new applications for IoT devices and data centers. This acquisition is part of the Company’s strategy to continue to strengthen and expand its businesses in all electronic markets.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date.

	Millions of yen
Cash	¥ 1,010
Other current assets	1,821
Property, plant and equipment	3,330
Intangible assets	1,256
Goodwill	4,663
Other non-current assets	20
Total assets acquired	12,100
Current liabilities	1,821
Long-term liabilities	429
Total liabilities assumed	2,250
Cash paid for acquisition	9,500
Equity interest held before acquisition	350
Net assets acquired	¥ 9,850

Intangible assets acquired are technologies of ¥1,250 million, which are subject to amortization. The Companies have estimated the amortization period for technologies to be 6 years. Goodwill recognized, which is assigned to the Modules segment, is attributable primarily to expected synergies from combining operations of PTI and the Companies. The recognized goodwill deductible for tax purposes resulting from the transaction is ¥4,591 million.

Acquisition-related costs of ¥29 million are included in selling, general and administrative expenses in the consolidated statements of income for the year ended March 31, 2017.

The results of operations of PTI from the acquisition date are included in the consolidated financial statements and the amounts are immaterial.

The pro forma results are immaterial.

There were no acquisitions for the year ended March 31, 2016.

15. Goodwill and Other Intangible Assets

Intangible assets other than goodwill at March 31, 2018 and 2017 were as follows:

	Millions of yen		
	2018		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortized intangible assets			
Software	¥ 39,390	¥21,587	¥17,803
Technology	31,915	15,154	16,761
Customer relationships	19,727	8,673	11,054
Patents	4,198	1,740	2,458
Other	7,618	1,579	6,039
Total	¥102,848	¥48,733	¥54,115
Unamortized intangible assets	¥ 232	–	¥ 232

	Millions of yen		
	2017		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortized intangible assets			
Software	¥35,176	¥17,859	¥17,317
Technology	28,423	14,284	14,139
Customer relationships	20,621	8,234	12,387
Patents	4,413	1,937	2,476
Other	9,937	7,645	2,292
Total	¥98,570	¥49,959	¥48,611
Unamortized intangible assets	¥ 272	–	¥ 272

	Thousands of U.S. dollars		
	2018		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortized intangible assets			
Software	$ 371,604	$203,651	$167,953
Technology	301,085	142,963	158,122
Customer relationships	186,104	81,821	104,283
Patents	39,604	16,415	23,189
Other	71,868	14,896	56,972
Total	$ 970,265	$459,746	$510,519
Unamortized intangible assets	$ 2,188	–	$ 2,188

Intangible assets other than goodwill acquired for the year ended March 31, 2018 totaled ¥19,424 million ($183,245 thousand) and primarily consisted of software of ¥5,677 million ($53,557 thousand) and technology of 8,351 million ($78,783 thousand). The weighted-average useful life for software and technology is 4.95 years and 4.74 years, respectively.

Total amortization expenses of intangible assets for the years ended March 31, 2018, 2017 and 2016 amounted to ¥14,104 million ($133,057 thousand), ¥12,063 million and ¥12,153 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
2019	¥13,823	$130,406
2020	11,614	109,566
2021	8,623	81,349
2022	6,993	65,972
2023	3,001	28,311

The changes in the carrying amount of goodwill of each operating segment for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		
	2018		
	Components	Modules	Total
Balance at beginning of year			
Acquisition cost	¥22,563	¥ 52,048	¥ 74,611
Accumulated impairment losses	(2,096)	(10,413)	(12,509)
Net carrying amounts	20,467	41,635	62,102
Increase (decrease) in goodwill resulting from			
Goodwill acquired during year	–	16,403	16,403
Impairment losses	–	–	–
Translation Adjustments and other	950	(2,541)	(1,591)
Balance at end of year			
Acquisition cost	23,513	65,910	89,423
Accumulated impairment losses	(2,096)	(10,413)	(12,509)
Net carrying amounts	¥21,417	¥ 55,497	¥ 76,914

	Millions of yen		
	2017		
	Components	Modules	Total
Balance at beginning of year			
Acquisition cost	¥18,720	¥ 47,527	¥ 66,247
Accumulated impairment losses	(2,096)	(10,413)	(12,509)
Net carrying amounts	16,624	37,114	53,738
Increase (decrease) in goodwill resulting from			
Goodwill acquired during year	4,030	4,663	8,693
Impairment losses	–	–	–
Translation Adjustments and other	(187)	(142)	(329)
Balance at end of year			
Acquisition cost	22,563	52,048	74,611
Accumulated impairment losses	(2,096)	(10,413)	(12,509)
Net carrying amounts	¥20,467	¥ 41,635	¥ 62,102

	Thousands of U.S. dollars		
	2018		
	Components	Modules	Total
Balance at beginning of year			
Acquisition cost	$212,859	$ 491,019	$ 703,878
Accumulated impairment losses	(19,774)	(98,236)	(118,010)
Net carrying amounts	193,085	392,783	585,868
Increase (decrease) in goodwill resulting from			
Goodwill acquired during year	–	154,745	154,745
Impairment losses	–	–	–
Translation Adjustments and other	8,962	(23,971)	(15,009)
Balance at end of year			
Acquisition cost	221,821	621,793	843,614
Accumulated impairment losses	(19,774)	(98,236)	(118,010)
Net carrying amounts	$202,047	$ 523,557	$ 725,604

16. 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 recognized the Components segment, the Modules segment, and Others.

Operating segment information for the years ended March 31, 2018, 2017 and 2016 was as follows:

	Millions of yen			Thousands of U.S. dollars
	2018	2017	2016	**2018**
Components				
Sales to:				
Unaffiliated customers	**¥924,149**	¥761,759	¥760,166	**$8,718,387**
Intersegment	**39,752**	36,489	50,522	**375,019**
Total revenue	**963,901**	798,248	810,688	**9,093,406**
Segment income	**216,786**	202,573	262,624	**2,045,151**
Assets	**750,420**	577,376	531,178	**7,079,434**
Depreciation and amortization	**96,202**	80,271	70,413	**907,566**
Expenditure for long-lived assets	**168,501**	120,230	137,836	**1,589,632**
Modules				
Sales to:				
Unaffiliated customers	**¥443,854**	¥370,836	¥446,849	**$4,187,302**
Intersegment	**11**	38	66	**104**
Total revenue	**443,865**	370,874	446,915	**4,187,406**
Segment income (loss)	**(11,478)**	39,512	51,919	**(108,283)**
Assets	**302,994**	191,507	190,441	**2,858,434**
Depreciation and amortization	**32,178**	21,376	18,378	**303,566**
Expenditure for long-lived assets	**118,089**	29,167	29,461	**1,114,047**
Others				
Sales to:				
Unaffiliated customers	**¥ 3,839**	¥ 2,929	¥ 3,826	**$ 36,217**
Intersegment	**82,203**	40,131	55,365	**775,500**
Total revenue	**86,042**	43,060	59,191	**811,717**
Segment income	**9,453**	3,810	5,064	**89,179**
Assets	**11,626**	8,727	6,656	**109,679**
Depreciation and amortization	**1,750**	1,899	2,257	**16,509**
Expenditure for long-lived assets	**1,699**	2,304	1,151	**16,028**
Corporate and eliminations				
Sales to:				
Unaffiliated customers	**–**	–	–	**–**
Intersegment	**¥(121,966)**	¥ (76,658)	¥(105,953)	**$ (1,150,623)**
Total revenue	**(121,966)**	(76,658)	(105,953)	**(1,150,623)**
Corporate expenses	**(52,615)**	(44,680)	(44,201)	**(496,368)**
Assets	**731,973**	857,389	789,509	**6,905,406**
Depreciation and amortization	**11,495**	9,977	8,057	**108,444**
Expenditure for long-lived assets	**25,754**	13,099	6,397	**242,962**

Consolidated				
Sales to:				
Unaffiliated customers	**¥1,371,842**	¥1,135,524	¥1,210,841	**$12,941,906**
Intersegment	**–**	–	–	**–**
Total revenue	**1,371,842**	1,135,524	1,210,841	**12,941,906**
Operating income	**162,146**	201,215	275,406	**1,529,679**
Assets	**1,797,013**	1,634,999	1,517,784	**16,952,953**
Depreciation and amortization	**141,625**	113,523	99,105	**1,336,085**
Expenditure for long-lived assets	**314,043**	164,800	174,845	**2,962,669**

*1 Major products and businesses included in the operating segments
(1) Components : Capacitors and Piezoelectric Components
(2) Modules : Communication Modules and Power Supplies
(3) Others : Machinery manufacturing, welfare services, education and training services, and sales of software
*2 Intersegment transactions are based on market prices.
*3 Segment income for each operating segments 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.
*6 The battery business transferred from Sony Corporation has been included in Components since September 1, 2017.

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
	2018	2017	2016	**2018**
Japan	**¥ 114,007**	¥ 87,043	¥ 81,713	**$ 1,075,537**
The Americas	**154,488**	102,690	83,750	**1,457,434**
Europe	**106,285**	83,640	81,942	**1,002,689**
Greater China	**760,858**	647,349	750,256	**7,177,906**
Asia and Others	**236,204**	214,802	213,180	**2,228,340**
Total	**¥1,371,842**	¥1,135,524	¥1,210,841	**$12,941,906**

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 : Vietnam, South Korea, and Thailand

Long-lived assets

	Millions of yen			Thousands of U.S. dollars
	2018	2017	2016	**2018**
Japan	**¥493,943**	¥367,410	¥319,459	**$4,659,840**
The Americas	**4,153**	3,720	3,939	**39,179**
Europe	**16,326**	9,298	8,359	**154,019**
Greater China	**120,876**	82,422	83,334	**1,140,340**
Asia and Others	**69,931**	45,119	40,771	**659,726**
Total	**¥705,229**	¥507,969	¥455,862	**$6,653,104**

Notes : Major countries and areas included in the segments other than Japan:
*1 The Americas : USA
*2 Europe : Finland, France, and United Kingdom
*3 Greater China : China and Taiwan
*4 Asia and Others : Singapore, Philippines, Thailand, and Vietnam

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, 2018, 2017, and 2016. Consolidated sales to the customer group for the years ended March 31, 2018, 2017, and 2016 were ¥181,878 million ($1,715,830 thousand), ¥155,295 million, and ¥245,639 million, respectively. There is another customer group which accounted for more than 10% of consolidated sales for the years ended March 31, 2018, 2017 and 2016. Consolidated sales to this customer group for the years ended March 31, 2018, 2017, and 2016 were ¥142,599 million ($1,345,274 thousand), ¥123,966 million and ¥133,838 million, respectively. Sales to such customer groups are included in the Components segment and the Modules segment.

17. Subsequent Events

1. The Companies have evaluated subsequent events through June 28, 2018, which is the presentation date of this financial report.

2. The ordinary general meeting of shareholders on June 28, 2018 resolved to pay a cash dividend of ¥130 ($1.23) per share to shareholders of record at March 31, 2018, or a total of ¥27,723 million ($261,538 thousand).

Independent Auditors' Report

Deloitte.

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

We have audited the accompanying consolidated financial statements of Murata Manufacturing Co., Ltd. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of March 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2018, and the related notes to the consolidated financial statements, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Murata Manufacturing Co., Ltd. and its subsidiaries as of March 31, 2018 and 2017, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2018, in accordance with accounting principles generally accepted in the United States of America.

Convenience Translation

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in 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 of Japan.

Deloitte Touche Tohmatsu LLC

June 28, 2018

Member of
Deloitte Touche Tohmatsu Limited

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.

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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

Tsuneo Murata, Chairman of the Board, President and Representative Director, and Yoshito Takemura, 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

Tsuneo Murata, Chairman of the Board, President and Representative Director, and Yoshito Takemura, Executive Vice President and Board Member, performed the assessment of internal control over financial reporting as of March 31, 2018, 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.

Tsuneo Murata
Chairman of the Board
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 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)

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

June 28, 2018

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

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Koichiro Tsukuda

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Takashi Ishii

[Audit of Financial Statements]

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements included in the Financial Section, namely, the consolidated balance sheet of Murata Manufacturing Co., Ltd. (the “Company”) and its consolidated subsidiaries as of March 31, 2018, and the related consolidated statements of income, comprehensive income, shareholders’ equity and cash flows for the fiscal year from April 1, 2017 to March 31, 2018, and the related notes, and consolidated supplementary schedules.

Management’s Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements 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), 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.

Auditors’ Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements 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 entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Murata Manufacturing Co., Ltd. and its consolidated subsidiaries as of March 31, 2018, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

[Audit of Internal Control]

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, 2018.

Management's Responsibility for the 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. There is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

Auditors' Responsibility

Our responsibility is to express an opinion on management's report on internal control based on our internal control audit. We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether management's report on internal control is free from material misstatement.

An internal control audit involves performing procedures to obtain audit evidence about 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. An internal control audit includes examining 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, management's report on internal control over financial reporting referred to above, which represents that the internal control over financial reporting of Murata Manufacturing Co., Ltd. as of March 31, 2018 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.

Interest

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

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

INNOVATOR IN ELECTRONICS