# Annual Report 2014

Year Ended March 31, 2014

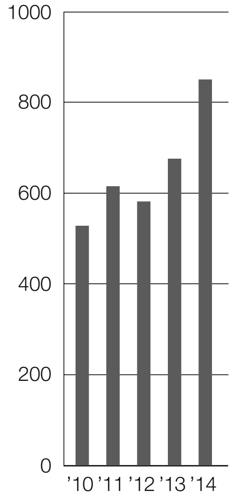
INNOVATOR IN ELECTRONICS

# Index

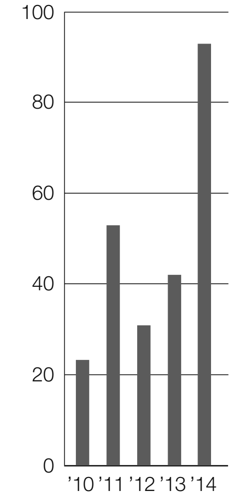
# Financial Data

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2010–2014

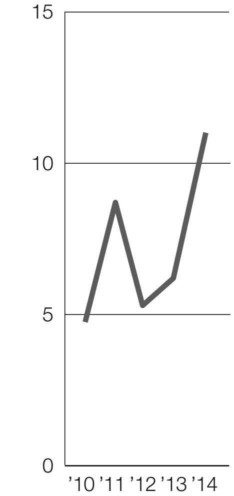
### Net sales
(Billions of yen)



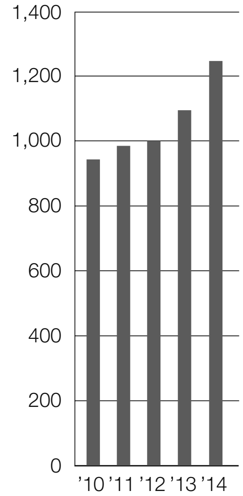

### Net income
(Billions of yen)



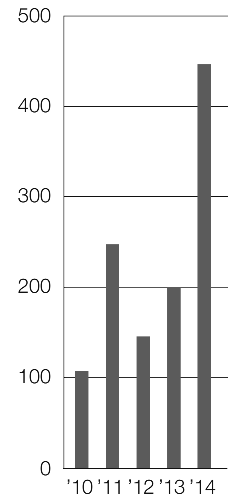

### Return on net sales
(%)



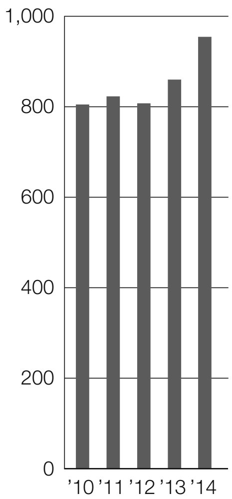

### Total assets
(Billions of yen)



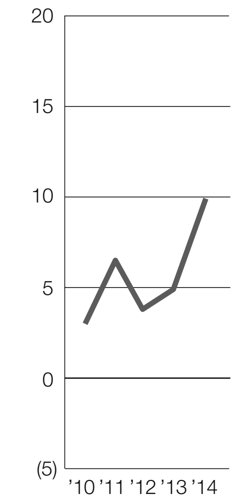

### Basic earnings per share*1 (Yen)



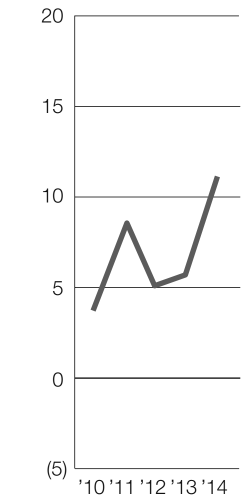

### Shareholders' equity
(Billions of yen)




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

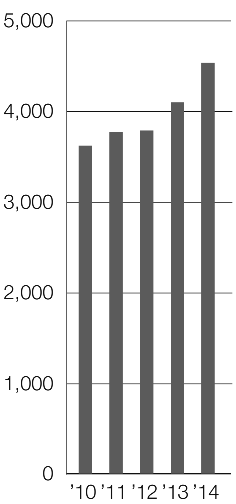



### Income before Tax on total assets (ROA) (%)

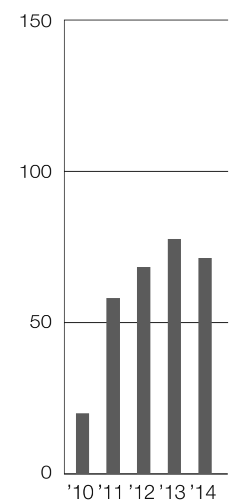



*1 Based on the average number of common shares outstanding. There are no dilutive potential securities.

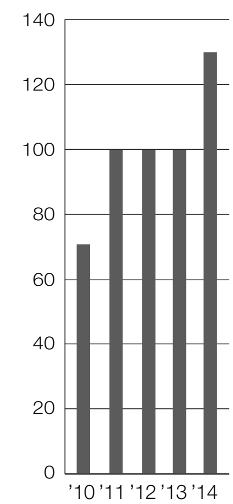
### Shareholders' equity per share*2 (Yen)



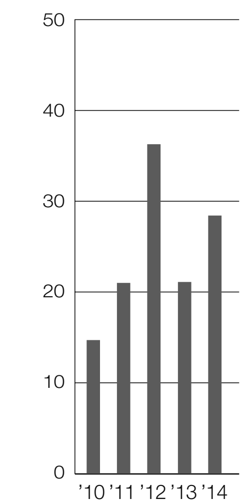

### Capital investment
(Billions of yen)




### Dividend per share
(Yen)




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




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

# Production, Orders, and Backlog by Product

Murata Manufacturing Co., Ltd. and Subsidiaries
Year ended March 31, 2014

| | Millions of yen | Component ratio | Ratio against the previous year | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2014 | | | |
| ***Production by Product*** | | % | % | |
| Capacitors | ¥275,984 | 33.0 | 17.0 | $2,679,456 |
| Piezoelectric Components | 96,828 | 11.6 | 18.4 | 940,078 |
| Other Components | 150,407 | 17.9 | 3.8 | 1,460,262 |
| Components Total | 523,219 | 62.5 | 13.1 | 5,079,796 |
| Communication Modules | 260,926 | 31.1 | 34.6 | 2,533,262 |
| Power Supplies and Other Modules | 53,800 | 6.4 | 13.5 | 522,330 |
| Modules Total | 314,726 | 37.5 | 30.4 | 3,055,592 |
| Total | ¥837,945 | 100.0 | 19.1 | $8,135,388 |

*1 Figures are based on production quantity and sales price to customers.
*2 Exclusive of consumption taxes
*3 The tables by product indicate production, orders, and backlog of electronic components and related products.
*4 The production, orders, and backlog in Capacitors, Piezoelectric Components, and Communication Modules for this year has increased drastically compared to the previous year. This is because of the increased demand for smartphones and tablet devices.

| | Millions of yen | Component ratio | Ratio against the previous year | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2014 | | | |
| ***Orders by Product*** | | % | % | |
| Capacitors | ¥284,679 | 32.8 | 23.0 | $2,763,873 |
| Piezoelectric Components | 100,361 | 11.6 | 24.9 | 974,379 |
| Other Components | 159,921 | 18.4 | 14.9 | 1,552,631 |
| Components Total | 544,961 | 62.8 | 20.8 | 5,290,883 |
| Communication Modules | 267,986 | 30.9 | 39.8 | 2,601,806 |
| Power Supplies and Other Modules | 54,412 | 6.3 | 12.6 | 528,272 |
| Modules Total | 322,398 | 37.2 | 34.3 | 3,130,078 |
| Total | ¥867,359 | 100.0 | 25.5 | $8,420,961 |

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

| | Millions of yen | Component ratio | Ratio against the previous year | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2014 | | | |
| ***Backlog by Product*** | | % | % | |
| Capacitors | ¥29,300 | 29.8 | 38.2 | $284,466 |
| Piezoelectric Components | 12,083 | 12.3 | 51.9 | 117,311 |
| Other Components | 18,290 | 18.6 | 59.9 | 177,573 |
| Components Total | 59,673 | 60.7 | 47.0 | 579,350 |
| Communication Modules | 32,094 | 32.6 | 33.4 | 311,592 |
| Power Supplies and Other Modules | 6,563 | 6.7 | 1.8 | 63,718 |
| Modules Total | 38,657 | 39.3 | 26.7 | 375,310 |
| Total | ¥98,330 | 100.0 | 38.3 | $954,660 |

*1 Figures are based on backlog quantity and sales price to customers.
*2 Exclusive of consumption taxes
*3 The backlog in Other Components for this year has increased drastically compared to previous year. This is because that the backlog of TOKO Group was included in Other Components for this year.

## Capital Investment

Murata Manufacturing Co., Ltd. and Subsidiaries
Year ended March 31, 2014

1) Capital investment for the fiscal year ended March 2014 amounted to ¥68,197 million ($662,107 thousand). Major capital investment included the expansion and rationalization of production facilities, construction of buildings and expansion of R&D facilities.

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

| 2014 | Millions of yen | | | | |
|---|---|---|---|---|---|
| | Land | Buildings | Machinery and equipment | Construction in progress | Total |
| ***Parent Company*** | | | | | |
| Plant, Office and other | | | | | |
| Head Office in Kyoto | ¥ 295 | ¥ 1,104 | ¥2,642 | ¥ 65 | ¥ 4,107 |
| Yokaichi Plant in Shiga | 466 | 6,174 | 3,988 | 1,133 | 11,763 |
| Yasu Plant in Shiga | 6,741 | 14,930 | 8,819 | 966 | 31,457 |
| Yokohama Technical Center in Kanagawa | 1,797 | 1,448 | 694 | 56 | 3,996 |
| Other | 7,596 | 741 | 88 | – | 8,426 |

| 2014 | Millions of yen | | | | |
|---|---|---|---|---|---|
| | Land | Buildings | Machinery and equipment | Construction in progress | Total |
| ***Domestic Subsidiaries*** | | | | | |
| Company Name | | | | | |
| Fukui Murata Manufacturing Co., Ltd | ¥2,111 | ¥9,528 | ¥15,280 | ¥1,602 | ¥28,521 |
| Kanazawa Murata Manufacturing Co., Ltd. | 2,746 | 8,083 | 12,154 | 481 | 23,464 |
| Izumo Murata Manufacturing Co., Ltd.. | 1,371 | 8,749 | 9,683 | 1,770 | 21,573 |
| Okayama Murata Manufacturing Co., Ltd. | – | 5,661 | 10,275 | 923 | 16,859 |
| Toyama Murata Manufacturing Co., Ltd. | 1,610 | 3,122 | 6,659 | 2,403 | 13,794 |
| Murata Land & Building Co., Ltd. | 4,734 | 8,663 | 3 | – | 13,400 |

| 2014 | Millions of yen | | | | |
|---|---|---|---|---|---|
| | Land | Buildings | Machinery and equipment | Construction in progress | Total |
| ***Foreign Subsidiaries*** | | | | | |
| Company Name | | | | | |
| Wuxi Murata Electronics Co., Ltd. | – | ¥6,475 | ¥25,557 | ¥1,948 | ¥33,980 |
| Shenzhen Murata Technology Co., Ltd. | – | 5,537 | 11,340 | 11 | 16,888 |
| Murata Electronics (Thailand), Ltd. | ¥307 | 3,510 | 5,187 | 458 | 9,462 |
| Murata Electronics Oy | – | 410 | 5,479 | 834 | 6,723 |
| VIET HOA ELECTRONICS CO., LTD. | – | 372 | 5,341 | – | 5,713 |
| ZHUHAI TOKO ELECTRONIC CO., LTD. | – | 412 | 3,383 | – | 3,795 |

## Liquidity in Hand and Net Cash

Murata Manufacturing Co., Ltd. and Subsidiaries
March 31, 2014 and 2013

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| Cash and cash equivalents at end of year | **¥118,884** | ¥ 90,068 | **$1,154,214** |
| Short-term investments with the original maturities over 3 months | **63,114** | 33,897 | **612,757** |
| Available-for-sale securities (Governmental, Private debt securities, and Investment trusts) | **209,769** | 201,859 | **2,036,593** |
| Long-term deposits | **6,000** | 6,000 | **58,252** |
| Liquidity in hand | **¥397,767** | ¥331,824 | **$3,861,816** |
| Interest bearing liabilities | **(57,129)** | (55,605) | **(554,651)** |
| Net cash | **¥340,638** | ¥276,219 | **$3,307,165** |

# Consolidated Balance Sheets

Murata Manufacturing Co., Ltd. and Subsidiaries
As of March 31, 2014 and 2013

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| ASSETS | 2014 | 2013 | 2014 |
| ***Current assets:*** | | | |
| Cash | ¥ 104,467 | ¥ 77,444 | $ 1,014,243 |
| Short-term investments | 77,531 | 46,521 | 752,728 |
| Marketable securities (Note 3) | 100,403 | 60,752 | 974,786 |
| Notes and accounts receivable: | | | |
| Trade notes | 775 | 833 | 7,524 |
| Trade accounts | 188,044 | 164,047 | 1,825,670 |
| Allowance for doubtful notes and accounts | (948) | (941) | (9,204) |
| Inventories (Note 5) | 170,603 | 160,934 | 1,656,340 |
| Deferred income taxes (Note 9) | 22,566 | 19,173 | 219,087 |
| Prepaid expenses and other | 9,540 | 9,335 | 92,622 |
| Total current assets | 672,981 | 538,098 | 6,533,796 |
| ***Property, plant and equipment:*** | | | |
| Land | 50,153 | 46,887 | 486,922 |
| Buildings | 308,576 | 297,558 | 2,995,884 |
| Machinery and equipment | 727,280 | 679,204 | 7,060,971 |
| Construction in progress | 18,251 | 20,043 | 177,194 |
| Total | 1,104,260 | 1,043,692 | 10,720,971 |
| Accumulated depreciation | (757,787) | (719,770) | (7,357,155) |
| Net property, plant and equipment | 346,473 | 323,922 | 3,363,816 |
| ***Investments and other assets:*** | | | |
| Investments (Note 3) | 126,600 | 157,858 | 1,229,126 |
| Intangible assets (Note 17) | 51,319 | 31,701 | 498,243 |
| Goodwill (Note 17) | 23,257 | 12,765 | 225,796 |
| Deferred income taxes (Note 9) | 9,496 | 7,499 | 92,194 |
| Other (Notes 4 and 7) | 13,561 | 15,301 | 131,660 |
| Total investments and other assets | 224,233 | 225,124 | 2,177,019 |
| Total assets | ¥1,243,687 | ¥1,087,144 | $12,074,631 |

See notes to consolidated financial statements.

| LIABILITIES AND SHAREHOLDERS' EQUITY | Millions of yen 2014 | Millions of yen 2013 | Thousands of U.S. dollars (Note 2) 2014 |
|---|---|---|---|
| ***Current liabilities:*** | | | |
| Short-term borrowings (Note 6) | **¥ 37,885** | ¥ 47,061 | **$ 367,816** |
| Trade accounts payable | **43,387** | 38,935 | **421,233** |
| Accrued payroll and bonuses | **30,078** | 24,011 | **292,019** |
| Income taxes payable | **27,909** | 11,555 | **270,961** |
| Accrued expenses and other (Note 7) | **34,454** | 31,563 | **334,505** |
| Total current liabilities | **173,713** | 153,125 | **1,686,534** |
| ***Long-term liabilities:*** | | | |
| Long-term debt (Note 6) | **16,312** | 7,443 | **158,369** |
| Termination and retirement benefits (Note 7) | **70,346** | 63,562 | **682,971** |
| Deferred income taxes (Note 9) | **9,673** | 879 | **93,913** |
| Other | **2,011** | 1,172 | **19,524** |
| Total long-term liabilities | **98,342** | 73,056 | **954,777** |
| ***Commitments and contingent liabilities*** (Note 12) | | | |
| ***Murata Corporation's Shareholders' equity*** (Notes 8 and 19)***:*** | | | |
| Common stock (authorized 581,000,000 shares in 2014 and 2013; issued 225,263,592 shares in 2014 and 2013) | **69,377** | 69,377 | **673,563** |
| Capital surplus | **103,864** | 102,396 | **1,008,388** |
| Retained earnings | **834,419** | 764,485 | **8,101,155** |
| Accumulated other comprehensive income (loss): | | | |
| Unrealized gains on securities | **5,511** | 5,695 | **53,505** |
| Pension liability adjustments (Note 7) | **(4,688)** | (3,982) | **(45,515)** |
| Unrealized losses on derivative instruments | **–** | (165) | **–** |
| Foreign currency translation adjustments | **7,562** | (13,769) | **73,418** |
| Total accumulated other comprehensive income (loss) | **8,385** | (12,221) | **81,408** |
| Treasury stock, at cost 13,555,870 shares in 2014 and 14,188,529 shares in 2013 | **(60,285)** | (63,074) | **(585,291)** |
| Total Murata Corporation's Shareholders' equity | **955,760** | 860,963 | **9,279,223** |
| ***Noncontrolling interests*** | **15,872** | – | **154,097** |
| Total equity | **971,632** | 860,963 | **9,433,320** |
| Total liabilities and total equity | **¥1,243,687** | ¥1,087,144 | **$12,074,631** |

# Consolidated Statements of Income

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2014, 2013 and 2012

| | Millions of yen | | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|---|
| | **2014** | 2013 | 2012 | **2014** |
| ***Net sales*** | **¥846,716** | ¥681,021 | ¥584,662 | **$8,220,544** |
| ***Operating costs and expenses*** (Note 7)***:*** | | | | |
| Cost of sales | **554,278** | 478,824 | 413,784 | **5,381,340** |
| Selling, general and administrative | **111,898** | 94,795 | 84,927 | **1,086,388** |
| Research and development | **54,649** | 48,766 | 40,978 | **530,573** |
| Total operating costs and expenses | **720,825** | 622,385 | 539,689 | **6,998,301** |
| ***Operating income*** | **125,891** | 58,636 | 44,973 | **1,222,243** |
| ***Other income (expenses):*** | | | | |
| Interest and dividend income | **4,149** | 3,531 | 4,769 | **40,282** |
| Interest expense | **(371)** | (320) | (105) | **(3,602)** |
| Foreign currency exchange gain (loss) | **(849)** | (1,583) | 110 | **(8,243)** |
| Other-net | **3,516** | (730) | 1,184 | **34,136** |
| Other income (expenses)-net | **6,445** | 898 | 5,958 | **62,573** |
| ***Income before income taxes*** | **132,336** | 59,534 | 50,931 | **1,284,816** |
| ***Income taxes*** (Note 9): | | | | |
| Current | **42,825** | 20,833 | 12,510 | **415,777** |
| Deferred | **(3,761)** | (3,530) | 7,885 | **(36,515)** |
| Provision for income taxes | **39,064** | 17,303 | 20,395 | **379,262** |
| ***Equity in earnings (losses) of affiliates*** | **(81)** | 155 | 271 | **(787)** |
| ***Net income*** | **¥ 93,191** | ¥ 42,386 | ¥ 30,807 | **$ 904,767** |

| | Yen | | | U.S. dollars (Note 2) |
|---|---|---|---|---|
| ***Amounts per share*** (Note 10): | | | | |
| Basic earnings per share | **¥440.63** | ¥200.81 | ¥144.35 | **$4.28** |
| Cash dividends per share | **¥110.00** | ¥100.00 | ¥100.00 | **$1.07** |

See notes to consolidated financial statements.

# Consolidated Statements of Comprehensive Income

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2014, 2013 and 2012

| | Millions of yen | | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|---|
| | **2014** | 2013 | 2012 | **2014** |
| ***Net income*** | **¥ 93,191** | ¥42,386 | ¥30,807 | **$ 904,767** |
| ***Other comprehensive income (loss), net of tax*** (Note 11): | | | | |
| Unrealized gains (losses) on securities | **(184)** | 4,651 | (1,491) | **(1,787)** |
| Pension liability adjustments | **(706)** | 705 | (4,265) | **(6,854)** |
| Unrealized gains (losses) on derivative instruments | **165** | 362 | (493) | **1,602** |
| Foreign currency translation adjustments | **21,331** | 25,434 | (692) | **207,097** |
| Other comprehensive income (loss) | **20,606** | 31,152 | (6,941) | **200,058** |
| ***Comprehensive income*** | **¥113,797** | ¥73,538 | ¥23,866 | **$1,104,825** |

See notes to consolidated financial statements.

# Consolidated Statements of Shareholders' Equity

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2014, 2013 and 2012

| | 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, 2011*** | 225,263,592 | ¥69,377 | ¥102,396 | ¥733,862 | ¥(36,432) | ¥(48,059) | ¥821,144 | – | ¥821,144 |
| Purchases of treasury stock at cost | | | | | | (15,005) | (15,005) | | (15,005) |
| Net income | | | | 30,807 | | | 30,807 | | 30,807 |
| Cash dividends, ¥100.00 per share | | | | (21,463) | | | (21,463) | | (21,463) |
| Other comprehensive loss, net of tax (Note 11) | | | | | (6,941) | | (6,941) | | (6,941) |
| ***Balance at March 31, 2012*** | 225,263,592 | 69,377 | 102,396 | 743,206 | (43,373) | (63,064) | 808,542 | – | 808,542 |
| Purchases of treasury stock at cost | | | | | | (10) | (10) | | (10) |
| Net income | | | | 42,386 | | | 42,386 | | 42,386 |
| Cash dividends, ¥100.00 per share | | | | (21,107) | | | (21,107) | | (21,107) |
| Other comprehensive income, net of tax (Note 11) | | | | | 31,152 | | 31,152 | | 31,152 |
| ***Balance at March 31, 2013*** | **225,263,592** | **69,377** | **102,396** | **764,485** | **(12,221)** | **(63,074)** | **860,963** | **-** | **860,963** |
| Purchases of treasury stock at cost | | | | | | **(53)** | **(53)** | | **(53)** |
| Disposal of treasury stock | | | **1** | | | **1** | **2** | | **2** |
| Net income | | | | **93,191** | | | **93,191** | | **93,191** |
| Cash dividends, ¥110.00 per share | | | | **(23,257)** | | | **(23,257)** | | **(23,257)** |
| Other comprehensive income, net of tax (Note 11) | | | | | **20,606** | | **20,606** | | **20,606** |
| Subsidiary acquired through share exchanges | | | **1,467** | | | **2,841** | **4,308** | | **4,308** |
| Acquisition of businesses | | | | | | | | **15,872** | **15,872** |
| ***Balance at March 31, 2014*** | **225,263,592** | **¥69,377** | **¥103,864** | **¥834,419** | **¥8,385** | **¥(60,285)** | **¥955,760** | **¥15,872** | **¥971,632** |

| | Thousands of U.S. dollars (Note 2) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Common stock | Capital surplus | Retained earnings | Accumulated other comprehensive income (loss) | Treasury stock | Controlling interests | Noncontrolling interests | Total equity |
| ***Balance at March 31, 2013*** | **$673,563** | **$ 994,136** | **$7,422,184** | **$(118,650)** | **$(612,369)** | **$8,358,864** | **-** | **$8,358,864** |
| Purchases of treasury stock at cost | | | | | **(515)** | **(515)** | | **(515)** |
| Disposal of treasury stock | | **10** | | | **10** | **20** | | **20** |
| Net income | | | **904,767** | | | **904,767** | | **904,767** |
| Cash dividends, $1.07 per share | | | **(225,796)** | | | **(225,796)** | | **(225,796)** |
| Other comprehensive income, net of tax | | | | **200,058** | | **200,058** | | **200,058** |
| Subsidiary acquired through share exchanges | | **14,242** | | | **27,583** | **41,825** | | **41,825** |
| Acquisition of businesses | | | | | | | **$154,097** | **154,097** |
| ***Balance at March 31, 2014*** | **$673,563** | **$1,008,388** | **$8,101,155** | **$ 81,408** | **$(585,291)** | **$9,279,223** | **$154,097** | **$9,433,320** |

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2014, 2013, and 2012

| | Millions of yen | | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|---|
| | **2014** | 2013 | 2012 | **2014** |
| ***Operating activities:*** | | | | |
| Net income | **¥ 93,191** | ¥42,386 | ¥30,807 | **$ 904,767** |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | **76,884** | 72,323 | 61,008 | **746,447** |
| Losses on sales and disposals of property, plant and equipment | **595** | 1,507 | 670 | **5,777** |
| Impairment losses for long-lived assets | **3,450** | – | – | **33,495** |
| Provision for termination and retirement benefits, less payments | **931** | 1,801 | 498 | **9,039** |
| Deferred income taxes | **(3,761)** | (3,530) | 7,885 | **(36,515)** |
| Changes in assets and liabilities: | | | | |
| Decrease (increase) in trade notes and accounts receivable | **(2,545)** | (25,801) | 1,491 | **(24,709)** |
| Decrease (increase) in inventories | **3,649** | (22,161) | (19,032) | **35,427** |
| Decrease (increase) in prepaid expenses and other | **1,782** | 7,835 | (7,952) | **17,301** |
| Increase in trade notes and accounts payable | **819** | 403 | 2,401 | **7,952** |
| Increase (decrease) in accrued payroll and bonuses | **4,580** | 1,697 | (1,429) | **44,466** |
| Increase (decrease) in income taxes payable | **15,762** | 8,678 | (21,867) | **153,029** |
| Increase (decrease) in accrued expenses and other | **(4,920)** | 150 | 6,150 | **(47,767)** |
| Other-net | **(4,666)** | 3,249 | (3,041) | **(45,301)** |
| Net cash provided by operating activities | **185,751** | 88,537 | 57,589 | **1,803,408** |
| ***Investing activities:*** | | | | |
| Capital expenditures | **(68,197)** | (77,662) | (68,445) | **(662,107)** |
| Payment for purchases of marketable securities, investments and other | **(78,341)** | (38,576) | (43,027) | **(760,592)** |
| Maturities and sales of marketable securities, investments and other | **63,800** | 80,254 | 87,671 | **619,417** |
| Decrease (increase) in short-term investments | **(29,217)** | (19,348) | 6,756 | **(283,660)** |
| Increase in investments in affiliates | **–** | – | (1,140) | **–** |
| Acquisition of businesses, net of cash acquired | **(12,665)** | (1,860) | (28,850) | **(122,961)** |
| Cash balances of subsidiary acquired through share exchanges (Note 16) | **3,316** | – | – | **32,194** |
| Other | **4,154** | 1,019 | 548 | **40,330** |
| Net cash used in investing activities | **(117,150)** | (56,173) | (46,487) | **(1,137,379)** |
| ***Financing activities:*** | | | | |
| Net increase (decrease) in short-term borrowings | **(17,964)** | 10,865 | 22,151 | **(174,408)** |
| Proceeds from long-term debt | **1,517** | 672 | 5,517 | **14,728** |
| Payments from long-term debt | **(1,339)** | (67) | (83) | **(13,000)** |
| Dividends paid | **(23,257)** | (21,107) | (21,463) | **(225,796)** |
| Other | **144** | (18) | (15,270) | **1,398** |
| Net cash used in financing activities | **(40,899)** | (9,655) | (9,148) | **(397,078)** |
| ***Effect of exchange rate changes on cash and cash equivalents*** | **1,114** | 2,057 | 328 | **10,816** |
| ***Net increase in cash and cash equivalents*** | **28,816** | 24,766 | 2,282 | **279,767** |
| ***Cash and cash equivalents at beginning of year*** | **90,068** | 65,302 | 63,020 | **874,447** |
| ***Cash and cash equivalents at end of year*** | **¥118,884** | ¥90,068 | ¥65,302 | **$1,154,214** |
| ***Additional cash flow information:*** | | | | |
| Interest paid | **¥ 379** | ¥ 317 | ¥ 105 | **$ 3,680** |
| Income taxes paid | **26,616** | 12,164 | 34,251 | **258,408** |
| ***Additional cash and cash equivalents information:*** | | | | |
| Cash | **¥104,467** | ¥77,444 | ¥54,460 | **$1,014,243** |
| Short-term investments | **77,531** | 46,521 | 25,391 | **752,728** |
| Short-term investments with the original maturities over 3 months | **(63,114)** | (33,897) | (14,549) | **(612,757)** |
| Cash and cash equivalents at end of year | **¥118,884** | ¥90,068 | ¥65,302 | **$1,154,214** |
| ***Additional noncash investing activities information:*** | | | | |
| Acquisition of businesses through share exchange (Note 16) | **¥6,331** | – | – | **$61,466** |

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Murata Manufacturing Co., Ltd. and Subsidiaries

## 1. Summary of Significant Accounting Policies

**(a) Nature of operations**

Murata Manufacturing Co., Ltd. (the “Company”) and subsidiaries (together the “Companies”) are engaged in the development, manufacture, and sale of electronic components (Components and Modules) in numerous countries, with Japan, North America, certain other Asian, 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.

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 items have been 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,” the Companies classify all debt securities and marketable equity securities as available-for-sale and carry them at fair value with a corresponding recognition of the net unrealized holding gain or loss (net of tax) as a separate component of shareholders’ equity. Gains and losses on sales of investments are computed on an average cost basis. Equity securities that do not have a readily determinable fair value are recorded at average cost (see Note 3). The Companies review the fair value of their marketable securities and investments on a regular basis to determine if the fair value of any individual investment has declined below its cost and amortized cost and if such decline is other-than-temporary. A determination of whether a decline in fair value represents an other-than-temporary impairment is based on criteria that include the extent to which the securities’ carrying value exceeds its fair value, the duration of the market decline, and the Companies’ requirement and intent to sell the investment. Losses from other-than-temporary impairments, if any, are charged to income as incurred.

**(f) Inventories**

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

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

Property, plant and equipment is stated at cost. Depreciation of property, plant and equipment has been principally computed using the declining-balance method (straight-line method for certain overseas subsidiaries) based upon the estimated useful lives of the assets. The range of useful lives is principally from 10 to 50 years for buildings and from 4 to 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, 2014, 2013, and 2012 were ¥3,431 million ($33,311 thousand), ¥2,733 million, and ¥2,339 million, respectively.

**(k) Taxes on income**

The Companies follow the provisions of ASC 740, “Income Taxes” to account for income taxes. Under ASC 740, deferred tax assets and liabilities are computed based on the differences between the financial statement and the income tax bases of assets and liabilities using the enacted tax rates. Deferred income tax expenses and credits are based on the change in the deferred tax assets and liabilities from period to period. A valuation allowance is established, when necessary, to reduce deferred tax assets to the 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 of the tax system which treats almost all dividends receivable the Company received from subsidiaries as non-taxable for tax calculation.

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.

**(l) Earnings per share**

The Companies account for earnings per share in accordance with ASC 260, “Earnings Per Share”. Diluted earnings per share reflects the potential dilution from potential shares outstanding such as shares issuable upon the exercise of stock options. A reconciliation of the numerator and denominator of the basic and diluted earnings per share computation is included in Note 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”. These standards establish accounting and reporting standards for derivative instruments and for hedging activities, and require that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value.

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) Shipping and handling costs**

Shipping and handling costs which are included in selling, general and administrative expenses for the years ended March 31, 2014, 2013, and 2012 were ¥8,049 million ($78,146 thousand,) ¥6,739 million, and ¥5,296 million, respectively.

**(p) 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.

**(q) Impairment or disposal of long-lived assets**

The Companies account for impairment or disposal of long-lived assets and discontinued operations in accordance with ASC 360,“Property, plant, and equipment”. This statement applies to all long-lived assets. The Companies’ long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount exceeds the fair value of the assets. If the Companies determine to dispose of assets, depreciation estimates for the assets shall be revised to reflect those remaining useful lives. Assets classified as held for sale shall be measured at the lower of its carrying amount or fair value less cost to sell.

The Companies recognized ¥3,450 million ($33,495 thousand) of impairment losses in selling, general and administrative expenses for the year ended March 31, 2014 related to production facilities and related assets and idle long-lived assets mainly due to decreasing profitability in Components segment and the Companies’ decision to sell certain idle long-lived assets in Corporate and eliminations segment, respectively. The fair value of production facilities and related assets are measured by estimated future cash flows and idle long-lived assets are measured by the selling price less cost to sell.

**(r) Acquisition**

The Companies account for acquisition in accordance with ASC 805, “Business Combinations”. In accordance with this statement, the Companies measure the identifiable assets including intangible assets and the liabilities assumed at their acquisition-date fair values by the acquisition method. The Companies recognize goodwill as of the acquisition date, measured as the excess of the total acquisition price over the net identifiable assets acquired. Acquisition-related costs accounted for as expenses in the periods in which the costs are incurred and the services are received.

**(s) Goodwill and other intangible assets**

The Companies account for goodwill and other intangible assets in accordance with ASC 350, “Intangibles - Goodwill and Other”. In accordance with this statement, goodwill is not amortized and is instead tested at least annually for impairment. 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.

**(t) Use of estimates**

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

**(u) Reclassifications**

Certain items in prior years' financial statements have been reclassified to conform to the 2014 presentation.

**(v) New accounting standards**

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers. The ASU outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance. The ASU requires 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 ASU is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016. The Companies will adopt the ASU from the fiscal year beginning April 1, 2017. The Companies are currently evaluating the effect that the adoption of this guidance will have on their consolidated financial statements.

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

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for convenience of readers outside of Japan and have been made at the rate of ¥103 to $1, the approximate rate of exchange at March 31, 2014. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at the above or any other rate.

**3. Marketable Securities and Investments**

The cost and amortized cost, gross unrealized gains, gross unrealized losses, and fair value for available-for-sale securities by major security type, at March 31, 2014 and 2013 are as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2014 | | | |
| | Cost and Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Governmental debt securities | ¥ 1,000 | ¥ 1 | – | ¥ 1,001 |
| Private debt securities | 204,374 | 1,683 | ¥351 | 205,706 |
| Equity securities | 8,907 | 6,215 | – | 15,122 |
| Investment trusts | 3,015 | 47 | – | 3,062 |
| Total available-for-sale securities | ¥217,296 | ¥7,946 | ¥351 | ¥224,891 |

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2013 | | | |
| | Cost and Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Governmental debt securities | – | – | – | – |
| Private debt securities | ¥199,898 | ¥2,357 | ¥396 | ¥201,859 |
| Equity securities | 8,635 | 6,029 | 6 | 14,658 |
| Investment trusts | – | – | – | – |
| Total available-for-sale securities | ¥208,533 | ¥8,386 | ¥402 | ¥216,517 |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | 2014 | | | |
| | Cost and Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Governmental debt securities | $ 9,708 | $ 10 | - | $ 9,718 |
| Private debt securities | 1,984,214 | 16,340 | $3,408 | 1,997,146 |
| Equity securities | 86,476 | 60,340 | - | 146,816 |
| Investment trusts | 29,272 | 456 | - | 29,728 |
| Total available-for-sale securities | $2,109,670 | $77,146 | $3,408 | $2,183,408 |

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, 2014 and 2013 are as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2014 | | | |
| | Less than 12 months | | 12 months or longer | |
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| Private debt securities | ¥50,580 | ¥284 | ¥10,450 | ¥67 |
| Equity securities | – | – | – | – |
| Total | ¥50,580 | ¥284 | ¥10,450 | ¥67 |

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2013 | | | |
| | Less than 12 months | | 12 months or longer | |
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| Private debt securities | ¥21,828 | ¥78 | ¥30,385 | ¥318 |
| Equity securities | 194 | 6 | – | – |
| Total | ¥22,022 | ¥84 | ¥30,385 | ¥318 |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | 2014 | | | |
| | Less than 12 months | | 12 months or longer | |
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| Private debt securities | $491,068 | $2,757 | $101,456 | $650 |
| Equity securities | – | – | – | – |
| Total | $491,068 | $2,757 | $101,456 | $650 |

The Companies do not recognize other-than-temporary impairment loss on above debt securities which have a fair value below amortized cost as of March 31, 2014, (1) as the Companies do not intend to and (2) more likely than not will not be required to sell such securities before the recovery of amortized cost and (3) as the issuers of the securities have favorable credit ratings.

The aggregate carrying amounts of equity securities at March 31, 2014 and 2013, which are valued at cost, are ¥2,112 million ($20,505 thousand) and ¥2,093 million, respectively.

Of these, at March 31, 2014 and 2013, equity securities of ¥2,079 million ($20,184 thousand) and ¥2,093 million, respectively, are not evaluated for impairment because (a) the Companies do 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 determine that it is not practicable to estimate the fair value of the securities.

Contractual maturities of debt securities (governmental, private debt securities, and investment trusts) as of March 31, 2014 are as follows:

| | Millions of yen | | Thousands of U.S. dollars | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Within 1 year | ¥ 99,339 | ¥100,403 | $ 964,456 | $ 974,786 |
| After 1 year through 5 years | 109,050 | 109,366 | 1,058,738 | 1,061,806 |
| After 5 years | – | – | – | – |
| Total | ¥208,389 | ¥209,769 | $2,023,194 | $2,036,592 |

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

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | **2014** | 2013 | 2012 | **2014** |
| Proceeds from sales | **¥2,200** | ¥1,634 | ¥2 | **$21,359** |
| Gross realized gains | **116** | 34 | 1 | **1,126** |
| Gross realized losses | **5** | – | – | **49** |

## 4. Investments in Affiliates

Investments in affiliates accounted for by the equity method consist of 31.9% of the common stock of Tokyo Denpa Co., Ltd. ("TEW") at March 31, 2013.

The carrying amount and the value based on quoted market prices of investments in common stock of TEW for which a quoted market price is available at March 31, 2013 are ¥2,225 million and ¥2,067 million, respectively. The difference between the carrying amount of investments in affiliates and Company's equity in the net assets of such affiliated company is insignificant at March 31, 2013.

TEW became the wholly-owned subsidiary of the Company on August 1, 2013.

## 5. Inventories

Inventories at March 31, 2014 and 2013 consist of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| Finished products | **¥ 79,891** | ¥ 73,542 | **$ 775,641** |
| Work in process | **48,214** | 48,375 | **468,097** |
| Materials and supplies | **42,498** | 39,017 | **412,602** |
| Total | **¥170,603** | ¥160,934 | **$1,656,340** |

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

Short-Term Borrowings at March 31, 2014 and 2013 consist of the following:

| | Millions of yen | Weighted-Average Interest Rate | Millions of yen | Weighted-Average Interest Rate | Thousands of U.S. dollars |
|---|---|---|---|---|---|
| | **2014** | | 2013 | | **2014** |
| Unsecured bank loans | **¥34,654** | **0.6%** | ¥47,061 | 0.6% | **$336,447** |
| Secured bank loans | **3,231** | **1.2** | – | – | **31,369** |
| Total | **¥37,885** | **0.6%** | ¥47,061 | 0.6% | **$367,816** |

Long-term debt at March 31, 2014 and 2013 consist of the following:

| | Millions of yen | Weighted-Average Interest Rate | Millions of yen | Weighted-Average Interest Rate | Thousands of U.S. dollars |
|---|---|---|---|---|---|
| | **2014** | | 2013 | | **2014** |
| Unsecured bank loans,due 2019 | **¥12,442** | **1.0%** | ¥8,542 | 0.8% | **$120,796** |
| Secured bank loans, due 2019 | **6,800** | **1.3** | – | – | **66,019** |
| Other | **2** | **3.5** | 3 | 3.6 | **20** |
| Total | **19,244** | **1.1** | 8,545 | 0.8 | **186,835** |
| Less: Portion due within one year | **(2,932)** | **1.2** | (1,102) | 0.8 | **(28,466)** |
| Total | **¥16,312** | **1.1%** | ¥7,443 | 0.8% | **$158,369** |

The aggregate future maturities of long-term debt outstanding at March 31, 2014 are as follows:

| Years ending March 31 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2015 | ¥ 2,932 | $ 28,466 |
| 2016 | 7,079 | 68,728 |
| 2017 | 4,602 | 44,680 |
| 2018 | 2,817 | 27,349 |
| 2019 | 1,814 | 17,612 |
| 2020 and thereafter | – | – |
| Total | ¥19,244 | $186,835 |

Property, plant and equipment having a net book value of ¥1,997 million ($19,388 thousand) was pledged as a collateral for short-term borrowings and long-term debt at the year ended March 31, 2014.

## 7. Termination and Retirement Benefits

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

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

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

Certain domestic subsidiaries converted the part of their retirement plans to defined contribution pension plans in January 2014. As a result of these amendments, the projected benefit obligation decreased ¥1,671 million.

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 |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| Change in benefit obligation: | | | |
| Benefit obligation at beginning of year | **¥139,718** | ¥128,898 | **$1,356,485** |
| Service cost | **7,733** | 7,107 | **75,078** |
| Interest cost | **2,168** | 2,248 | **21,049** |
| Amendments | **(1,671)** | – | **(16,223)** |
| Actuarial loss | **7,126** | 5,181 | **69,184** |
| Benefits paid | **(1,631)** | (1,612) | **(15,835)** |
| Settlement paid | **(2,083)** | (2,104) | **(20,223)** |
| Acquisition of businesses | **11,436** | – | **111,029** |
| Benefit obligation at end of year | **162,796** | 139,718 | **1,580,544** |
| Change in plan assets: | | | |
| Fair value of plan assets at beginning of year | **77,313** | 67,472 | **750,612** |
| Actual return on plan assets | **6,469** | 7,403 | **62,806** |
| Employer contribution | **5,031** | 4,658 | **48,845** |
| Benefits paid | **(1,631)** | (1,612) | **(15,835)** |
| Settlement paid | **(491)** | (608) | **(4,767)** |
| Acquisition of businesses | **7,019** | – | **68,145** |
| Fair value of plan assets at end of year | **93,710** | 77,313 | **909,806** |
| Funded status at end of year | **¥ (69,086)** | ¥ (62,405) | **$ (670,738)** |
| Amounts recognized in the consolidated balance sheet consist of: | | | |
| Long-term receivables, advances and other | **¥ 2,606** | ¥ 1,810 | **$ 25,301** |
| Accrued expenses and other | **(1,346)** | (653) | **(13,068)** |
| Termination and retirement benefits | **(70,346)** | (63,562) | **(682,971)** |
| Net amount recognized | **¥ (69,086)** | ¥ (62,405) | **$ (670,738)** |
| Accumulated benefit obligation at end of year | **¥156,077** | ¥134,141 | **$ 1,515,311** |

Accumulated benefit obligations for all of the Companies' termination and retirement plans are in excess of their plan assets at March 31, 2014 and 2013.

Amounts recognized in accumulated other comprehensive loss (income) at March 31, 2014 and 2013 consist of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| Actuarial loss | **¥ 22,808** | ¥22,249 | **$ 221,437** |
| Prior service benefit | **(15,161)** | (15,733) | **(147,194)** |
| Pension liability adjustments, before tax | **¥ 7,647** | ¥ 6,516 | **$ 74,243** |

Net periodic benefit cost for the years ended March 31:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | **2014** | 2013 | 2012 | **2014** |
| Service cost | **¥7,733** | ¥7,107 | ¥6,841 | **$75,078** |
| Interest cost | **2,168** | 2,248 | 2,289 | **21,049** |
| Expected return on plan assets | **(1,913)** | (1,674) | (1,477) | **(18,574)** |
| Amortization of prior service benefit | **(2,242)** | (2,224) | (2,227) | **(21,767)** |
| Recognized actuarial loss | **1,943** | 2,727 | 2,099 | **18,864** |
| Net periodic benefit cost | **¥7,689** | ¥8,184 | ¥7,525 | **$74,650** |

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| Prior service benefit due to amendments | **¥(1,671)** | – | **$(16,223)** |
| Actuarial loss | **2,503** | ¥ (632) | **24,301** |
| Amortization of prior service benefit | **2,242** | 2,224 | **21,767** |
| Recognized actuarial loss | **(1,943)** | (2,727) | **(18,864)** |
| Total recognized in other comprehensive loss (income), before tax | **¥ 1,131** | ¥(1,135) | **$ 10,981** |

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 are a gain of ¥2,305 million ($22,379 thousand) and a loss of ¥2,024 million ($19,650 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 its statement of financial position, with an adjustment to accumulated other comprehensive income (loss).

The unrecognized prior service benefit due to certain plan amendments is being amortized on a straight-line basis over the average remaining service period of employees. 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 are utilized to calculate the actuarial present value of the benefit obligation as of March 31:

| | **2014** | 2013 |
|---|---|---|
| Discount rate | **1.4%** | 1.6% |

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

| | **2014** | 2013 | 2012 |
|---|---|---|---|
| Discount rate | **1.6%** | 1.8% | 2.1% |
| Expected long-term rate of return on plan assets | **2.5%** | 2.5% | 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.

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

Plan assets are invested for the purpose of achieving a sufficient rate of return to maintain pension plan assets for future payment of benefits to plan participants. Considering the expected rate of return on invested assets, a related standard deviation, and a related correlation coefficient, the Companies believe the current asset allocation is adequate for purposes of meeting investment objectives. For achieving the expected rate of return on plan assets on a midterm to long-term basis, the Companies select optimal investing institutions by invested asset category and entrust the investment of plan assets to them. The Companies revise the asset allocation when and to the extent considered necessary. The asset allocation of the Company's plan assets which account for most of plan assets at March 31, 2014 consists of 25% of equity securities, 63% of debt securities and life insurance company general accounts, and 12% of other.

The 3 broad levels of input used to measure fair value are more fully described in Note 14.
The fair values of the Companies' plan assets at March 31, 2014 are as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | Fair value measurements | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Equity securities | | | | |
| Stocks | ¥1,833 | – | – | ¥ 1,833 |
| Pooled funds | – | ¥20,827 | – | 20,827 |
| Debt Securities | | | | |
| Governmental debt securities | 5,866 | – | – | 5,866 |
| Private debt securities | – | 94 | – | 94 |
| Pooled funds | – | 29,095 | – | 29,095 |
| Life insurance company general accounts | – | 20,574 | – | 20,574 |
| Other | | | | |
| Pooled funds | – | 2,208 | ¥11,606 | 13,814 |
| Other | – | 1,607 | – | 1,607 |
| Total | ¥7,699 | ¥74,405 | ¥11,606 | ¥93,710 |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | Fair value measurements | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Equity securities | | | | |
| Stocks | $17,796 | – | – | $ 17,796 |
| Pooled funds | – | $202,204 | – | 202,204 |
| Debt Securities | | | | |
| Governmental debt securities | 56,951 | – | – | 56,951 |
| Private debt securities | – | 913 | – | 913 |
| Pooled funds | – | 282,476 | – | 282,476 |
| Life insurance company general accounts | – | 199,748 | – | 199,748 |
| Other | | | | |
| Pooled funds | – | 21,437 | $112,680 | 134,117 |
| Other | – | 15,601 | – | 15,601 |
| Total | $74,747 | $722,379 | $112,680 | $909,806 |

The fair values of the Companies' plan assets in Level 3 for the year ended March 31, 2014 are as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | Other Pooled funds | Other Pooled funds |
| Beginning balance | ¥ 4,046 | $ 39,282 |
| Actual Return on Plan Assets | | |
| Relating to assets still held at the reporting date | 618 | 6,000 |
| Relating to assets sold during the period | 0 | 0 |
| Purchases, maturities and sales | 6,942 | 67,398 |
| Transfers in and/or out of Level 3 | – | – |
| Ending balance | ¥11,606 | $112,680 |

The fair values of the Companies' plan assets at March 31, 2013 are as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | Fair value measurements | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Equity securities | | | | |
| Stocks | ¥1,616 | – | – | ¥ 1,616 |
| Pooled funds | – | ¥23,200 | – | 23,200 |
| Debt Securities | | | | |
| Governmental debt securities | 8,217 | 23 | – | 8,240 |
| Private debt securities | – | 343 | – | 343 |
| Pooled funds | – | 20,422 | – | 20,422 |
| Life insurance company general accounts | – | 14,050 | – | 14,050 |
| Other | | | | |
| Pooled funds | – | 2,016 | ¥4,046 | 6,062 |
| Other | – | 3,380 | – | 3,380 |
| Total | ¥9,833 | ¥63,434 | ¥4,046 | ¥77,313 |

The fair values of the Companies' plan assets of Level 3 for the year ended March 31, 2013 are as follows:

| | Millions of yen |
|---|---|
| | Other Pooled funds |
| Beginning balance | ¥4,516 |
| Actual Return on Plan Assets | |
| Relating to assets still held at the reporting date | 390 |
| Relating to assets sold during the period | 14 |
| Purchases, maturities and sales | (874) |
| Transfers in and/or out of Level 3 | – |
| Ending balance | ¥4,046 |

Stocks

Stocks contain marketable equity securities and nonmarketable equity securities. Marketable equity securities are measured by the market approach using quoted prices in active markets; they are classified within Level 1. At March 31, 2014 and 2013, this class consists of 100% Japanese stocks.

Stocks include no common stock of the Company at March 31, 2014, and at March 31, 2013.

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. At March 31, 2014, this class consists of 83% Japanese governmental debt securities and 17% foreign governmental debt securities. At March 31, 2013, this class consists of 58% Japanese governmental debt securities and 42% foreign governmental debt securities.

Private debt securities

Private debt securities are measured by the market approach using quoted prices for identical or similar assets in markets that are not active; they are classified within Level 2. At March 31, 2014, this class consists of 100% foreign private debt securities. At March 31, 2013, this class consists of 100% foreign private debt securities.

Pooled funds

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

Pooled funds (equity securities) mainly contain marketable equity securities. Pooled funds (equity securities) are measured by the market approach using inputs other than quoted prices that are observable for the assets; they are classified within Level 2. At March 31, 2014, this class consists of 22% Japanese pooled funds (equity securities) and 78% foreign pooled funds (equity securities). At March 31, 2013, this class consists of 33% Japanese pooled funds (equity securities) and 67% foreign pooled funds (equity securities).

Pooled funds (debt securities) mainly contain government bonds and local government bonds. Pooled funds (debt securities) are measured by the market approach using inputs other than quoted prices that are observable for the assets; they are classified within Level 2. At March 31, 2014, this class consists of 36% Japanese pooled funds (debt securities) and 64% foreign pooled funds (debt securities). At March 31, 2013, this class consists of 41% Japanese pooled funds (debt securities) and 59% foreign pooled funds (debt securities).

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

Life insurance company general accounts

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

The Companies expect to contribute ¥4,599 million ($44,650 thousand) to their defined benefit plans in the year ended March 31, 2015.

The future benefit payments are expected as follows:

| Years ending March 31 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2015 | ¥4,318 | $41,922 |
| 2016 | 4,505 | 43,738 |
| 2017 | 4,582 | 44,485 |
| 2018 | 4,730 | 45,922 |
| 2019 | 5,386 | 52,291 |
| 2020-2024 | 30,431 | 295,447 |

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

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

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

The amount available for dividends under the Corporate Law is ¥240,445 million ($2,334,417 thousand) as of March 31, 2014, based on the amount recorded in the parent company's general books of account.

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

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

(c) Treasury stock and treasury stock acquisition rights

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

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

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

## 9. Income Taxes

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

| | **2014** | 2013 | 2012 |
|---|---|---|---|
| Normal Japanese statutory tax rates | **37.8%** | 37.8% | 40.4% |
| Increase (decrease) in taxes resulting from: | | | |
| Tax credits | **(5.7)** | (8.2) | (5.8) |
| Permanently non-deductible items | **(2.0)** | 0.5 | 0.5 |
| Foreign earnings taxed at different rates | **(2.1)** | (5.1) | (1.9) |
| Effect of enacted future tax rate reduction on deferred taxes | **0.9** | 0.4 | 5.9 |
| Net change in valuation allowance for deferred tax assets | **(1.7)** | 3.4 | 6.2 |
| Income taxes on undistributed earnings of foreign subsidiaries | **1.1** | (1.1) | (3.9) |
| Other-net | **1.2** | 1.4 | (1.4) |
| Effective tax rates | **29.5%** | 29.1% | 40.0% |

The Companies follow the provisions of ASC 740, "Income Taxes" to account for enacted future tax rate. 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. Such a change occurred at March 20, 2014, which decreased the normal statutory tax rate from 37.8% to 35.4% effective from the year beginning April 1, 2014. As a result, deferred tax assets (after the deduction of deferred tax liabilities) for this change decreased ¥1,247 million ($12,107 thousand), and deferred income tax provision increased ¥1,247 million ($12,107 thousand).

The approximate effects of temporary differences and tax loss carryforwards that gave rise to deferred tax balances at March 31, 2014 and 2013 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| Deferred tax assets: | | | |
| Intercompany profits | **¥ 4,217** | ¥ 3,532 | **$ 40,942** |
| Termination and retirement benefits | **24,462** | 22,109 | **237,495** |
| Enterprise taxes | **2,255** | 1,324 | **21,893** |
| Compensated absences | **2,486** | 2,158 | **24,136** |
| Inventory valuation | **3,124** | 2,699 | **30,330** |
| Tangible and intangible assets | **10,450** | 7,733 | **101,456** |
| Accrued bonuses | **6,292** | 5,257 | **61,087** |
| Goodwill | **635** | 995 | **6,165** |
| Other temporary differences | **4,599** | 6,565 | **44,651** |
| Tax loss carryforwards | **16,124** | 5,484 | **156,544** |
| Total | **74,644** | 57,856 | **724,699** |
| Valuation allowance | **(23,791)** | (9,775) | **(230,981)** |
| Total | **¥ 50,853** | ¥48,081 | **$ 493,718** |
| Deferred tax liabilities: | | | |
| Undistributed earnings of foreign subsidiaries | **¥ 8,349** | ¥ 6,804 | **$ 81,058** |
| Marketable securities and investments adjustments | **1,082** | 716 | **10,505** |
| Tangible and intangible assets | **14,870** | 8,330 | **144,369** |
| Goodwill | **321** | 453 | **3,117** |
| Other temporary differences | **4,099** | 6,228 | **39,796** |
| Total | **¥ 28,721** | ¥22,531 | **$ 278,845** |

The total valuation allowance increased ¥14,016 million ($136,078 thousand) for the year ended March 31, 2014 and increased ¥1,069 million for the year ended March 31, 2013.

Based upon the level of historical taxable income and projections for future taxable income over the periods which the net deductible temporary differences are expected to reverse, management believes it is more likely than not that the Companies will realize the benefits of these deferred tax assets, net of existing valuation allowances at March 31, 2014 and 2013.

The Company and subsidiaries have tax loss carryforwards for each of the corporate and local taxes approximating ¥47,264 million ($458,874 thousand) and ¥1,438 million ($13,961 thousand), respectively, available to reduce future taxable income at March 31, 2014, which will expire substantially in the period from 2014 to 2034.

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| Balance at beginning of year | **¥66** | ¥55 | **$641** |
| Additions based on tax positions related to the current year | **10** | 3 | **97** |
| Reductions for tax positions of prior years | **(4)** | – | **(39)** |
| Other | **6** | 8 | **58** |
| Balance at end of year | **¥78** | ¥66 | **$757** |

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

The Japanese tax authority completed the audit of the consolidated income tax of the Company and the domestic subsidiaries which adopt the consolidated taxation system for the years before 2010. And the tax authorities completed the tax audit of the major foreign subsidiaries for the years before 2002. The Companies believe unrecognized tax benefits are reasonably estimated, but unrecognized tax benefits may change as a result of the tax examination. As of March 31, 2014, the Companies do not anticipate the material change of unrecognized tax benefits in the next 12 months.

The Companies classify interest and penalties related to unrecognized tax benefits in income taxes in the consolidated statements of income. Accrued interest and penalties in the consolidated balance sheet as of March 31, 2014, and interest and penalties in the consolidated statement of income for the year ended March 31, 2014 are not material.

## 10. Amounts per Share

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

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | **2014** | 2013 | 2012 | **2014** |
| Net income | **¥93,191** | ¥42,386 | ¥30,807 | **$904,767** |
| | Numbers of shares | | | |
| | **2014** | 2013 | 2012 | |
| Weighted-average common shares outstanding | **211,497,197** | 211,076,326 | 213,415,642 | |
| Dilutive effect of stock options | **–** | – | – | |
| Diluted common shares outstanding | **211,497,197** | 211,076,326 | 213,415,642 | |
| | Yen | | | U.S. dollars |
| | **2014** | 2013 | 2012 | **2014** |
| Earnings per share: | | | | |
| Basic | **¥440.63** | ¥200.81 | ¥144.35 | **$4.28** |

The diluted earnings per share is not stated, since there were no dilutive potential securities.

## 11. Comprehensive Income

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

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | 2014 | | | | |
| | Unrealized gains (losses) on securities | Pension liability adjustment | Unrealized gains (losses) on derivative instruments | Foreign currency translation adjustments | Total |
| Beginning balance | ¥5,695 | ¥(3,982) | ¥ (165) | ¥(13,769) | ¥(12,221) |
| Other comprehensive income (loss), net of tax before reclassification | 3,275 | (519) | (908) | 22,617 | 24,465 |
| Amounts reclassified from accumulated other comprehensive income (loss), net of tax | (3,459) | (187) | 1,073 | (1,286) | (3,859) |
| Net changes | (184) | (706) | 165 | 21,331 | 20,606 |
| Ending balance | ¥5,511 | ¥(4,688) | – | ¥ 7,562 | ¥ 8,385 |

| | Thousands of U.S.dollars | | | | |
|---|---|---|---|---|---|
| | 2014 | | | | |
| | Unrealized gains (losses) on securities | Pension liability adjustment | Unrealized gains (losses) on derivative instruments | Foreign currency translation adjustments | Total |
| Beginning balance | $55,292 | $(38,661) | $(1,602) | $(133,679) | $(118,650) |
| Other comprehensive income (loss), net of tax before reclassification | 31,796 | (5,039) | (8,815) | 219,582 | 237,524 |
| Amounts reclassified from accumulated other comprehensive income (loss), net of tax | (33,583) | (1,815) | 10,417 | (12,485) | (37,466) |
| Net changes | (1,787) | (6,854) | 1,602 | 207,097 | 200,058 |
| Ending balance | $53,505 | $(45,515) | – | $ 73,418 | $ 81,408 |

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

| | Millions of yen | |
|---|---|---|
| | 2014 | |
| | Amounts reclassified from accumulated other comprefensive income (loss) | Account |
| Unrealized gains (losses) on securities: | ¥(4,166) | Interest and dividend income, and Other - net |
| | 707 | Income Taxes |
| | (3,459) | Total |
| Pension liability adjustment: | (299) | Net periodic benefit cost |
| | 112 | Income Taxes |
| | (187) | Total |
| Unrealized gains (losses) on derivative instruments: | 1,724 | Foreign currency exchange loss |
| | (651) | Income Taxes |
| | 1,073 | Total |
| Foreign currency translation adjustments: | (1,286) | Other - net |
| | – | Income Taxes |
| | (1,286) | Total |
| Total reclassification amounts | ¥ (3,859) | |

| | Thousands of U.S.dollars | |
|---|---|---|
| | 2014 | |
| | Amounts reclassified from accumulated other comprefensive income (loss) | Account |
| Unrealized gains (losses) on securities: | $(40,447) | Interest and dividend income, and Other - net |
| | 6,864 | Income Taxes |
| | (33,583) | Total |
| Pension liability adjustment: | (2,903) | Net periodic benefit cost |
| | 1,088 | Income Taxes |
| | (1,815) | Total |
| Unrealized gains (losses) on derivative instruments: | 16,737 | Foreign currency exchange loss |
| | (6,320) | Income Taxes |
| | 10,417 | Total |
| Foreign currency translation adjustments: | (12,485) | Other - net |
| | – | Income Taxes |
| | (12,485) | Total |
| Total reclassification amounts | $ (37,466) | |

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

| | Millions of yen | | |
|---|---|---|---|
| | 2014 | | |
| | Before-Tax Amount | Tax (Expense) or Benefit | Net-of-Tax Amount |
| Unrealized gains (losses) on securities: | | | |
| Unrealized holding gains arising during period...... | ¥ 3,765 | ¥(490) | ¥ 3,275 |
| Reclassification adjustment for gains included in net income .......... | (4,166) | 707 | (3,459) |
| | (401) | 217 | (184) |
| Pension liability adjustment: | | | |
| Pension liability adjustment arising during period ....................... | (832) | 313 | (519) |
| Reclassification adjustment for gains included in net income .......... | (299) | 112 | (187) |
| | (1,131) | 425 | (706) |
| Unrealized gains (losses) on derivative instruments: | | | |
| Unrealized holding losses arising during period .. | (1,458) | 550 | (908) |
| Reclassification adjustment for gains included in net income .......... | 1,724 | (651) | 1,073 |
| | 266 | (101) | 165 |
| Foreign currency translation adjustments: | | | |
| Foreign currency translation adjustments arising during period ....................... | 23,050 | (433) | 22,617 |
| Reclassification adjustment for gains included in net income .......... | (1,286) | – | (1,286) |
| | 21,764 | (433) | 21,331 |
| Other comprehensive loss ..................... | ¥20,498 | ¥108 | ¥20,606 |

| | Millions of yen | | |
|---|---|---|---|
| | 2013 | | |
| | Before-Tax Amount | Tax (Expense) or Benefit | Net-of-Tax Amount |
| Unrealized gains (losses) on securities: | | | |
| Unrealized holding losses arising during period.... | ¥ 4,877 | ¥(1,560) | ¥ 3,317 |
| Reclassification adjustment for gains included in net income .......... | 1,738 | (404) | 1,334 |
| | 6,615 | (1,964) | 4,651 |
| Pension liability adjustment: | | | |
| Pension liability adjustment arising during period ....................... | 632 | (240) | 392 |
| Reclassification adjustment for gains included in net income .......... | 503 | (190) | 313 |
| | 1,135 | (430) | 705 |
| Unrealized gains (losses) on derivative instruments: | | | |
| Unrealized holding gains arising during period.... | (7,779) | 2,936 | (4,843) |
| Reclassification adjustment for gains included in net income .......... | 8,359 | (3,154) | 5,205 |
| | 580 | (218) | 362 |
| Foreign currency translation adjustments ... | 26,210 | (776) | 25,434 |
| Other comprehensive loss ..................... | ¥34,540 | ¥(3,388) | ¥31,152 |

| | Millions of yen | | |
|---|---|---|---|
| | 2012 | | |
| | Before-Tax Amount | Tax (Expense) or Benefit | Net-of-Tax Amount |
| Unrealized gains (losses) on securities: | | | |
| Unrealized holding losses arising during period | ¥ (2,646) | ¥1,269 | ¥(1,377) |
| Reclassification adjustment for losses included in net income | (191) | 77 | (114) |
| | (2,837) | 1,346 | (1,491) |
| Pension liability adjustment: | | | |
| Pension liability adjustment arising during period | (6,764) | 2,575 | (4,189) |
| Reclassification adjustment for losses included in net income | (128) | 52 | (76) |
| | (6,892) | 2,627 | (4,265) |
| Unrealized gains (losses) on derivative instruments: | | | |
| Unrealized holding gains arising during period | 2,053 | (776) | 1,277 |
| Reclassification adjustment for gains included in net income | (2,842) | 1,072 | (1,770) |
| | (789) | 296 | (493) |
| Foreign currency translation adjustments | (476) | (216) | (692) |
| Other comprehensive loss | ¥(10,994) | ¥4,053 | ¥(6,941) |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | 2014 | | |
| | Before-Tax Amount | Tax (Expense) or Benefit | Net-of-Tax Amount |
| Unrealized gains (losses) on securities: | | | |
| Unrealized holding gains arising during period | $ 36,553 | $(4,757) | $ 31,796 |
| Reclassification adjustment for gains included in net income | (40,447) | 6,864 | (33,583) |
| | (3,894) | 2,107 | (1,787) |
| Pension liability adjustment: | | | |
| Pension liability adjustment arising during period | (8,078) | 3,039 | (5,039) |
| Reclassification adjustment for gains included in net income | (2,903) | 1,088 | (1,815) |
| | (10,981) | 4,127 | (6,854) |
| Unrealized gains (losses) on derivative instruments: | | | |
| Unrealized holding losses arising during period | (14,155) | 5,340 | (8,815) |
| Reclassification adjustment for gains included in net income | 16,737 | (6,320) | 10,417 |
| | 2,582 | (980) | 1,602 |
| Foreign currency translation adjustments: | | | |
| Foreign currency translation adjustments arising during period | 223,786 | (4,204) | 219,582 |
| Reclassification adjustment for gains included in net income | (12,485) | – | (12,485) |
| | 211,301 | (4,204) | 207,097 |
| Other comprehensive loss | $199,008 | $ 1,050 | $200,058 |

## 12. Commitments and Contingent Liabilities

Outstanding commitments at March 31, 2014 and 2013 for the purchase of property, plant, and equipment approximate ¥13,616 million ($132,194 thousand) and ¥13,437 million, respectively.

At March 31, 2014 and 2013, the Companies are contingently liable for trade accounts receivable discounted and transferred to banks of ¥78 million ($757 thousand) and ¥340 million, respectively, which are accounted for as sales when discounted and transferred.

## 13. Suit

In November 2007, SynQor, Inc. ("SynQor") sued the Company and its wholly-owned subsidiaries, Murata Electronics North America, Inc. and Murata Power Solutions, Inc. (collectively, "Murata") in the U.S. District Court for the Eastern District of Texas, Marshall Division ("EDTX") and alleged that certain of Murata's bus converters (the "Accused Bus Converters") infringe four U.S. patents owned by SynQor. In August 2011, EDTX issued the judgment that SynQor was awarded damages of about $20,980 thousand against Murata.

Murata appealed to the United States Court of Appeals for the Federal Circuit ("CAFC") against the judgment, but in March 2013, CAFC affirmed the original judgment that was issued by EDTX in August 2011.

Murata filed the petition to the United States Supreme Court ("the Supreme Court") to review the judgment, but in November 2013, the Supreme Court denied the petition of Murata. Due to this denial, the original judgment of EDTX became final.

Murata recorded costs and interest associated with this suit of $25,291 thousand for the year ended March 31, 2013 and paid out for the year ended March 31, 2014.

In October 2011, SynQor sued Murata for damages against a shipment, which occurred after the restraining order (in January 2011) involving the Accused Bus Converters in EDTX. In March 2014, EDTX issued the judgment that SynQor was awarded damages of about $1,327 thousand against Murata. SynQor appealed to CAFC against the judgment. Murata does not record any costs or interest associated with this suit because any adverse claims are covered through an indemnification agreement with one of Murata's customers.

## 14. Fair Value Measurements

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

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

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, 2014 are 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 .......... | – | 205,706 | – | 205,706 |
| Equity securities .................. | ¥15,122 | – | – | 15,122 |
| Investment trusts.................. | – | 3,062 | – | 3,062 |
| Derivatives | | | | |
| Forward exchange contracts ... | – | 248 | – | 248 |
| Liabilities | | | | |
| Derivatives | | | | |
| Forward exchange contracts ... | – | 346 | – | 346 |
| Interest rate swap contracts .... | – | 50 | – | 50 |
| Interest rate cap contracts....... | – | 0 | – | 0 |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | Fair value measurements | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | |
| Available-for-sale securities | | | | |
| Governmental debt securities ... | – | $ 9,718 | – | $ 9,718 |
| Private debt securities .......... | – | 1,997,146 | – | 1,997,146 |
| Equity securities ................. | $146,816 | – | – | 146,816 |
| Investment trusts ................. | – | 29,728 | – | 29,728 |
| Derivatives | | | | |
| Forward exchange contracts ... | – | 2,408 | – | 2,408 |
| Liabilities | | | | |
| Derivatives | | | | |
| Forward exchange contracts ... | – | 3,359 | – | 3,359 |
| Interest rate swap contracts .... | – | 485 | – | 485 |
| Interest rate cap contracts .... | – | 0 | – | 0 |

The Companies have no assets and liabilities measured at fair value of Level 3 on a recurring basis for the year ended March 31, 2014.

Assets and liabilities measured at fair value on a recurring basis at March 31, 2013 are as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | Fair value measurements | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | |
| Available-for-sale securities | | | | |
| Governmental debt securities ... | – | – | – | – |
| Private debt securities .......... | – | ¥201,859 | – | ¥201,859 |
| Equity securities ................. | ¥14,658 | – | – | 14,658 |
| Investment trusts ................. | – | – | – | – |
| Derivatives | | | | |
| Forward exchange contracts ... | – | 51 | – | 51 |
| Liabilities | | | | |
| Derivatives | | | | |
| Forward exchange contracts ... | – | 276 | – | 276 |

The Companies have no assets and liabilites measured at fair value of Level 3 on a recurring basis for the year ended March 31,2013.

Available-for-sale securities

Marketable equity securities is 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.

Derivatives

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

Assets and liabilities measured at fair value on a nonrecurring basis at March 31, 2014 are 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...... | ¥(3,450) | – | – | ¥370 | ¥370 |

| | | 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..... | $(33,495) | – | – | $3,592 | $3,592 |

Above assets are measured by the unobservable inputs using the estimated future cash flows when recognizing impairment losses related to the assets during the year ended March 31, 2014; they are classified within Level 3.

Assets and liabilities measured at fair value on a nonrecurring basis at March 31, 2013 are as follows:

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | Total amount of income (loss) | Fair value measurements | | | |
| | | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | | |
| Goodwill | ¥(1,396) | – | – | – | – |

Above assets are measured by the unobservable inputs using the estimated future cash flows when recognizing impairment losses related to the assets during the year ended March 31, 2013; they are classified within Level 3.

## 15. Financial Instruments and Concentration of Credit Risk

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

**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 balance sheets approximated their fair values at March 31, 2014 and 2013.

(2) Marketable securities and Investments
Fair value is primarily based on quoted market prices or estimated using 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 in order to hedge the foreign currency risk, interest rate swap contracts and interest rate cap contracts in order to hedge the interest expense fluctuation risk caused by long-term debt. In addition, the Companies have no forward exchange contracts, interest rate swap contracts and interest rate cap contracts for trading. 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.

**Forward exchange contracts**

In the year ended March 31, 2013, the Companies documented administrative provision regarding the relationship hedged instrument and hedged item, risk control, and policy and procedure for using hedged transaction, all derivative instruments were related specified asset and liability reclassified on the balance sheet or specified forecasted transaction.

Changes in the fair value of forward exchange contracts designated as cash flow hedges are reported in accumulated other comprehensive income (loss). These amounts are subsequently reclassified into earnings through foreign currency exchange gain (loss) in the same period that the hedged items affect earnings.

The Companies consider all hedges to be highly effective in offsetting the change of foreign currency, account receivable and account payable, sales and supply transaction in the future.

In the year ended March 31, 2014, the Companies reclassified changes in the fair value of forward exchange contracts as earnings in the same period since the Companies did not designate forward exchange contracts as cash flow hedges from April 1, 2013 on the ground that Companies changed administrative provision of hedged transaction. While the Companies no longer apply hedge accounting to the forward exchange contracts, the Companies continue to utilize forward exchange contracts and consider them to be effective economic hedges for managing foreign currency risk.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| Notional amounts: | | | |
| Forward exchange contracts | **¥50,204** | ¥49,321 | **$487,417** |
| Interest rate swap contracts | **6,900** | – | **66,990** |
| Interest rate cap contracts | **200** | – | **1,942** |

The fair values of forward exchange contracts, interest rate swap contracts and interest rate cap contracts for the year ended March 31, 2014 and 2013 are as follows.

| | | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | | **2014** | 2013 | **2014** |
| | Account | | Fair value | |
| Forward exchange contracts | Prepaid expenses and other | **¥248** | ¥ 51 | **$2,408** |
| | Accrued expenses and other | **346** | 276 | **3,359** |
| Interest rate swap contracts | Accrued expenses and other | **50** | – | **485** |
| Interest rate cap contracts | Accrued expenses and other | **0** | – | **0** |

Forward exchange contracts designated as hedges recognized in consolidated statements of income and other comprehensive income (loss) for the year ended March 31, 2014 and 2013 are as follows.

| Cash flow hedges | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2014** | 2013 | **2014** |
| Amounts recognized in other comprehensive income (loss), before tax | **¥(1,458)** | ¥(7,757) | **$(14,155)** |
| Reclassification adjustment from accumulated other comprehensive income (loss) to consolidated statements of income, before tax | **1,724** | 8,327 | **(16,738)** |

Forward exchange contracts designated as not hedges recognized in consolidated statements of income for the year ended March 31, 2014 and 2013 are as follows.

| | | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | | **2014** | 2013 | **2014** |
| | Account | | Fair value | |
| Forward exchange contracts | Foreign currency exchange gain (loss) | **¥(98)** | – | **$(951)** |

While the Companies no longer apply hedge accounting to the forward exchange contracts, the Companies continue to utilize forward exchange contracts and consider them to be effective economic hedges for managing foreign currency risk, but the Companies does not recognize hedges under the Companies' account processing.

**Concentration of credit risk**

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

## 16. Acquisition

Acquisitions for the year ended March 31, 2014 are as follows.

(1) To make Tokyo Denpa Co., Ltd. a wholly-owned subsidiary of the Company

On August 1, 2013, the Company implemented a share exchange with TEW. As a result of the share exchange, TEW and its 3 other subsidiaries became the wholly-owned subsidiaries of the Company. The Murata shares delivered in the share exchange were treasury stock. The total acquisition price and the fair value of the equity interests held before the acquisition based on the Murata share were ¥4,309 million ($41,835 thousand), ¥2,022 million ($19,631 thousand), respectively.

The Companies acquired crystal device products and technologies, and going forward, the Companies will work to expand this product lineup and reinforce the development, production, and sale of crystal devices.

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 | ¥ 3,316 | $ 32,194 |
| Current assets | 3,912 | 37,980 |
| Property, plant and equipment | 3,588 | 34,835 |
| Other assets | 783 | 7,602 |
| Total assets acquired | 11,599 | 112,611 |
| Current liabilities | 3,264 | 31,689 |
| Long-term liabilities | 965 | 9,369 |
| Total liabilities assumed | 4,229 | 41,058 |
| Net assets acquired | ¥ 7,370 | $ 71,553 |

The pro forma results and a result of remeasuring the equity interest held before acquisition are not disclosed as the amounts are immaterial.

2) Tender offer for shares of Toko, Inc.

On March 26, 2014, the Company acquired 53.89% of the total outstanding shares of Toko, Inc. ("TOKO") through a tender offer. The consideration, all in cash, paid for the acquired shares of TOKO was ¥23,008 million ($223,379 thousand) and the acquisition-date fair value of the noncontrolling interest in TOKO was ¥15,669 million ($152,126 thousand). The amount of gain recognized as a result of remeasuring to fair value the equity interest held before acquisition of ¥2,230 million ($21,650 thousand) is included in Other - net in the consolidated statements of income for the year ended March 31, 2014. The fair value was mainly based on the quoted price of share. As a result of the tender offer, the Company's ownership increased from 9.9% to 63.8%, and TOKO and 23 other subsidiaries ("TOKO Group") were newly consolidated.

The Companies acquired the excellence in the field of metal alloy products, the possession of coil and magnetic materials technologies, and the development capability based on a semiconductor roadmap, and going forward, the Companies will work to create electronic components with high functionality and high added value and increase sales.

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

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Cash | ¥ 9,020 | $ 87,573 |
| Current assets | 17,055 | 165,583 |
| Property, plant and equipment | 20,963 | 203,524 |
| Intangible assets | 20,598 | 199,981 |
| Goodwill | 8,671 | 84,184 |
| Other non-current assets | 3,062 | 29,728 |
| Total assets acquired | 79,369 | 770,573 |
| Current liabilities | 12,894 | 125,185 |
| Long-term liabilities | 23,565 | 228,786 |
| Total liabilities assumed | 36,459 | 353,971 |
| Non controlling interest | 15,669 | 152,126 |
| Cash paid for acquisition | 23,008 | 223,379 |
| Equity interest held before acquisition | 4,233 | 41,097 |
| Net assets acquired | ¥27,241 | $264,476 |

Intangible assets acquired are mainly customer relationships of ¥12,325 million ($119,660 thousand), which are subject to amortization. The Companies have estimated the amortization period for customer relationships to be 8 years. Goodwill recognized, which is assigned to Components segment, is attributable primarily to expected synergies from combining the operations of TOKO Group and the Companies. The recognized goodwill is not considered to be tax-deductible.

Acquisition-related cost of ¥357 million ($3,466 thousand) is included in selling, general and administrative expenses in the consolidated statements of income for the year ended March 31, 2014.

Only the consolidated balance sheet of TOKO Group is consolidated at March 31, 2014. Therefore, the results of operations of TOKO Group were not included in the consolidated statements of income for the year ended March 31, 2014.

The following table represents the unaudited pro forma results of operations of the Companies for the years ended March 31, 2012, 2013 and 2014, as if the acquisition of TOKO Group had occurred on April 1, 2011, 2012 and 2013. 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 |
|---|---|---|---|---|
| | **2014** | 2013 | 2012 | **2014** |
| Net sales | **¥879,416** | ¥707,850 | ¥611,939 | **$8,538,019** |
| Operating Income | **129,247** | 59,870 | 44,725 | **1,254,825** |

There are no significant acquisitions for the year ended March 31, 2013.

Acquisitions for the year ended March 31, 2012 are mainly as follows.
(1) The acquisition of Renesas's High-power Amplifier Business
On March 1, 2012, the Company completed the acquisition of the high-power amplifier (PA) business of Renesas Electronics Corporation ("Renesas") and the Nagano Device Division of Renesas Eastern Japan Semiconductor, Inc. (Renesas's wholly-owned subsidiary, "Renesas Eastern Japan Semiconductor Nagano"). The total acquisition price was ¥10,704 million. Due to the acquisition, Renesas's PA business was newly consolidated as the PA Products Department Communication System Products Division Module Business Unit of the Company, and Renesas Eastern Japan Semiconductor Nagano was newly consolidated as Komoro Murata Manufacturing Co., Ltd.
The Companies already boast the world's largest share of the market for front-end modules (FEM) for mobile phones, and the strengthening of its PA technology with the new acquisition will enable it to advance the integration of analogue front ends and respond to the diverse needs of its customers.
The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date.

| | Millions of yen |
|---|---|
| Current assets | ¥ 1,802 |
| Property, plant and equipment | 4,442 |
| Intangible assets | 2,264 |
| Goodwill | 3,479 |
| Other non-current assets | 1,062 |
| Total assets acquired | 13,049 |
| Current liabilities | 599 |
| Long-term liabilities | 1,746 |
| Total liabilities assumed | 2,345 |
| Net assets acquired | ¥10,704 |

Intangible assets acquired are mainly technologies of ¥1,752 million, which are subject to amortization. The Companies have estimated the amortization period for technologies to be 8 years. Goodwill recognized, which is assigned to Modules segment, is attributable primarily to expected synergies from combining operations of Renesas's PA Business and the Companies. Goodwill deductible for tax purposes resulting from the transaction is ¥2,983 million.
Acquisition-related cost of ¥113 million is included in selling, general and administrative expenses in the consolidated statements of income for the year ended March 31, 2012.
Net sales and operating loss of Renesas's PA Business that are included in the consolidated statements of income for the year ended March 31, 2012 are ¥623 million and ¥883 million, respectively.
The following table represents the unaudited pro forma results of operations of the Companies for the years ended March 31, 2012, as if the acquisition of Renesas's PA Business had occurred on April 1, 2011. 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 |
|---|---|
| | 2012 |
| Net sales | ¥599,156 |
| Operating Income | 39,421 |

(2) The acquisition of VTI Technologies Oy

On January 30, 2012, Murata Electronics Europe B.V. (the Company's wholly-owned subsidiary) completed the acquisition of VTI Technologies Oy ("VTI"). The total acquisition price was ¥18,533 million. Due to the acquisition, VTI and 6 other subsidiaries were newly consolidated.

VTI is a global leading player specialized in MEMS (Micro Electro Mechanical Systems) technology. In particular, VTI is the world's top manufacturer of low-G accelerometers for the automotive industry and cardiac rhythm management (CRM) systems. The Companies plan to strengthen and expand their business in the rapidly growing MEMS sensor market. While the Companies have a strong presence in the consumer applications market, VTI has focused on building a business base in automotive and medical applications. This acquisition will therefore enhance the Companies' product development and sales abilities.

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

| | Millions of yen |
|---|---|
| Current assets | ¥ 3,478 |
| Property, plant and equipment | 3,565 |
| Intangible assets | 9,329 |
| Goodwill | 6,337 |
| Other non-current assets | 2 |
| Total assets acquired | 22,711 |
| Current liabilities | 7,698 |
| Long-term liabilities | 692 |
| Total liabilities assumed | 8,390 |
| Assumption of obligation (paid) | 4,212 |
| Net assets acquired | ¥18,533 |

Intangible assets acquired are mainly technologies of ¥7,262 million, which are subject to amortization. The Companies have estimated the weighted average amortization period for technologies to be 7 years. Goodwill recognized, which is assigned to Components segment, is attributable primarily to expected synergies from combining operations of VTI and the Companies. Goodwill deductible for tax purposes resulting from the transaction was ¥1,700 million.

Acquisition-related cost of ¥502 million is included in selling, general and administrative expenses in the consolidated statements of income for the year ended March 31, 2012.

Only the balance sheet of VTI is consolidated at March 31, 2012. Therefore, the results of operations of VTI are not included in the consolidated statements of income for the year ended March 31, 2012.

The following table represents the unaudited pro forma results of operations of the Companies for the years ended March 31, 2012, as if the acquisition of VTI had occurred on April 1, 2011. 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 |
|---|---|
| | 2012 |
| Net sales | ¥594,589 |
| Operating Income | 45,329 |

VTI Technologies Oy changed its name to Murata Electronics Oy on May 25, 2012.

**17. Goodwill and Other Intangible Assets**

Intangible assets other than goodwill, at March 31, 2014 and 2013 are as follows.

| | Millions of yen | | |
|---|---|---|---|
| | 2014 | | |
| | Gross carrying amount | Accumulated amortization | Net carrying amount |
| Amortized intangible assets | | | |
| Software | ¥27,369 | ¥12,109 | ¥15,260 |
| Technology | 19,161 | 3,822 | 15,339 |
| Customer relationships | 15,229 | 1,007 | 14,222 |
| Patents | 4,286 | 1,634 | 2,652 |
| Other | 8,459 | 4,868 | 3,591 |
| Total | ¥74,504 | ¥23,440 | ¥51,064 |
| Unamortized intangible assets | | | ¥ 255 |

| | Millions of yen | | |
|---|---|---|---|
| | 2013 | | |
| | Gross carrying amount | Accumulated amortization | Net carrying amount |
| Amortized intangible assets | | | |
| Software | ¥24,354 | ¥10,606 | ¥13,748 |
| Technology | 10,323 | 1,517 | 8,806 |
| Customer relationships | 2,395 | 365 | 2,030 |
| Patents | 4,303 | 1,465 | 2,838 |
| Other | 13,012 | 9,076 | 3,936 |
| Total | ¥54,387 | ¥23,029 | ¥31,358 |
| Unamortized intangible assets | | | ¥ 343 |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | 2014 | | |
| | Gross carrying amount | Accumulated amortization | Net carrying amount |
| Amortized intangible assets | | | |
| Software | $265,718 | $117,563 | $148,155 |
| Technology | 186,029 | 37,107 | 148,922 |
| Customer relationships | 147,855 | 9,777 | 138,078 |
| Patents | 41,612 | 15,864 | 25,748 |
| Other | 82,126 | 47,262 | 34,864 |
| Total | $723,340 | $227,573 | $495,767 |
| Unamortized intangible assets | | | $ 2,476 |

Intangible assets other than goodwill acquired during the year ended March 31, 2014 total ¥34,688 million ($336,777 thousand) and primarily consist of software ¥4,763 million ($46,243 thousand) and customer relationships ¥12,325 million ($119,660 thousand). The weighted average useful life for software and customer relationships are 4.99 years and 8 years.

Total amortization expenses of intangible assets during the years ended March 31, 2014 and 2013 amount to ¥8,055 million ($78,204 thousand) and ¥6,828 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 |
|---|---|---|
| 2015 | ¥11,348 | $110,175 |
| 2016 | 9,385 | 91,117 |
| 2017 | 8,240 | 80,000 |
| 2018 | 5,700 | 55,340 |
| 2019 | 4,189 | 40,670 |

The changes in the carrying amount of goodwill of each operating segment for the years ended March 31, 2014 and 2013 are as follows:

| | Millions of yen | | |
|---|---|---|---|
| | 2014 | | |
| | Components | Modules | Total |
| Balance at beginning year | | | |
| Acquisition cost | ¥ 8,923 | ¥15,015 | ¥23,938 |
| Accumulated impairment losses | (760) | (10,413) | (11,173) |
| Net carrying amounts | 8,163 | 4,602 | 12,765 |
| Increase (decrease) in goodwill resulting from | | | |
| Goodwill acquired during year | 8,671 | – | 8,671 |
| Impairment losses | – | – | – |
| Translation Adjustments and other | 1,821 | 0 | 1,821 |
| Balance at ending year | | | |
| Acquisition cost | 19,415 | 15,015 | 34,430 |
| Accumulated impairment losses | (760) | (10,413) | (11,173) |
| Net carrying amounts | ¥18,655 | ¥ 4,602 | ¥23,257 |

| | Millions of yen | | |
|---|---|---|---|
| | 2013 | | |
| | Components | Modules | Total |
| Balance at beginning year | | | |
| Acquisition cost | ¥7,097 | ¥14,421 | ¥21,518 |
| Accumulated impairment losses | (760) | (9,017) | (9,777) |
| Net carrying amounts | 6,337 | 5,404 | 11,741 |
| Increase (decrease) in goodwill resulting from | | | |
| Goodwill acquired during year | 890 | – | 890 |
| Impairment losses | – | (1,396) | (1,396) |
| Translation Adjustments and other | 936 | 594 | 1,530 |
| Balance at ending year | | | |
| Acquisition cost | 8,923 | 15,015 | 23,938 |
| Accumulated impairment losses | (760) | (10,413) | (11,173) |
| Net carrying amounts | ¥8,163 | ¥ 4,602 | ¥12,765 |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | 2014 | | |
| | Components | Modules | Total |
| Balance at beginning year | | | |
| Acquisition cost | $ 86,631 | $145,777 | $232,408 |
| Accumulated impairment losses | (7,379) | (101,097) | (108,476) |
| Net carrying amounts | 79,252 | 44,680 | 123,932 |
| Increase (decrease) in goodwill resulting from | | | |
| Goodwill acquired during year | 84,184 | – | 84,184 |
| Impairment losses | – | – | – |
| Translation Adjustments and other | 17,680 | 0 | 17,680 |
| Balance at ending year | | | |
| Acquisition cost | 188,495 | 145,777 | 334,272 |
| Accumulated impairment losses | (7,379) | (101,097) | (108,476) |
| Net carrying amounts | $181,116 | $ 44,680 | $225,796 |

As a result of the impairment test, the Companies recognized impairment loss of ¥1,396 million on goodwill associated with Modules for the year ended March 31, 2013. The fair value declined due to a downturn in the power supplies business. The impairment loss is included in “Selling, general and administrative” of the consolidated statements of income. The fair value of goodwill is determined by considering the estimated future cash flows.

**18. 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 Components segment, Modules segment, and Others.

Operating segment information for the years ended March 31, 2014, 2013, and 2012 is as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | **2014** | 2013 | 2012 | **2014** |
| ***Components*** | | | | |
| Sales to: | | | | |
| Unaffiliated customers | **¥529,377** | ¥448,207 | ¥399,232 | **$5,139,583** |
| Intersegment | **32,411** | 18,557 | 9,967 | **314,670** |
| Total revenue | **561,788** | 466,764 | 409,199 | **5,454,253** |
| Segment income | **126,043** | 77,878 | 63,151 | **1,223,718** |
| Assets | **433,121** | 366,376 | 345,607 | **4,205,058** |
| Depreciation and amortization | **55,134** | 50,352 | 47,204 | **535,282** |
| Expenditure for long-lived assets | **51,902** | 47,405 | 55,816 | **503,903** |
| ***Modules*** | | | | |
| Sales to: | | | | |
| Unaffiliated customers | **¥314,249** | ¥230,151 | ¥182,977 | **$3,050,961** |
| Intersegment | **188** | 260 | 795 | **1,825** |
| Total revenue | **314,437** | 230,411 | 183,772 | **3,052,786** |
| Segment income | **35,257** | 11,615 | 12,137 | **342,301** |
| Assets | **111,664** | 109,141 | 69,890 | **1,084,117** |
| Depreciation and amortization | **13,069** | 12,048 | 6,070 | **126,884** |
| Expenditure for long-lived assets | **14,633** | 25,816 | 9,659 | **142,068** |
| ***Others*** | | | | |
| Sales to: | | | | |
| Unaffiliated customers | **¥ 3,090** | ¥ 2,663 | ¥ 2,453 | **$ 30,000** |
| Intersegment | **27,341** | 31,345 | 34,445 | **265,447** |
| Total revenue | **30,431** | 34,008 | 36,898 | **295,447** |
| Segment income | **3,119** | 3,966 | 4,254 | **30,282** |
| Assets | **6,992** | 6,535 | 8,788 | **67,883** |
| Depreciation and amortization | **1,191** | 1,181 | 1,516 | **11,563** |
| Expenditure for long-lived assets | **171** | 712 | 1,879 | **1,660** |
| ***Corporate and eliminations*** | | | | |
| Sales to: | | | | |
| Unaffiliated customers | **–** | – | – | **–** |
| Intersegment | **¥ (59,940)** | ¥ (50,162) | ¥ (45,207) | **$ (581,942)** |
| Total revenue | **(59,940)** | (50,162) | (45,207) | **(581,942)** |
| Corporate expenses | **(38,528)** | (34,823) | (34,569) | **(374,058)** |
| Assets | **691,910** | 605,092 | 576,600 | **6,717,573** |
| Depreciation and amortization | **7,490** | 8,742 | 6,218 | **72,718** |
| Expenditure for long-lived assets | **3,511** | 6,011 | 2,336 | **34,087** |

| | | | | |
|---|---|---|---|---|
| ***Consolidated*** | | | | |
| Sales to: | | | | |
| Unaffiliated customers | **¥ 846,716** | ¥ 681,021 | ¥ 584,662 | **$ 8,220,544** |
| Intersegment | **–** | – | – | **–** |
| Total revenue | **846,716** | 681,021 | 584,662 | **8,220,544** |
| Operating income | **125,891** | 58,636 | 44,973 | **1,222,243** |
| Assets | **1,243,687** | 1,087,144 | 1,000,885 | **12,074,631** |
| Depreciation and amortization | **76,884** | 72,323 | 61,008 | **746,447** |
| Expenditure for long-lived assets | **70,217** | 79,944 | 69,690 | **681,718** |

*1 Major products and businesses included in the operating segments.
(1) Components : Capacitors, Piezoelectric Components
(2) Modules : Communication Modules, Power Supplies
(3) Others : Machinery manufacturing, welfare services, personnel services, education and training services, sales of software
*2 Intersegment transactions are based on market prices.
*3 Segment income (loss) for each operating segments represents net sales, less related costs. Corporate expenses represent expenses of headquarters functions and fundamental researches.
*4 Assets for operating segments are composed of inventories and fixed assets used in business. The other assets are included in Corporate and eliminations.
*5 Expenditure for long-lived assets is composed of that for property, plant, and equipment, and intangible assets, and does not include that by acquisition.

2) Geographic information

Net sales are attributed to countries or areas based on customer locations.

Long-lived assets are composed of property, plant and equipment based on physical location.

Net sales

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | **2014** | 2013 | 2012 | **2014** |
| Japan | **¥ 80,435** | ¥ 76,933 | ¥ 84,454 | **$ 780,922** |
| The Americas | **56,667** | 44,083 | 40,552 | **550,165** |
| Europe | **69,360** | 65,340 | 63,297 | **673,398** |
| Greater China | **459,600** | 371,377 | 290,657 | **4,462,136** |
| Asia and Others | **180,654** | 123,288 | 105,702 | **1,753,923** |
| Total | **¥846,716** | ¥681,021 | ¥584,662 | **$8,220,544** |

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

Long-lived assets

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | **2014** | 2013 | 2012 | **2014** |
| Japan | **¥245,849** | ¥248,271 | ¥247,354 | **$2,386,884** |
| The Americas | **1,853** | 1,592 | 1,307 | **17,990** |
| Europe | **8,147** | 5,660 | 4,337 | **79,097** |
| Greater China | **64,227** | 46,793 | 37,412 | **623,563** |
| Asia and Others | **26,397** | 21,606 | 14,524 | **256,282** |
| Total | **¥346,473** | ¥323,922 | ¥304,934 | **$3,363,816** |

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

3) Information about major customers

There are two external customer groups more than 10% to consolidated sales for the year ended March 31, 2014. Consolidated sales to these customer groups for the year ended March 31, 2014 are ¥185,581 million ($1,801,757 thousand) (¥146,548 million and ¥86,925 million for the year ended March 31, 2013 and 2012, respectively) and ¥95,750 million ($929,612 thousand), respectively. They are included in Components and Modules segments.

## 19. Subsequent Events

1.The Companies evaluated subsequent events by June 27, 2014, which is this financial report presentation day.

2.The ordinary general meeting of shareholders on June 27, 2014 resolved to pay a cash dividend of ¥70 ($0.68) per share to shareholders of record as of March 31, 2014, or a total of ¥14,820 million ($143,883 thousand).

Deloitte.

Deloitte Touche Tohmatsu LLC
Shijokarasuma FT Square
20, Naginataboko-cho
Karasuma-higashiiru, Shijo-dori
Shimogyo-ku, Kyoto 600-8008
Japan

Tel: +81 (75) 222 0181
Fax: +81 (75) 231 2703
www.deloitte.com/jp

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, 2014 and 2013, 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, 2014, 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, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2014, 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 27, 2014

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.

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

# Management's Report on Internal Control

**NOTE TO READERS:**

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

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

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

**(TRANSLATION)**

## MANAGEMENT'S REPORT ON INTERNAL CONTROL

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

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

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

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

   Tsuneo Murata, President and Statutory Representative Director and Yoshitaka Fujita, Executive Deputy President and Statutory Representative Director performed the assessment of internal control over financial reporting as of March 31, 2014, which is the end of this fiscal year. The assessment was performed in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

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

   We determined the required scope of assessment of internal control over financial reporting for the Company, as well as its consolidated subsidiaries 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 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 reaches two thirds of total sales and other balances for the prior year on a consolidation basis were selected as "significant locations and/or business units". 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 the management's judgment and/or (iii) a business dealing with high-risk transactions, taking into account their impact on the financial reporting.

3. Matters relating to the results of the assessment

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

4. Additional matters

   Not applicable.

5. Particular matters

   Not applicable.

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

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

# Independent Auditor's Report (filed under the Financial Instruments and Exchange Act of Japan)

**NOTE TO READERS:**

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

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

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

**(TRANSLATION)**

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

June 27, 2014

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

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant: Taizo Ando

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

## [Audit of Financial Statements]

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements included in the Financial Section, namely, the consolidated balance sheet of Murata Manufacturing Co., Ltd. (the "Company") and its consolidated subsidiaries as of March 31, 2014, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the fiscal year from April 1, 2013 to March 31, 2014, 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 Regulations 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.

### Auditor's 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, 2014, 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, 2014.

### 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.

**Auditor's 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, 2014 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

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