

Annual Report 2016

Year Ended March 31, 2016

Index

Financial Data Section

01	Financial Data
02	Production, Orders, and Backlogs by Product
03	Capital Investment
04	Consolidated Balance Sheets
06	Consolidated Statements of Income
06	Consolidated Statements of Comprehensive Income
07	Consolidated Statements of Shareholders' Equity
08	Consolidated Statements of Cash Flows
09	Notes to Consolidated Financial Statements
41	Independent Auditors' Report

Internal Control Section

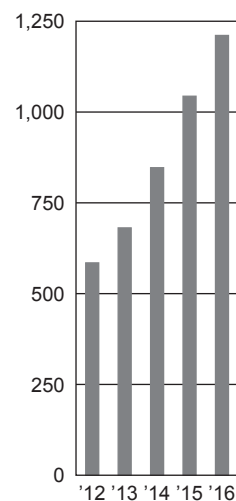
42	Internal Control Section
43	Management's Report on Internal Control
44	Independent Auditor's Report

Financial Data

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2012–2016

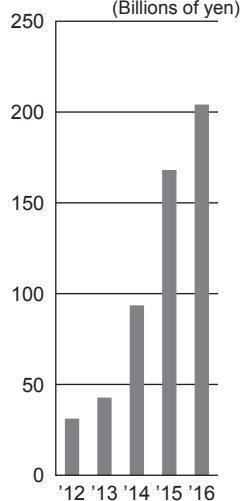
Net sales

(Billions of yen)



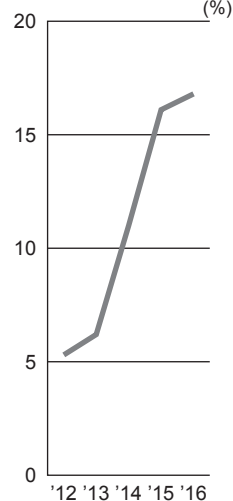
Net income attributable to Murata Corporation

(Billions of yen)



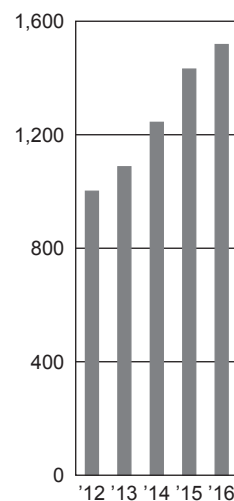
Net income attributable to Murata Corporation / Net sales

(%)



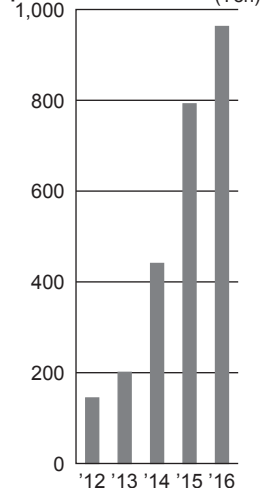
Total assets

(Billions of yen)



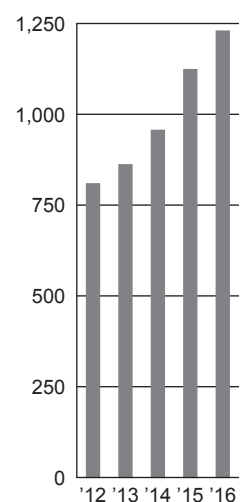
Basic earnings attributable to Murata Corporation per share¹

(Yen)



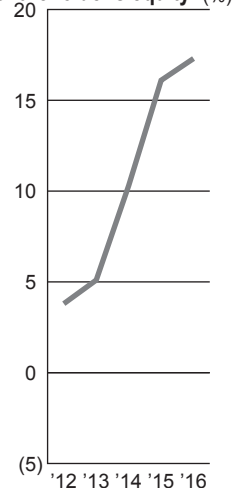
Shareholders' equity

(Billions of yen)



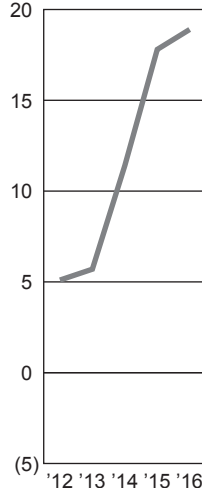
Net income attributable to Murata Corporation / Shareholder's equity

(%)



Income before income taxes / Total assets

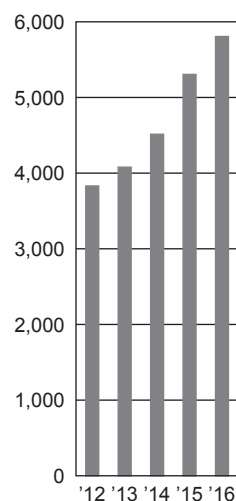
(%)



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

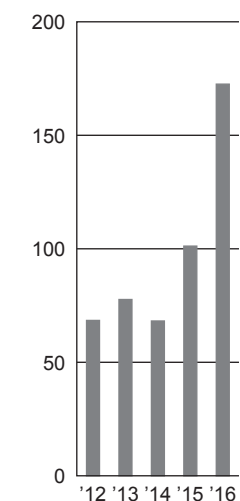
Shareholders' equity per share²

(Yen)



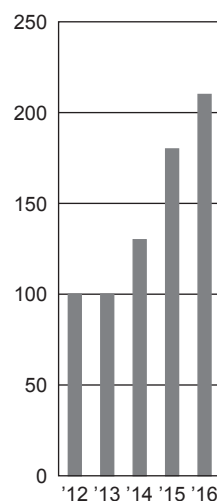
Capital investment

(Billions of yen)



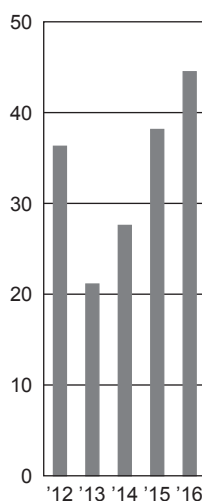
Dividend per share

(Yen)



Total return³

(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 Backlogs by Product

Murata Manufacturing Co., Ltd. and Subsidiaries
Year ended March 31, 2016

	Millions of yen	Component ratio	Ratio against the previous year	Thousands of U.S. dollars
	2016			
Production by Product		%	%	
Capacitors	¥ 393,846	30.8	19.4	\$ 3,485,363
Piezoelectric Components	165,779	13.0	30.8	1,467,071
Other Components	244,607	19.2	6.7	2,164,664
Components Total	804,232	63.0	17.2	7,117,098
Communication Modules	420,740	32.9	36.9	3,723,363
Power Supplies and Other Modules	52,502	4.1	0.1	464,619
Modules Total	473,242	37.0	31.5	4,187,982
Total	¥1,277,474	100.0	22.2	\$11,305,080

*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 backlogs of electronic components and related products.

*4 The production in Piezoelectric Components and Communication Modules and the orders and backlogs in Piezoelectric Components for this year have increased drastically compared to the previous year. This is because of the increased demand for smartphones.

	Millions of yen	Component ratio	Ratio against the previous year	Thousands of U.S. dollars
	2016			
Orders by Product		%	%	
Capacitors	¥ 366,881	30.2	7.9	\$ 3,246,735
Piezoelectric Components	178,696	14.7	39.8	1,581,381
Other Components	229,021	18.8	1.6	2,026,734
Components Total	774,598	63.7	11.7	6,854,850
Communication Modules	390,519	32.1	23.5	3,455,920
Power Supplies and Other Modules	51,029	4.2	(3.8)	451,584
Modules Total	441,548	36.3	19.6	3,907,504
Total	¥1,216,146	100.0	14.5	\$10,762,354

*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
	2016			
Backlogs by Product		%	%	
Capacitors	¥ 34,629	26.6	(1.2)	\$ 306,451
Piezoelectric Components	34,849	26.8	93.3	308,398
Other Components	18,797	14.5	(9.4)	166,345
Components Total	88,275	67.9	19.5	781,194
Communication Modules	35,644	27.5	(11.6)	315,434
Power Supplies and Other Modules	6,008	4.6	(9.4)	53,168
Modules Total	41,652	32.1	(11.3)	368,602
Total	¥129,927	100.0	7.6	\$1,149,796

*1 Figures are based on backlogs quantity and sales price to customers.

*2 Exclusive of consumption taxes

Capital Investment

Murata Manufacturing Co., Ltd. and Subsidiaries
Year ended March 31, 2016

1) Capital investment for the fiscal year ended March 31, 2016 amounted to ¥172,540 million (\$1,526,903 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 a net book value basis was as follows:

2016	Millions of yen				
	Land	Buildings	Machinery and equipment	Construction in progress	Total
Parent Company					
Plant, Office and other					
Head Office in Kyoto	¥ 292	¥ 1,319	¥ 3,704	¥ 237	¥ 5,554
Yokaichi Plant in Shiga	466	6,885	4,346	1,053	12,751
Yasu Plant in Shiga	7,341	15,407	10,593	1,221	34,563
Yokohama Technical Center in Kanagawa	1,797	1,487	886	28	4,199
Other	7,564	2,530	59	—	10,154

2016	Millions of yen				
	Land	Buildings	Machinery and equipment	Construction in progress	Total
Domestic Subsidiaries					
Company Name					
Kanazawa Murata Manufacturing Co., Ltd.	¥2,676	¥10,855	¥30,240	¥6,554	¥50,325
Fukui Murata Manufacturing Co., Ltd.	2,039	17,292	24,246	3,454	47,031
Izumo Murata Manufacturing Co., Ltd.	1,470	11,151	18,912	3,157	34,690
Okayama Murata Manufacturing Co., Ltd.	—	6,226	12,495	1,897	20,618
Toyama Murata Manufacturing Co., Ltd.	1,484	4,237	7,824	1,529	15,074
Murata Land & Building Co., Ltd.	4,745	7,707	2	—	12,454

2016	Millions of yen				
	Land	Buildings	Machinery and equipment	Construction in progress	Total
Foreign Subsidiaries					
Company Name					
Wuxi Murata Electronics Co., Ltd.	¥ —	¥10,447	¥35,273	¥4,518	¥50,238
Shenzhen Murata Technology Co., Ltd.	—	8,081	12,876	61	21,018
Murata Electronics (Thailand), Ltd.	311	3,808	5,619	1,676	11,414
Philippine Manufacturing Co. of Murata, Inc.	—	2,544	4,781	1,445	8,770
VIET HOA ELECTRONICS CO., LTD.	—	367	8,360	20	8,747
Murata Electronics Singapore (Pte.) Ltd.	—	1,844	5,370	286	7,500

Consolidated Balance Sheets

Murata Manufacturing Co., Ltd. and Subsidiaries
At March 31, 2016 and 2015

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	2016
Current assets:			
Cash	¥ 150,627	¥ 139,685	\$ 1,332,982
Short-term investments	174,228	146,413	1,541,841
Marketable securities (Note 3)	45,188	72,199	399,894
Notes and accounts receivable:			
Trade notes	399	649	3,531
Trade accounts	194,549	233,024	1,721,673
Allowance for doubtful notes and accounts	(845)	(1,010)	(7,478)
Inventories (Note 4)	217,462	186,299	1,924,442
Deferred income taxes (Note 9)	31,365	28,296	277,566
Prepaid expenses and other	22,396	10,294	198,195
Total current assets	835,369	815,849	7,392,646
Property, plant and equipment:			
Land	49,757	50,170	440,327
Buildings	350,279	325,479	3,099,814
Machinery and equipment	873,410	788,743	7,729,292
Construction in progress	37,750	30,510	334,071
Total	1,311,196	1,194,902	11,603,504
Accumulated depreciation	(855,334)	(808,916)	(7,569,327)
Net property, plant and equipment	455,862	385,986	4,034,177
Investments and other assets:			
Investments (Note 3)	100,131	94,877	886,115
Intangible assets (Note 16)	51,708	59,915	457,593
Goodwill (Note 16)	53,738	56,102	475,558
Deferred income taxes (Note 9)	11,258	7,625	99,628
Other (Notes 6)	9,718	10,949	86,000
Total investments and other assets	226,553	229,468	2,004,894
Total assets	¥1,517,784	¥1,431,303	\$13,431,717

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	2016
<i>Current liabilities:</i>			
Short-term borrowings (Note 5)	¥ 6,446	¥ 11,154	\$ 57,044
Trade accounts payable	56,380	54,535	498,938
Accrued payroll and bonuses	36,456	36,256	322,619
Income taxes payable	28,734	49,960	254,283
Accrued expenses and other (Note 6)	57,607	46,629	509,797
Total current liabilities	185,623	198,534	1,642,681
<i>Long-term liabilities:</i>			
Long-term debt (Note 5)	3,301	9,652	29,212
Termination and retirement benefits (Note 6)	71,884	68,679	636,142
Deferred income taxes (Note 9)	11,643	13,957	103,036
Other	1,354	1,550	11,982
Total long-term liabilities	88,182	93,838	780,372
<i>Commitments and contingent liabilities</i> (Note 11)			
<i>Murata Corporation's Shareholders' equity</i> (Notes 7 and 18):			
Common stock (authorized 581,000,000 shares in 2016 and 2015; issued 225,263,592 shares in 2016 and 2015)	69,377	69,377	613,956
Capital surplus	103,865	103,864	919,159
Retained earnings	1,131,809	970,374	10,016,009
Accumulated other comprehensive income (loss) (Note 8):			
Unrealized gains on securities	2,945	7,114	26,062
Pension liability adjustments (Note 6)	(23,587)	(5,511)	(208,735)
Foreign currency translation adjustments	5,110	38,190	45,222
Total accumulated other comprehensive income.....	(15,532)	39,793	(137,451)
Treasury stock, at cost, 13,560,912 shares in 2016 and 13,558,666 shares in 2015	(60,360)	(60,318)	(534,160)
Total Murata Corporation's Shareholders' equity	1,229,159	1,123,090	10,877,513
<i>Noncontrolling interests</i>	14,820	15,841	131,151
Total equity	1,243,979	1,138,931	11,008,664
Total liabilities and total equity	¥1,517,784	¥1,431,303	\$13,431,717

See notes to consolidated financial statements.

Consolidated Statements of Income

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2016, 2015 and 2014

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2016	2015	2014	2016
Net sales	¥1,210,841	¥1,043,542	¥ 846,716	\$10,715,407
Operating costs and expenses (Note 6):				
Cost of sales	712,054	629,206	554,278	6,301,363
Selling, general and administrative	145,399	134,811	111,898	1,286,717
Research and development	77,982	64,990	54,649	690,106
Total operating costs and expenses	935,435	829,007	720,825	8,278,186
Operating income	275,406	214,535	125,891	2,437,221
Other income (expenses):				
Interest and dividend income	2,430	3,360	4,149	21,505
Interest expense	(138)	(425)	(371)	(1,221)
Foreign currency exchange gain (loss)	(2,127)	18,101	(849)	(18,823)
Other-net	3,602	2,829	3,516	31,876
Other income-net	3,767	23,865	6,445	33,337
Income before income taxes	279,173	238,400	132,336	2,470,558
Income taxes (Note 9):				
Current	73,495	77,558	42,825	650,399
Deferred	1,457	(6,463)	(3,761)	12,894
Provision for income taxes	74,952	71,095	39,064	663,293
Equity in losses of affiliates	—	—	(81)	—
Net income	204,221	167,305	93,191	1,807,265
Less: Net income (loss) attributable to noncontrolling interests	445	(406)	—	3,938
Net income attributable to Murata Corporation	¥ 203,776	¥ 167,711	¥ 93,191	\$ 1,803,327

Amounts per share (Note 10):	Yen			U.S. dollars (Note 2)
Basic earnings attributable to Murata Corporation per share....	¥962.55	¥792.19	¥440.63	\$ 8.52
Cash dividends per share	¥200.00	¥150.00	¥110.00	\$ 1.77

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2016, 2015 and 2014

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2016	2015	2014	2016
Net income	¥204,221	¥167,305	¥ 93,191	\$1,807,265
Other comprehensive income (loss), net of tax (Note 8):				
Unrealized gains (losses) on securities	(4,345)	1,820	(184)	(38,451)
Pension liability adjustments	(18,581)	(1,205)	(706)	(164,434)
Unrealized gains on derivative instruments	—	—	165	—
Foreign currency translation adjustments	(33,898)	31,591	21,331	(299,982)
Other comprehensive income (loss)	(56,824)	32,206	20,606	(502,867)
Comprehensive income	147,397	199,511	113,797	1,304,398
Less: Comprehensive income (loss) attributable to noncontrolling interests ..	(1,054)	392	—	(9,327)
Comprehensive income attributable to Murata Corporation	¥148,451	¥199,119	¥113,797	\$1,313,725

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2016, 2015 and 2014

	Number of common shares issued	Millions of yen							Total equity
		Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Controlling interests	Noncontrolling interests	
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				(23,257)			(23,257)		(23,257)
Other comprehensive income, net of tax (Note 8)					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
Purchases of treasury stock at cost....						(33)	(33)		(33)
Net income				167,711			167,711	(406)	167,305
Cash dividends				(31,756)			(31,756)	(116)	(31,872)
Other comprehensive income, net of tax (Note 8)					31,408		31,408	798	32,206
Equity transaction with noncontrolling interests and other								(307)	(307)
Balance at March 31, 2015	225,263,592	69,377	103,864	970,374	39,793	(60,318)	1,123,090	15,841	1,138,931
Purchases of treasury stock at cost ...						(42)	(42)		(42)
Disposal of treasury stock			1			0	1		1
Net income				203,776			203,776	445	204,221
Cash dividends				(42,341)			(42,341)	(116)	(42,457)
Other comprehensive loss, net of tax (Note 8)					(55,325)		(55,325)	(1,499)	(56,824)
Equity transaction with noncontrolling interests and other								149	149
Balance at March 31, 2016	225,263,592	¥69,377	¥ 103,865	¥1,131,809	¥ (15,532)	¥(60,360)	¥1,229,159	¥14,820	¥1,243,979

	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, 2015	\$613,956	\$919,150	\$ 8,587,381	\$ 352,151	\$ (533,788)	\$ 9,938,850	\$ 140,185	\$10,079,035
Purchases of treasury stock at cost					(372)	(372)		(372)
Disposal of treasury stock		9			0	9		9
Net income			1,803,327			1,803,327	3,938	1,807,265
Cash dividends			(374,699)			(374,699)	(1,026)	(375,725)
Other comprehensive loss, net of tax (Note 8)				(489,602)		(489,602)	(13,265)	(502,867)
Equity transaction with noncontrolling interests and other							1,319	1,319
Balance at March 31, 2016	\$613,956	\$919,159	\$10,016,009	\$ (137,451)	\$ (534,160)	\$10,877,513	\$131,151	\$11,008,664

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2016, 2015 and 2014

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2016	2015	2014	2016
Operating activities:				
Net income	¥ 204,221	¥ 167,305	¥ 93,191	\$ 1,807,265
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	99,105	84,935	76,884	877,035
Losses on sales and disposals of property, plant and equipment	1,406	1,443	595	12,442
Impairment losses	306	3,959	3,450	2,708
Provision for termination and retirement benefits, less payments.....	(16,006)	(4,636)	931	(141,646)
Deferred income taxes	1,457	(6,463)	(3,761)	12,894
Changes in assets and liabilities:				
(Increase) decrease in trade notes and accounts receivable ...	19,507	(19,295)	(2,545)	172,628
(Increase) decrease in inventories	(38,549)	(3,431)	3,649	(341,141)
(Increase) decrease in prepaid expenses and other	(12,546)	24	1,782	(111,026)
Increase in trade notes and accounts payable	4,336	7,133	819	38,372
Increase in accrued payroll and bonuses	500	921	4,580	4,425
Increase (decrease) in income taxes payable	(20,739)	21,528	15,762	(183,531)
Increase (decrease) in accrued expenses and other	10,050	7,749	(4,920)	88,938
Other-net	(597)	(1,236)	(4,666)	(5,283)
Net cash provided by operating activities	252,451	259,936	185,751	2,234,080
Investing activities:				
Capital expenditures	(172,540)	(101,184)	(68,197)	(1,526,903)
Payment for purchases of marketable securities, investments and other	(64,173)	(42,381)	(78,341)	(567,903)
Maturities and sales of marketable securities, investments and other	71,807	102,105	63,800	635,460
Increase in short-term investments	(41,999)	(1,738)	(29,217)	(371,672)
Acquisition of businesses, net of cash acquired	—	(50,219)	(12,665)	—
Cash balances of subsidiary acquired through share exchanges (Note 15).....	—	—	3,316	—
Other-net	1,589	2,038	4,154	14,062
Net cash used in investing activities	(205,316)	(91,379)	(117,150)	(1,816,956)
Financing activities:				
Net decrease in short-term borrowings	(4,671)	(28,847)	(17,964)	(41,336)
Proceeds from long-term debt	1,000	1,055	1,517	8,849
Repayments of long-term debt	(10,494)	(6,907)	(1,339)	(92,867)
Dividends paid	(42,341)	(31,756)	(23,257)	(374,699)
Other-net	(108)	(511)	144	(956)
Net cash used in financing activities	(56,614)	(66,966)	(40,899)	(501,009)
Effect of exchange rate changes on cash and cash equivalents	9,113	(7,539)	1,114	80,646
Net increase (decrease) in cash and cash equivalents	(366)	94,052	28,816	(3,239)
Cash and cash equivalents at beginning of year	212,936	118,884	90,068	1,884,389
Cash and cash equivalents at end of year	¥ 212,570	¥ 212,936	¥ 118,884	\$ 1,881,150
Additional cash flow information:				
Interest paid	¥ 134	¥ 411	¥ 379	\$ 1,186
Income taxes paid	95,083	55,933	26,616	841,442
Additional cash and cash equivalents information:				
Cash	¥ 150,627	¥ 139,685	¥ 104,467	\$ 1,332,982
Short-term investments	174,228	146,413	77,531	1,541,841
Short-term investments with the original maturities over 3 months	(112,285)	(73,162)	(63,114)	(993,673)
Cash and cash equivalents at end of year	¥ 212,570	¥ 212,936	¥ 118,884	\$ 1,881,150
Additional noncash investing activities information:				
Acquisition of businesses through share exchange (Note 15)	¥ —	¥ —	¥ 6,331	\$ —

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, including Japan, North America, Greater China, certain other Asian countries, and European countries as its primary markets. Components consist of Capacitors, Piezoelectric Components, and Other Components. Modules consist of Communication Modules, Power Supplies, and Other Modules. The Companies' products are sold mainly to electronics companies for use as components in telecommunication, computer, audio, video, automotive electronics, and other electronic products.

(b) Basis of financial statements

The consolidated financial statements, stated in Japanese yen, reflect certain adjustments, not recorded on the books of account, to present these statements in accordance with accounting principles generally accepted in the United States.

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 are eliminated in consolidation. Investments in 20% to 50% owned companies are accounted for by the equity method.

(d) Short-term investments, cash and cash equivalents

Short-term investments include time deposits which may be withdrawn on demand without diminution of principal, and commercial paper which is a highly-liquid investment.

The Companies consider cash and short-term investments with original maturities of 3 months or less as cash and cash equivalents.

(e) Marketable securities and investments

Under ASC 320, "Investment - Debt and Equity Securities", and ASC 825 "Financial Instruments", the Companies classify debt securities and marketable equity securities as available-for-sale and carry them at fair value with a corresponding recognition of the net unrealized holding gains or losses (net of tax) as a separate component of shareholders' equity, except investments whose unrealized holding gains and losses are included in income by electing the fair value option. Gains and losses on sales of investments are computed on an average cost basis. Equity securities that do not have a readily determinable fair value are recorded at average cost (see Note 3). The Companies review the fair value of their marketable securities and investments on a regular basis to determine if the fair value of any individual investment has declined below its cost or amortized cost and if such decline is other-than-temporary. A determination of whether a decline in fair value represents an other-than-temporary impairment is based on criteria that include the extent to which the 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 are stated at cost. Depreciation of property, plant and equipment is principally computed using the declining-balance method (straight-line method for certain overseas subsidiaries) based upon the estimated useful lives of the assets. The range of useful lives is principally from 10 to 50 years for buildings and from 4 to 17 years for machinery and equipment.

(h) Termination and retirement benefits

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

(i) Revenue recognition

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

(j) Advertising expenses

Advertising costs are expensed as incurred. Advertising expenses for the years ended March 31, 2016, 2015, and 2014 were ¥3,833 million (\$33,920 thousand), ¥4,051 million, and ¥3,431 million, respectively.

(k) Taxes on income

The Companies account for income taxes in accordance with the provisions of ASC 740, "Income Taxes". Under ASC 740, deferred tax assets and liabilities are computed based on the differences between the financial statement and 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 the tax system treats the majority of 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 attributable to Murata Corporation per share reflects the potential dilution from potential shares outstanding such as shares issuable upon the exercise of stock options. A reconciliation of the numerator and denominator of the basic and diluted earnings attributable to Murata Corporation per share computation is included in Note 10.

(m) Fair value measurements

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

(n) Derivatives

The Companies account for their derivative instruments and hedging activities in accordance with ASC 815, "Derivatives and Hedging". 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, 2016, 2015, and 2014 were ¥9,353 million (\$82,770 thousand), ¥9,146 million, and ¥8,049 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 assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount exceeds the fair value of the assets. If the Companies determine to dispose of assets, depreciation estimates for the assets shall be revised to reflect those remaining useful lives. Assets classified as held for sale shall be measured at the lower of its carrying amount or fair value less cost to sell.

(r) Acquisitions

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

(s) Goodwill and other intangible assets

The Companies account for goodwill and other intangible assets in accordance with ASC 350, "Intangibles - Goodwill and Other". In accordance with this statement, goodwill is not amortized and is instead tested at least annually for impairment. 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) New accounting standards**Revenue**

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers. Further, in August 2015, the FASB issued Accounting Standards Update (ASU) 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date. The ASUs outline a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance. The ASUs require entities to disclose both quantitative and qualitative information that enables "users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers." The ASUs are effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2017. The Companies will adopt the ASUs from the fiscal year beginning April 1, 2018. The Companies are currently evaluating the effect that the adoption of this guidance will have on their consolidated financial statements.

Income Taxes

In November 2015, the FASB issued Accounting Standards Update (ASU) 2015-17, Income Taxes: Balance Sheet Classification of Deferred Taxes. To simplify the presentation of deferred income taxes, the ASU requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. 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.

Financial Instruments

In January 2016, the FASB issued Accounting Standards Update (ASU) 2016-01, Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. The ASU requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. The ASU is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2017. The Companies will adopt the ASU from the fiscal year beginning April 1, 2018. The Companies are currently evaluating the effect that the adoption of this guidance will have on their consolidated financial statements.

In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13, Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments. The ASU introduces a new impairment model based on expected losses rather than incurred losses. Under this current expected credit loss model, an entity would recognize as an allowance its estimate of the contractual cash flows not expected to be collected. The ASU is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2019. The Companies will adopt the ASU from the fiscal year beginning April 1, 2020. The Companies are currently evaluating the effect that the adoption of this guidance will have on their consolidated financial statements.

Leases

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, Leases. The ASU requires a lessee should recognize the assets and liabilities that arise from all leases on the consolidated balance sheet in principle. The ASU is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2018. The Companies will adopt the ASU from the fiscal year beginning April 1, 2019. The Companies are currently evaluating the effect that the adoption of this guidance will have on their consolidated financial statements.

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 ¥113 to \$1, the approximate rate of exchange at March 31, 2016. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at the above or any other rate.

3. Marketable Securities and Investments

The cost and amortized cost, gross unrealized gains, gross unrealized losses, and fair values for available-for-sale securities by major security type, at March 31, 2016 and 2015 were as follows:

	Millions of yen			
	2016			
	Cost and Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Governmental debt securities	¥ 1,898	¥ 11	¥ –	¥ 1,909
Private debt securities	120,769	350	540	120,579
Equity securities	7,397	4,723	64	12,056
Investment trusts	2,756	–	–	2,756
Total available-for-sale securities	<u>¥132,820</u>	<u>¥5,084</u>	<u>¥604</u>	<u>¥137,300</u>
	Millions of yen			
	2015			
	Cost and Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Governmental debt securities	¥ 2,822	¥ 7	¥ –	¥ 2,829
Private debt securities	141,816	487	115	142,188
Equity securities	7,408	9,332	0	16,740
Investment trusts	3,015	–	24	2,991
Total available-for-sale securities	<u>¥155,061</u>	<u>¥9,826</u>	<u>¥139</u>	<u>¥164,748</u>
	Thousands of U.S. dollars			
	2016			
	Cost and Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Governmental debt securities	\$ 16,797	\$ 97	\$ –	\$ 16,894
Private debt securities	1,068,752	3,098	4,779	1,067,071
Equity securities	65,460	41,796	566	106,690
Investment trusts	24,389	–	–	24,389
Total available-for-sale securities	<u>\$1,175,398</u>	<u>\$44,991</u>	<u>\$5,345</u>	<u>\$1,215,044</u>

Notes to Consolidated Financial Statements

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, 2016 and 2015 were as follows:

	Millions of yen			
	2016			
	Less than 12 months		12 months or longer	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Private debt securities	¥36,668	¥530	¥5,977	¥10
Equity securities	219	64	—	—
Investment trusts	—	—	—	—
Total	¥36,887	¥594	¥5,977	¥10

	Millions of yen			
	2015			
	Less than 12 months		12 months or longer	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Private debt securities	¥23,606	¥49	¥11,528	¥66
Equity securities	11	0	—	—
Investment trusts	2,991	24	—	—
Total	¥26,608	¥73	¥11,528	¥66

	Thousands of U.S. dollars			
	2016			
	Less than 12 months		12 months or longer	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Private debt securities	\$324,496	\$4,691	\$52,894	\$88
Equity securities	1,938	566	—	—
Investment trusts	—	—	—	—
Total	\$326,434	\$5,257	\$52,894	\$88

The Companies did not recognize other-than-temporary impairment loss on the above debt securities which had a fair value below amortized cost at March 31, 2016, (1) as the Companies did not intend to and (2) it was more likely than not that the Companies would not be required to sell such securities before the recovery of amortized cost and (3) as the issuers of the securities had favorable credit ratings.

The aggregate carrying amounts of equity securities at March 31, 2016 and 2015, which are accounted for at cost, were ¥8,019 million (\$70,965 thousand) and ¥2,328 million, respectively.

Of these, at March 31, 2016 and 2015, equity securities of ¥8,019 million (\$70,965 thousand) and ¥2,316 million, respectively, were not evaluated for impairment because (a) the Companies did not identify any events or changes in circumstances that might have a significant adverse effect on the fair value of the securities and (b) the Companies determined that it was not practicable to estimate the fair value of the securities.

Contractual maturities of debt securities (governmental, private debt securities, and investment trusts) at March 31, 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within 1 year	¥ 45,146	¥ 45,188	\$ 399,522	\$ 399,894
After 1 year through				
5 years	77,277	77,145	683,867	682,699
After 5 years	3,000	2,911	26,549	25,761
Total	¥125,423	¥125,244	\$1,109,938	\$1,108,354

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

	Millions of yen			Thousands of U.S. dollars
	2016	2015	2014	2016
Proceeds from sales	¥120	¥1,490	¥2,200	\$1,062
Gross realized gains	47	402	116	416
Gross realized losses	—	357	5	—

4. Inventories

Inventories at March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Finished products	¥106,490	¥ 86,330	\$ 942,389
Work in process	63,648	55,209	563,257
Materials and supplies	47,324	44,760	418,796
Total	¥217,462	¥186,299	\$1,924,442

5. Short-Term Borrowings and Long-Term Debt

Short-Term Borrowings at March 31, 2016 and 2015 consisted of the following:

	Millions of yen	Weighted -Average Interest Rate	Millions of yen	Weighted -Average Interest Rate	Thousands of U.S. dollars
	2016		2015		2016
Unsecured bank loans	¥ 846	0.4%	¥ 7,792	1.0%	\$ 7,487
Secured bank loans	5,600	0.4	3,362	0.8	49,557
Total	¥ 6,446	0.4%	¥11,154	0.9%	\$57,044

Long-term debt at March 31, 2016 and 2015 consisted of the following:

	Millions of yen	Weighted -Average Interest Rate	Millions of yen	Weighted -Average Interest Rate	Thousands of U.S. dollars
	2016		2015		2016
Unsecured bank loans, due 2021	¥ 2,140	0.9%	¥ 9,891	1.0%	\$ 18,938
Secured bank loans, due 2019	3,200	1.2	4,822	1.2	28,318
Other	1	3.4	1	3.4	9
Total	5,341	1.1	14,714	1.1	47,265
Less: Portion due within one year	(2,040)	1.1	(5,062)	1.1	(18,053)
Total	¥ 3,301	1.0%	¥ 9,652	1.0%	\$ 29,212

The aggregate future maturities of long-term debt outstanding at March 31, 2016 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2017	¥ 2,040	\$ 18,053
2018	2,001	17,708
2019	1,000	8,849
2020	200	1,770
2021	100	885
2022 and thereafter	—	—
Total	¥ 5,341	\$ 47,265

Property, plant and equipment having a net book value of ¥1,957 million (\$17,319 thousand) and ¥2,397 million was pledged as collateral for short-term borrowings and long-term debt at the years ended March 31, 2016 and 2015, respectively.

Notes to Consolidated Financial Statements

6. Termination and Retirement Benefits

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

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

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

A domestic subsidiary amended a part of its retirement plan to a defined contribution pension plan in July 2015. As a result of this amendment, the projected benefit obligation decreased by ¥792 million (\$7,009 thousand) in the year ended March 31, 2016.

The Company and certain domestic subsidiaries amended parts of their retirement plans to defined contribution pension plans in January 2015. As a result of these amendments, the projected benefit obligation decreased by ¥3,738 million in the year ended March 31, 2015.

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
	2016	2015	2016
Change in benefit obligation:			
Benefit obligation at beginning of year	¥174,990	¥162,796	\$1,548,584
Service cost	7,666	9,110	67,841
Interest cost	1,518	2,037	13,434
Amendments	(792)	(3,738)	(7,009)
Actuarial loss	24,823	10,546	219,672
Benefits paid	(2,467)	(2,172)	(21,832)
Settlement paid to retirees.....	(3,801)	(2,548)	(33,637)
Settlement paid by transfer to defined contribution pension plan	(4,581)	(1,041)	(40,540)
Benefit obligation at end of year	¥197,356	¥174,990	\$1,746,513
Change in plan assets:			
Fair value of plan assets at beginning of year	¥109,149	¥93,710	\$965,920
Actual return on plan assets	(707)	8,740	(6,257)
Employer contribution	15,224	9,699	134,726
Benefits paid	(2,467)	(2,172)	(21,832)
Settlement paid to retirees	(723)	(828)	(6,398)
Fair value of plan assets at end of year	¥120,476	¥109,149	\$1,066,159
Funded status at end of year	¥(76,880)	¥(65,841)	\$ (680,354)
Amounts recognized in the consolidated balance sheet consist of:			
Long-term receivables, advances and other	¥979	¥4,887	\$8,664
Accrued expenses and other	(5,975)	(2,049)	(52,876)
Termination and retirement benefits	(71,884)	(68,679)	(636,142)
Net amount recognized	¥(76,880)	¥(65,841)	\$ (680,354)
Accumulated benefit obligation at end of year	¥179,976	¥165,791	\$1,592,708

Accumulated benefit obligations for all of the Companies' termination and retirement plans were in excess of their plan assets at March 31, 2016 and 2015.

Amounts recognized in accumulated other comprehensive loss (income) at March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Actuarial loss	¥ 50,784	¥ 25,285	\$ 449,416
Prior service benefit	(14,788)	(16,542)	(130,867)
Pension liability adjustments, before tax	¥ 35,996	¥ 8,743	\$ 318,549

Net periodic benefit cost for the years ended March 31:

	Millions of yen			Thousands of U.S. dollars
	2016	2015	2014	2016
Service cost	¥ 7,666	¥ 9,110	¥ 7,733	\$ 67,841
Interest cost	1,518	2,037	2,168	13,434
Expected return on plan assets	(2,410)	(2,361)	(1,913)	(21,328)
Amortization of prior service benefit	(2,546)	(2,357)	(2,242)	(22,531)
Recognized actuarial loss	1,763	1,738	1,943	15,601
Settlement loss.....	674	224	—	5,965
Net periodic benefit cost	¥ 6,665	¥ 8,391	¥ 7,689	\$ 58,982

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Prior service benefit due to amendments	¥ (792)	¥ (3,738)	\$ (7,009)
Actuarial loss	27,936	4,439	247,221
Amortization of prior service benefit	2,546	2,357	22,531
Recognized actuarial loss	(1,763)	(1,738)	(15,601)
Settlement loss.....	(674)	(224)	(5,965)
Total recognized in other comprehensive loss (income), before tax	¥27,253	¥ 1,096	\$241,177

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 were a gain of ¥2,557 million (\$22,628 thousand) and a loss of ¥7,029 million (\$62,204 thousand).

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

	2016	2015
Discount rate	0.5%	1.1%
Compensation increase rate	2.0~2.6%	2.0~2.6%

Notes to Consolidated Financial Statements

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

	2016	2015	2014
Discount rate	1.1%	1.4%	1.6%
Compensation increase rate	2.0~2.6%	2.0~2.6%	2.0~2.6%
Expected long-term rate of return on plan assets	2.2~2.5%	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.

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, 2016 consisted of 17% of equity securities, 58% of debt securities and life insurance company general accounts, and 25% of other.

The 3 broad levels of inputs used to measure fair value are more fully described in Note 13.

The fair values of the Companies' plan assets at March 31, 2016 were as follows:

	Millions of yen			
	Fair value measurements			Total
	Level 1	Level 2	Level 3	
Equity securities				
Pooled funds	¥ —	¥ 16,887	¥ —	¥ 16,887
Debt Securities				
Governmental debt securities	1,183	45	—	1,228
Private debt securities	—	3,995	—	3,995
Pooled funds	—	31,833	—	31,833
Life insurance company general accounts	—	31,112	—	31,112
Other				
Pooled funds	—	—	19,760	19,760
Other	—	15,661	—	15,661
Total	¥ 1,183	¥ 99,533	¥ 19,760	¥ 120,476

	Thousands of U.S. dollars			
	Fair value measurements			Total
	Level 1	Level 2	Level 3	
Equity securities				
Pooled funds	\$ —	\$ 149,442	\$ —	\$ 149,442
Debt Securities				
Governmental debt securities	10,469	398	—	10,867
Private debt securities	—	35,354	—	35,354
Pooled funds	—	281,708	—	281,708
Life insurance company general accounts	—	275,327	—	275,327
Other				
Pooled funds	—	—	174,867	174,867
Other	—	138,594	—	138,594
Total	\$ 10,469	\$ 880,823	\$ 174,867	\$ 1,066,159

A rollforward of the Companies' Level 3 plan assets for the year ended March 31, 2016 is as follows:

	Millions of yen	Thousands of U.S. dollars
	Other Pooled funds	Other Pooled funds
Beginning balance	¥12,250	\$ 108,407
Actual Return on Plan Assets		
Relating to assets still held at the reporting date	(913)	(8,080)
Relating to assets sold during the period	(60)	(531)
Purchases, maturities and sales	8,483	75,071
Transfers in and/or out of Level 3	—	—
Ending balance	¥19,760	\$ 174,867

The fair values of the Companies' plan assets at March 31, 2015 were as follows:

	Millions of yen			
	Fair value measurements			
	Level 1	Level 2	Level 3	Total
Equity securities				
Stocks	¥2,425	¥ —	¥ —	¥ 2,425
Pooled funds	—	25,790	—	25,790
Debt Securities				
Governmental debt securities	3,422	—	—	3,422
Private debt securities	—	3,023	—	3,023
Pooled funds	—	30,796	—	30,796
Life insurance company general accounts	—	26,332	—	26,332
Other				
Pooled funds	—	2,532	12,250	14,782
Other	—	2,579	—	2,579
Total	¥5,847	¥91,052	¥12,250	¥ 109,149

A rollforward of the Companies' Level 3 plan assets for the year ended March 31, 2015 is as follows:

	Millions of yen
	Other Pooled funds
Beginning balance	¥11,606
Actual Return on Plan Assets	
Relating to assets still held at the reporting date	841
Relating to assets sold during the period	6
Purchases, maturities and sales	(203)
Transfers in and/or out of Level 3	—
Ending balance	¥12,250

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, 2015, this class consists of 100% Japanese stocks.

Stocks include no common stock of the Company at March 31, 2015.

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, 2016, this class consisted of 100% foreign governmental debt securities. At March 31, 2015, this class consisted of 67% Japanese governmental debt securities and 33% 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, 2016, this class consisted of 25% Japanese private debt securities and 75% foreign private debt securities. At March 31, 2015, this class consisted of 100% foreign private debt securities.

Pooled funds

Pooled funds are measured by the allocated 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, 2016, this class consisted of 26% Japanese pooled funds (equity securities) and 74% foreign pooled funds (equity securities). At March 31, 2015, this class consisted of 24% Japanese pooled funds (equity securities) and 76% 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, 2016, this class consisted of 18% Japanese pooled funds (debt securities) and 82% foreign pooled funds (debt securities). At March 31, 2015, this class consisted of 34% Japanese pooled funds (debt securities) and 66% 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 ¥6,364 million (\$56,319 thousand) to their defined benefit plans in the year ending March 31, 2017.

The future benefit payments are expected as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2017	¥ 4,967	\$ 43,956
2018	5,098	45,115
2019	5,531	48,947
2020	5,683	50,292
2021	5,886	52,088
2022-2026	33,349	295,124

In connection with the above-mentioned amendments, the amount of benefit obligations to be transferred to the defined contribution plans was determined to be ¥3,193 million (\$28,257 thousand) at March 31, 2016, which will be settled by the year ending March 31, 2019, and ¥9,170 million at March 31, 2015, which will be settled by the year ending March 31, 2019. The amount of benefit obligations including the effect of the previous amendments, which will be transferred to the defined contribution plan was ¥10,951 million (\$96,912 thousand) at March 31, 2016, and ¥11,984 million at March 31, 2015.

The Companies recognized the cost of ¥1,302 million (\$11,522 thousand) related to annual contributions to the defined contribution plans in the year ended March 31, 2016, and ¥326 million in the year ended March 31, 2015.

7. Shareholders' Equity

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

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting, if companies meet certain criteria such as; (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as 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 Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

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

The amount available for dividends under the Companies Act was ¥345,689 million (\$3,059,195 thousand) at March 31, 2016, based on the amount recorded in the parent company's general books of account.

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

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

(c) Treasury stock and treasury stock acquisition rights

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

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

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

Notes to Consolidated Financial Statements

8. Comprehensive Income (loss)

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

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

	Millions of yen			
	2015			
	Unrealized gains (losses) on securities	Pension liability adjustment	Foreign currency translation adjustments	Total
Beginning balance	¥ 5,511	¥ (4,688)	¥ 7,562	¥ 8,385
Other comprehensive income (loss), net of tax before reclassification	2,801	(950)	31,591	33,442
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	(981)	(255)	–	(1,236)
Net changes	1,820	(1,205)	31,591	32,206
Comprehensive income (loss) attributable to noncontrolling interests	217	(382)	963	798
Ending balance	¥ 7,114	¥ (5,511)	¥ 38,190	¥ 39,793

	Thousands of U.S. dollars			
	2016			
	Unrealized gains (losses) on securities	Pension liability adjustment	Foreign currency translation adjustments	Total
Beginning balance	\$ 62,956	\$ (48,770)	\$ 337,965	\$ 352,151
Other comprehensive income (loss), net of tax before reclassification	(40,929)	(163,779)	(299,982)	(504,690)
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	2,478	(655)	–	1,823
Net changes	(38,451)	(164,434)	(299,982)	(502,867)
Comprehensive income (loss) attributable to noncontrolling interests	(1,557)	(4,469)	(7,239)	(13,265)
Ending balance	\$ 26,062	\$(208,735)	\$ 45,222	\$ (137,451)

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

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

Millions of yen		
2015		
	Amounts reclassified from accumulated other comprehensive income (loss)	Account
Unrealized gains (losses) on securities:	¥ (1,100)	Interest and dividend income, and Other - net
	119	Income Taxes
	(981)	Total
Pension liability adjustment:	(395)	Net periodic benefit cost
	140	Income Taxes
	(255)	Total
Total reclassification amounts	¥ (1,236)	

Thousands of U.S. dollars		
2016		
	Amounts reclassified from accumulated other comprehensive income (loss)	Account
Unrealized gains (losses) on securities:	\$3,115	Other - net
	(637)	Income Taxes
	2,478	Total
Pension liability adjustment:	(956)	Net periodic benefit cost
	301	Income Taxes
	(655)	Total
Total reclassification amounts	\$1,823	

Notes to Consolidated Financial Statements

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

	Millions of yen		
	2016		
	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
Unrealized gains (losses) on securities:			
Unrealized holding losses arising during period ...	¥ (5,835)	¥ 1,210	¥ (4,625)
Reclassification adjustment for losses included in net income	352	(72)	280
	(5,483)	1,138	(4,345)
Pension liability adjustment:			
Pension liability adjustment arising during period	(27,145)	8,638	(18,507)
Reclassification adjustment for gains included in net income	(108)	34	(74)
	(27,253)	8,672	(18,581)
Foreign currency translation adjustments:			
Foreign currency translation adjustments arising during period	(35,091)	1,193	(33,898)
Other comprehensive income (loss)	¥(67,827)	¥11,003	¥(56,824)
	Millions of yen		
	2015		
	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
Unrealized gains (losses) on securities:			
Unrealized holding gains arising during period ...	¥ 3,348	¥ (547)	¥ 2,801
Reclassification adjustment for gains included in net income	(1,100)	119	(981)
	2,248	(428)	1,820
Pension liability adjustment:			
Pension liability adjustment arising during period	(701)	(249)	(950)
Reclassification adjustment for gains included in net income	(395)	140	(255)
	(1,096)	(109)	(1,205)
Foreign currency translation adjustments:			
Foreign currency translation adjustments arising during period	32,823	(1,232)	31,591
Other comprehensive income (loss)	¥33,975	¥(1,769)	¥32,206

	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 losses 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 income (loss)	¥20,498	¥ 108	¥20,606
Thousands of U.S. dollars			
	2016		
	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
Unrealized gains (losses) on securities:			
Unrealized holding losses arising during period ...	\$ (51,637)	\$10,708	\$ (40,929)
Reclassification adjustment for losses included in net income	3,115	(637)	2,478
	(48,522)	10,071	(38,451)
Pension liability adjustment:			
Pension liability adjustment arising during period	(240,221)	76,442	(163,779)
Reclassification adjustment for gains included in net income	(956)	301	(655)
	(241,177)	76,743	(164,434)
Foreign currency translation adjustments:			
Foreign currency translation adjustments arising during period	(310,540)	10,558	(299,982)
Other comprehensive income (loss)	\$ (600,239)	\$97,372	\$ (502,867)

Notes to Consolidated Financial Statements

9. Income Taxes

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

	2016	2015	2014
Normal Japanese statutory tax rates	32.8%	35.4%	37.8%
Increase (decrease) in taxes resulting from:			
Tax credits	(5.9)	(4.5)	(5.7)
Permanently non-deductible items	0.1	0.2	(2.0)
Foreign earnings taxed at different rates	(2.2)	(2.2)	(2.1)
Effect of enacted future tax rate reduction on deferred taxes	1.1	1.3	0.9
Net change in valuation allowance for deferred tax assets	(1.0)	(2.0)	(1.7)
Income taxes on undistributed earnings of foreign subsidiaries ...	1.0	0.8	1.1
Other-net	0.9	0.8	1.2
Effective tax rates	26.8%	29.8%	29.5%

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

On March 29, 2016, changes were enacted which decreased the normal statutory tax rate from 32.1% to 30.7% effective from the year beginning April 1, 2016 and 2017, and to 30.5% effective from the year beginning April 1, 2018, thereafter. As a result, deferred tax assets (after the deduction of deferred tax liabilities) decreased by ¥2,057 million (\$18,204 thousand), and deferred income tax provision increased by ¥2,057 million (\$18,204 thousand) during the fiscal year ended March 31, 2016.

On March 31, 2015, changes were enacted which decreased the normal statutory tax rate from 35.4% to 32.8% effective from the year beginning April 1, 2015, and to 32.1% effective from the year beginning April 1, 2016 thereafter. As a result, deferred tax assets (after the deduction of deferred tax liabilities) decreased by ¥3,031 million, and deferred income tax provision increased by ¥3,031 million during the fiscal year ended March 31, 2015.

On March 20, 2014, changes were enacted 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) decreased by ¥1,247 million, and deferred income tax provision increased by ¥1,247 million during the fiscal year ended March 31, 2014.

The approximate effects of temporary differences and tax loss carryforwards that gave rise to deferred tax balances at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Deferred tax assets:			
Intercompany profits	¥ 7,619	¥ 6,979	\$ 67,425
Termination and retirement benefits	26,900	20,879	238,053
Enterprise taxes	2,560	4,094	22,655
Compensated absences	2,324	2,376	20,566
Inventory valuation	5,031	3,455	44,522
Marketable securities and investments adjustments	377	—	3,336
Tangible and intangible assets	8,638	9,180	76,443
Accrued bonuses	6,853	7,323	60,646
Goodwill	—	295	—
Other temporary differences	9,054	9,983	80,124
Tax loss carryforwards	18,624	19,783	164,814
Total	87,980	84,347	778,584
Valuation allowance	(26,815)	(28,667)	(237,301)
Total	¥ 61,165	¥ 55,680	\$ 541,283
Deferred tax liabilities:			
Undistributed earnings of foreign subsidiaries	¥ 12,920	¥ 10,989	\$ 114,336
Marketable securities and investments adjustments	—	1,798	—
Tangible and intangible assets	16,159	18,585	143,000
Goodwill	95	202	841
Other temporary differences	1,390	2,406	12,301
Total	¥ 30,564	¥ 33,980	\$ 270,478

The total valuation allowance decreased by ¥1,852 million (\$16,389 thousand) for the year ended March 31, 2016 and increased by ¥4,876 million for the year ended March 31, 2015.

Based upon the level of historical taxable income and projections for future taxable income over the periods in which the net deductible temporary differences are expected to reverse, management believes it is more likely than not that the Companies will realize the benefits of these deferred tax assets, net of existing valuation allowances at March 31, 2016 and 2015.

The Company and subsidiaries had tax loss carryforwards approximating ¥55,906 million (\$494,743 thousand), excluding a portion available only for local taxes approximating ¥5,138 million (\$45,469 thousand), available to reduce future taxable income at March 31, 2016, which expire substantially in the period from 2018 to 2037.

Notes to Consolidated Financial Statements

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Balance at beginning of year	¥ 103	¥ 78	\$ 912
Additions based on tax positions related to the current year	10	10	88
Additions for tax positions of prior years	0	1	0
Reductions for tax positions of prior years	(39)	—	(345)
Other	(5)	14	(44)
Balance at end of year	¥ 69	¥103	\$ 611

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

The Japanese tax authority completed the audit of the consolidated income tax of the Company and domestic subsidiaries which adopted the consolidated taxation system for the years before 2014. Further, the tax authorities completed the tax audit of the major foreign subsidiaries for the years before 2003. The Companies believe unrecognized tax benefits are reasonably estimated, but unrecognized tax benefits may change as a result of the tax examination. At March 31, 2016, the Companies do not anticipate a material change of unrecognized tax benefits in the next 12 months.

The Companies classify interest and penalties related to unrecognized tax benefits as income taxes in the consolidated statements of income. Accrued interest and penalties in the consolidated balance sheet at March 31, 2016, and interest and penalties in the consolidated statement of income for the year ended March 31, 2016 were not material.

10. Amounts per Share

A reconciliation of the basic and diluted earnings attributable to Murata Corporation per share computation was as follows:

	Millions of yen			Thousands of U.S. dollars
	2016	2015	2014	2016
Net income attributable to Murata Corporation....	¥203,776	¥167,711	¥93,191	\$1,803,327
Numbers of shares				
	2016	2015	2014	
Weighted-average common shares outstanding..	211,703,608	211,706,421	211,497,197	
Yen				U.S. dollars
	2016	2015	2014	2016
Earnings attributable to Murata Corporation per share:				
Basic	¥962.55	¥792.19	¥440.63	\$ 8.52

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

11. Commitments and Contingent Liabilities

Outstanding commitments at March 31, 2016 and 2015 for the purchase of property, plant, and equipment approximated ¥60,463 million (\$535,071 thousand) and ¥50,063 million, respectively. At March 31, 2016 and 2015, the Companies were contingently liable for trade accounts receivable discounted and transferred to banks of ¥28 million (\$248 thousand) and ¥13 million, respectively, which are accounted for as sales when discounted and transferred.

12. 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 November 2013, the judgment that SynQor was awarded damages of about \$20,980 thousand against Murata 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 a judgment awarding SynQor damages of \$1,327 thousand against Murata. SynQor appealed to the United States Court Appeals for the Federal Circuit against the judgment.

In November 2015, the dispute between Murata and SynQor in this suit concluded as a result of the settlement between SynQor and Murata's customer. Murata does not have to bear any costs or interest associated with this suit because any adverse claims are covered through an indemnification agreement with one of Murata's customers.

13. 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, 2016 were as follows:

	Millions of yen			
	Fair value measurements			
	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale securities				
Governmental debt securities ...	¥ —	¥ 1,909	¥ —	¥ 1,909
Private debt securities	—	120,579	—	120,579
Equity securities	12,056	—	—	12,056
Investment trusts	—	2,756	—	2,756
Derivatives				
Forward exchange contracts	—	3,340	—	3,340
Currency option contracts	—	19	—	19
Liabilities				
Derivatives				
Forward exchange contracts	¥ —	¥ 135	¥ —	¥ 135
Currency option contracts	—	61	—	61
Interest rate swap contracts	—	29	—	29

Notes to Consolidated Financial Statements

	Thousands of U.S. dollars			
	Fair value measurements			
	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale securities				
Governmental debt securities ...	\$ —	\$ 16,894	\$ —	\$ 16,894
Private debt securities	—	1,067,071	—	1,067,071
Equity securities	106,690	—	—	106,690
Investment trusts	—	24,389	—	24,389
Derivatives				
Forward exchange contracts	—	29,558	—	29,558
Currency option contracts	—	168	—	168
Liabilities				
Derivatives				
Forward exchange contracts	\$ —	\$ 1,195	\$ —	\$ 1,195
Currency option contracts	—	540	—	540
Interest rate swap contracts	—	257	—	257

The Companies had no assets and liabilities measured at fair value of Level 3 on a recurring basis for the year ended March 31, 2016.

Assets and liabilities measured at fair value on a recurring basis at March 31, 2015 were as follows:

	Millions of yen			
	Fair value measurements			
	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale securities				
Governmental debt securities ...	¥ —	¥ 2,829	¥ —	¥ 2,829
Private debt securities	—	142,188	—	142,188
Equity securities	16,740	—	—	16,740
Investment trusts	—	2,991	—	2,991
Derivatives				
Forward exchange contracts	—	228	—	228
Liabilities				
Derivatives				
Forward exchange contracts	¥ —	¥ 655	¥ —	¥ 655
Interest rate swap contracts	—	87	—	87

The Companies had no assets and liabilities measured at fair value of Level 3 on a recurring basis for the year ended March 31, 2015.

Available-for-sale securities

Marketable equity securities are measured by the market approach using quoted prices in active markets; they are classified within Level 1. Governmental debt securities, private debt securities, and investment trusts are measured by the market approach using quoted prices for identical or similar assets in markets that are not active; they are classified within Level 2. The Companies elected the fair value option under ASC 825, "Financial Instruments" for some equity securities included in available-for-sale securities. Included in "Other - net" in the consolidated statements of income was losses from the change in the fair value of those investments of ¥60 million (\$531 thousand) for the year ended March 31, 2016. The amount of aggregate fair value was ¥11,940 million (\$105,664 thousand) at March 31, 2016.

Derivatives

Forward exchange contracts, Currency option contracts, and Interest rate swap 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, 2016 were as follows:

	Total amount of income (loss)	Millions of yen			
		Fair value measurements			Total
		Level 1	Level 2	Level 3	
Assets					
Property, plant and equipment...	¥(306)	¥ —	¥ —	¥219	¥219

	Total amount of income (loss)	Thousands of U.S. dollars			
		Fair value measurements			Total
		Level 1	Level 2	Level 3	
Assets					
Property, plant and equipment...	\$(2,708)	\$ —	\$ —	\$1,938	\$1,938

The Companies recognized impairment losses of ¥306 million (\$2,708 thousand) in selling, general and administrative expenses for the year ended March 31, 2016 related to lands and other assets which were not expected to be used in the Components segment and in the Modules segment. The fair values of land and other assets were measured by estimated future cash flows. The above assets were measured by unobservable inputs; they were classified within Level 3.

Assets and liabilities measured at fair value on a nonrecurring basis at March 31, 2015 were as follows:

	Total amount of income (loss)	Millions of yen			
		Fair value measurements			Total
		Level 1	Level 2	Level 3	
Assets					
Property, plant and equipment, and Others	¥(2,623)	¥ —	¥ —	¥355	¥355
Goodwill	(1,336)	—	—	—	—

The Companies recognized impairment losses of ¥2,623 million in selling, general and administrative expenses for the year ended March 31, 2015 related to production facilities and related assets and idle long-lived assets mainly due to decreasing profitability, and the Companies' decision to sell certain idle long-lived assets in the Components segment and in the Modules segment. The fair values of production facilities and related assets were measured by estimated future cash flows and idle long-lived assets were measured by the selling price. The above assets were measured by the unobservable inputs; they were classified within Level 3.

Further, the Companies recognized impairment losses of ¥1,336 million in selling, general and administrative expenses for the year ended March 31, 2015 related to goodwill mainly due to decreasing profitability in Components segment. The fair value of goodwill was measured by estimated future cash flows. The above asset was measured by the unobservable inputs; they were classified within Level 3.

14. Financial Instruments and Concentration of Credit Risk

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

Financial assets and liabilities

- (1) Cash, short-term investments, notes and accounts receivable, financial instruments which are included in other assets, short-term borrowings, notes and accounts payable and long-term debt
The carrying amounts indicated in the balance sheets approximated fair values at March 31, 2016 and 2015.
- (2) Marketable securities and Investments
Fair value is primarily based on quoted market prices or is estimated using the discounted cash flow method, based on the market interest rates currently available to the Companies for instruments with similar terms and maturities. The fair values of marketable securities and investments are presented in Note 3.

Derivatives

The Companies enter into forward exchange contracts and currency option contracts in order to manage foreign currency risk, and interest rate swap contracts in order to manage interest expense fluctuation risk caused by long-term debt. The Companies do not enter into forward exchange contracts, currency option contracts, or interest rate swap contracts for trading purposes. The exposure to credit risk is minimal since the counterparties are major financial institutions. The Companies do not anticipate nonperformance by any of the counterparties.

The Companies reclassified changes in the fair value of forward exchange contracts, currency option contracts, and interest rate swap contracts as earnings in the same period.

The notional amounts of forward exchange contracts, currency option contracts, and interest rate swap contracts for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Notional amounts:			
Forward exchange contracts	¥140,780	¥96,336	\$1,245,841
Currency option contracts	31,242	—	276,478
Interest rate swap contracts	3,400	5,300	30,088

The fair values of forward exchange contracts, currency option contracts, and interest rate swap contracts for the years ended March 31, 2016 and 2015 were as follows:

		Millions of yen		Thousands of U.S. dollars
		2016	2015	2016
	Account	Fair values		
Forward exchange contracts	Prepaid expenses and other	¥3,340	¥228	\$29,558
	Accrued expenses and other	135	655	1,195
Currency option contracts	Prepaid expenses and other	19	—	168
	Accrued expenses and other	61	—	540
Interest rate swap contracts	Accrued expenses and other	29	87	257

Forward exchange contracts, currency option contracts, and interest rate swap contracts not designated as hedges recognized in the consolidated statements of income for the years ended March 31, 2016 and 2015 were as follows:

		Millions of yen		Thousands of U.S. dollars
		2016	2015	2016
	Accounts	Amounts		
Forward exchange contracts	Foreign currency exchange gain (loss)	¥ 9,691	¥(14,231)	\$ 85,761
Currency option contracts	Foreign currency exchange gain (loss)	(41)	—	(363)
Interest rate swap contracts	Interest expense	68	(77)	602

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

Concentration of credit risk

A significant portion of the Companies' sales is dependent upon and concentrated in the electronics industry, especially telecommunications equipment. The Companies generally extend credit to their customers, 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.

15. Acquisitions

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

Significant acquisitions for the year ended March 31, 2015 were as follows.

On December 12, 2014, Murata Electronics North America, Inc. ("MEA"), a wholly-owned subsidiary of the Company, completed the acquisition of Peregrine Semiconductor Corp. ("PSC"). PSC became a wholly-owned subsidiary of MEA. The total acquisition price was ¥50,127 million. The amount of gain recognized as a result of remeasuring to fair value the equity interest held before the acquisition of ¥775 million is included in Other-net in the consolidated statements of income for the year ended March 31, 2015. The fair value was measured mainly based on the quoted price of PSC's shares. As a result of the acquisition, PSC and its 3 subsidiaries (collectively, the "PSC Group") were newly consolidated into the Companies' consolidated financial statements.

PSC is a leading provider of RF components including RF switches for communications terminals such as mobile-phones or smartphones, wireless communication base stations, and satellite communications. UltraCMOS®, PSC's proprietary process technology, can contribute to the provision of low-cost RF components with good high-frequency characteristics, and RF switches that employ the technology have been used in Murata's RF modules for some time. PSC is one of the main suppliers of the Company's RF front-end modules, and the Company has been able to supply a range of products through its collaboration with PSC. As a result of this acquisition, the Company will establish an integrated development system that encompasses all aspects from RF component semiconductor process development to semiconductor design, circuit design, and module design. This will enable the Company to reflect market requirements in product development more accurately and quickly and provide state-of-the-art products that meet customer needs to an even greater degree in a timely manner.

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

	Millions of yen
Cash	¥ 1,030
Current assets	9,891
Property, plant and equipment	2,202
Intangible assets	15,258
Goodwill	34,301
Other non-current assets	2,190
Total assets acquired	64,872
Current liabilities	8,485
Long-term liabilities	5,485
Total liabilities assumed	13,970
Cash paid for acquisition	50,127
Equity interest held before acquisition	775
Net assets acquired	¥50,902

Intangible assets acquired are mainly technologies of ¥8,738 million, which are subject to amortization. The Companies have estimated the amortization period for technologies to be 7 years. Goodwill recognized, which is assigned to Modules segment, is attributable primarily to expected synergies from combining operations of the PSC Group and the Companies. The recognized goodwill is not considered to be tax-deductible.

Acquisition-related costs of ¥915 million are included in selling, general and administrative expenses in the consolidated statements of income for the year ended March 31, 2015.

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

The pro forma results are immaterial.

Significant acquisitions for the year ended March 31, 2014 were 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 Tokyo Denpa Co., Ltd. ("TEW"). As a result of the share exchange, TEW and its 3 subsidiaries became 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, ¥2,022 million, respectively.

The Companies acquired crystal device products and technologies, and going forward, the

Notes to Consolidated Financial Statements

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
Cash	¥ 3,316
Current assets	3,912
Property, plant and equipment	3,588
Other assets	783
Total assets acquired	11,599
Current liabilities	3,264
Long-term liabilities	965
Total liabilities assumed	4,229
Net assets acquired	¥ 7,370

The pro forma results and the results 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 and the acquisition-date fair value of the noncontrolling interest in TOKO was ¥15,669 million. The amount of gain recognized as a result of remeasuring to fair value the equity interest held before the acquisition of ¥2,230 million is included in Other - net in the consolidated statements of income for the year ended March 31, 2014. The fair value was measured mainly based on the quoted price of TOKO's share. As a result of the tender offer, the Company's ownership increased from 9.9% to 63.8%, and TOKO and its 23 subsidiaries (collectively, the "TOKO Group") were newly consolidated into the Companies' consolidated financial statements.

The Companies acquired excellence in the field of metal alloy products, the possession of coil and magnetic materials technologies, and 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 to 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
Cash	¥ 9,020
Current assets	17,055
Property, plant and equipment	20,963
Intangible assets	20,598
Goodwill	8,671
Other non-current assets	3,062
Total assets acquired	79,369
Current liabilities	12,894
Long-term liabilities	23,565
Total liabilities assumed	36,459
Non controlling interest	15,669
Cash paid for acquisition	23,008
Equity interest held before acquisition	4,233
Net assets acquired	¥27,241

Intangible assets acquired are mainly customer relationships of ¥12,325 million, 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 the Components segment, is attributable primarily to expected synergies from combining the operations of the TOKO Group and the Companies. The recognized goodwill is not considered to be tax-deductible.

Acquisition-related costs of ¥357 million are 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 the TOKO Group is consolidated at March 31, 2014. Therefore, the results of operations of the 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 year ended March 31, 2014, as if the acquisition of the TOKO Group had occurred on April 1, 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 2014
Net sales	¥879,416
Operating Income	129,247

Notes to Consolidated Financial Statements

16. Goodwill and Other Intangible Assets

Intangible assets other than goodwill, at March 31, 2016 and 2015 were as follows:

	Millions of yen		
	2016		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortized intangible assets			
Software	¥32,544	¥16,201	¥16,343
Technology	26,413	10,798	15,615
Customer relationships	20,135	5,862	14,273
Patents	3,973	1,752	2,221
Other	10,691	7,685	3,006
Total	¥93,756	¥42,298	¥51,458
Unamortized intangible assets			¥ 250
	Millions of yen		
	2015		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortized intangible assets			
Software	¥28,374	¥12,534	¥15,840
Technology	27,184	6,836	20,348
Customer relationships	20,559	3,332	17,227
Patents	3,296	984	2,312
Other	10,553	6,620	3,933
Total	¥89,966	¥30,306	¥59,660
Unamortized intangible assets			¥ 255
	Thousands of U.S. dollars		
	2016		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortized intangible assets			
Software	\$288,000	\$143,372	\$144,628
Technology	233,743	95,557	138,186
Customer relationships	178,186	51,876	126,310
Patents	35,159	15,504	19,655
Other	94,611	68,009	26,602
Total	\$829,699	\$374,318	\$455,381
Unamortized intangible assets			\$ 2,212

Intangible assets other than goodwill acquired during the year ended March 31, 2016 totaled ¥5,238 million (\$46,354 thousand) and primarily consisted of software of ¥4,530 million (\$40,088 thousand). The weighted average useful lives for software is 4.93 years.

Total amortization expenses of intangible assets during the years ended March 31, 2016 and 2015 amounted to ¥12,153 million (\$107,549 thousand) and ¥13,139 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
2017	¥11,801	\$104,434
2018	10,217	90,416
2019	8,666	76,690
2020	6,266	55,451
2021	2,490	22,035

The changes in the carrying amount of goodwill of each operating segment for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		
	2016		
	Components	Modules	Total
Balance at beginning year			
Acquisition cost	¥ 18,897	¥ 49,714	¥ 68,611
Accumulated impairment losses	(2,096)	(10,413)	(12,509)
Net carrying amounts	<u>16,801</u>	<u>39,301</u>	<u>56,102</u>
Increase (decrease) in goodwill resulting from			
Goodwill acquired during year	—	—	—
Impairment losses	—	—	—
Translation Adjustments and other	(177)	(2,187)	(2,364)
Balance at ending year			
Acquisition cost	18,720	47,527	66,247
Accumulated impairment losses	(2,096)	(10,413)	(12,509)
Net carrying amounts	<u>¥ 16,624</u>	<u>¥ 37,114</u>	<u>¥ 53,738</u>
	Millions of yen		
	2015		
	Components	Modules	Total
Balance at beginning year			
Acquisition cost	¥ 19,415	¥ 15,015	¥ 34,430
Accumulated impairment losses	(760)	(10,413)	(11,173)
Net carrying amounts	<u>18,655</u>	<u>4,602</u>	<u>23,257</u>
Increase (decrease) in goodwill resulting from			
Goodwill acquired during year	—	34,301	34,301
Impairment losses	(1,336)	—	(1,336)
Translation Adjustments and other	(518)	398	(120)
Balance at ending year			
Acquisition cost	18,897	49,714	68,611
Accumulated impairment losses	(2,096)	(10,413)	(12,509)
Net carrying amounts	<u>¥ 16,801</u>	<u>¥ 39,301</u>	<u>¥ 56,102</u>
	Thousands of U.S. dollars		
	2016		
	Components	Modules	Total
Balance at beginning year			
Acquisition cost	\$ 167,230	\$ 439,947	\$ 607,177
Accumulated impairment losses	(18,549)	(92,150)	(110,699)
Net carrying amounts	<u>148,681</u>	<u>347,797</u>	<u>496,478</u>
Increase (decrease) in goodwill resulting from			
Goodwill acquired during year	—	—	—
Impairment losses	—	—	—
Translation Adjustments and other	(1,566)	(19,354)	(20,920)
Balance at ending year			
Acquisition cost	165,664	420,593	586,257
Accumulated impairment losses	(18,549)	(92,150)	(110,699)
Net carrying amounts	<u>\$ 147,115</u>	<u>\$ 328,443</u>	<u>\$ 475,558</u>

Notes to Consolidated Financial Statements

17. Segment Information

1) Operating segment information

The Companies mainly develop, manufacture, and sell electronic components and related products. Operating segments of the Companies are classified based on the nature of products, and the Companies recognized the Components segment, the Modules segment, and Others.

Operating segment information for the years ended March 31, 2016, 2015, and 2014 was as follows:

	Millions of yen			Thousands of U.S. dollars
	2016	2015	2014	2016
Components				
Sales to:				
Unaffiliated customers	¥760,166	¥679,081	¥529,377	\$6,727,133
Intersegment	50,522	42,628	32,411	447,097
Total revenue	810,688	721,709	561,788	7,174,230
Segment income	262,624	205,974	126,043	2,324,106
Assets	531,178	457,142	433,121	4,700,690
Depreciation and amortization	70,413	61,141	55,134	623,124
Expenditure for long-lived assets	137,836	76,728	51,902	1,219,787
Modules				
Sales to:				
Unaffiliated customers	¥446,849	¥360,910	¥314,249	\$3,954,416
Intersegment	66	61	188	584
Total revenue	446,915	360,971	314,437	3,955,000
Segment income	51,919	42,685	35,257	459,460
Assets	190,441	173,787	111,664	1,685,319
Depreciation and amortization	18,378	14,248	13,069	162,637
Expenditure for long-lived assets	29,461	18,708	14,633	260,717
Others				
Sales to:				
Unaffiliated customers	¥ 3,826	¥ 3,551	¥ 3,090	\$ 33,858
Intersegment	55,365	43,333	27,341	489,956
Total revenue	59,191	46,884	30,431	523,814
Segment income	5,064	4,781	3,119	44,814
Assets	6,656	7,134	6,992	58,903
Depreciation and amortization	2,257	1,484	1,191	19,973
Expenditure for long-lived assets	1,151	1,334	171	10,186
Corporate and eliminations				
Sales to:				
Unaffiliated customers	—	—	—	—
Intersegment	¥(105,953)	¥ (86,022)	¥ (59,940)	\$ (937,637)
Total revenue	(105,953)	(86,022)	(59,940)	(937,637)
Corporate expenses	(44,201)	(38,905)	(38,528)	(391,159)
Assets	789,509	793,240	691,910	6,986,805
Depreciation and amortization	8,057	8,062	7,490	71,301
Expenditure for long-lived assets	6,397	6,984	3,511	56,611

Consolidated

Sales to:

Unaffiliated customers	¥1,210,841	¥1,043,542	¥ 846,716	\$10,715,407
Intersegment	—	—	—	—
Total revenue	1,210,841	1,043,542	846,716	10,715,407
Operating income	275,406	214,535	125,891	2,437,221
Assets	1,517,784	1,431,303	1,243,687	13,431,717
Depreciation and amortization	99,105	84,935	76,884	877,035
Expenditure for long-lived assets	174,845	103,754	70,217	1,547,301

*1 Major products and businesses included in the operating segments

(1) Components : Capacitors and Piezoelectric Components

(2) Modules : Communication Modules and Power Supplies

(3) Others : Machinery manufacturing, welfare services, personnel services, education and training services, and sales of software

*2 Intersegment transactions are based on market prices.

*3 Segment income for each operating segments represents net sales less related costs. Corporate expenses represent expenses of 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 expenditures for property, plant, and equipment, and intangible assets, and does not include expenditures related to 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 their physical locations.

Net sales

	Millions of yen			Thousands of U.S. dollars
	2016	2015	2014	2016
Japan	¥ 81,713	¥ 84,702	¥ 80,435	\$ 723,124
The Americas	83,750	87,135	56,667	741,150
Europe	81,942	82,362	69,360	725,150
Greater China	750,256	600,542	459,600	6,639,434
Asia and Others	213,180	188,801	180,654	1,886,549
Total	¥1,210,841	¥1,043,542	¥846,716	\$10,715,407

Notes : Major countries and areas included in the segments other than Japan:

*1 The Americas : USA and Mexico

*2 Europe : Germany, Hungary, and United Kingdom

*3 Greater China : China and Taiwan

*4 Asia and Others : South Korea, Vietnam, and Thailand

Notes to Consolidated Financial Statements

Long-lived assets

	Millions of yen			Thousands of U.S. dollars
	2016	2015	2014	2016
Japan	¥319,459	¥258,862	¥245,849	\$2,827,071
The Americas	3,939	3,882	1,853	34,858
Europe	8,359	8,477	8,147	73,974
Greater China	83,334	81,642	64,227	737,469
Asia and Others	40,771	33,123	26,397	360,805
Total	¥455,862	¥385,986	¥346,473	\$4,034,177

Notes : Major countries and areas included in the segments other than Japan:

*1 The Americas : USA

*2 Europe : Finland, United Kingdom, and Germany

*3 Greater China : China and Taiwan

*4 Asia and Others : Thailand, Philippines, Vietnam, and Singapore

3) Information about major customers

There is one customer group which accounts for more than 10% of consolidated sales for the years ended March 31, 2016, 2015, and 2014. Consolidated sales to the customer group for the years ended March 31, 2016, 2015, and 2014 are ¥245,639 million (\$2,173,796 thousand), ¥227,360 million, and ¥185,581 million, respectively. There is another customer group which accounts for more than 10% of consolidated sales for the years ended March 31, 2016 and 2014. Consolidated sales to this customer group for the years ended March 31, 2016 and 2014 are ¥133,838 million (\$1,184,407 thousand) and ¥95,750 million, respectively. Sales to such customer groups are included in the Components segment and the Modules segment.

18. Subsequent Events

1. The Companies evaluated subsequent events at June 29, 2016, which is the presentation date of this financial report.
2. On May 1, 2016, the Company implemented a share exchange (the "Share Exchange") with Toko, Inc. ("TOKO"). As a result of the Share Exchange, TOKO became a wholly-owned subsidiary of the Company. The Company allotted and delivered 1,041,795 shares of treasury stock through the Share Exchange. Consequently, the Company's treasury stock decreased by ¥4,637 million (\$41,035 thousand).
3. The ordinary general meeting of shareholders on June 29, 2016 resolved to pay a cash dividend of ¥110 (\$0.97) per share to shareholders of record at March 31, 2016, or a total of ¥23,287 million (\$206,080 thousand).

Independent Auditors' Report

Deloitte.

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

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, 2016 and 2015, 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, 2016, 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, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2016, 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 29, 2016

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.

43 Management's Report on Internal Control

44 Independent Auditor's Report

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 "On the Revision of the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting (Council Opinions)" published by the Business Accounting Council.

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

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

Tsuneo Murata, 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, 2016, 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 29, 2016

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: Koichiro Tsukuda

[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, 2016, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the fiscal year from April 1, 2015 to March 31, 2016, and the related notes, and consolidated supplementary schedules.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America pursuant to the third paragraph of the Supplementary Provisions of the Cabinet Office Ordinance for Partial Amendment of the Ordinance for Terminology, Forms and Preparation Methods of Consolidated Financial Statements (No.11 of the Cabinet Office Ordinance in 2002), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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, 2016, 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, 2016.

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, 2016 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.

