2007

Annual Report

Year Ended March 31, 2007

Murata Manufacturing Co., Ltd.

Profile

Murata develops, produces, and sells electronic components and modules, all of which play important roles in a variety of electronic equipment.

Products

Mobile Communications

We have seen the rapid proliferation of mobile phones and global expansion of communications networks. Murata strives to stay on the cutting-edge of developments in communications technology.

SWITCHPLEXER®

Automotive Electronics

Murata's electronic components play an active role in automotive. Automotive electronics precisely control every movement of your car; driving, curving, stopping, and more. Murata's high-performance components support the automotive electronics so critical today.

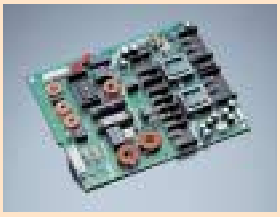
Antenna Coil for Smart Keyless Entry

Computers

Computers have continued dramatically evolving, become ever faster and smaller with ever larger capacities and range of functions. This evolution has been made possible by electronic components. Murata's electronic components play an indispensable role as intrinsic elements in today's computers.

Shock Sensors

Digital Home Electronics



Today we use a wide variety of electronic devices, such as televisions and digital cameras, as natural parts of our daily lives. Without us ever noticing, Murata's electronic components support the many functions of these devices, thereby enhancing our lives every day.

Switching Power Supplies for Flat Panel Displays

Contents

Cautionary Statement on Forward-looking Statements

This report contains forward-looking statements concerning Murata Manufacturing Co., Ltd. and its Group companies' projections, plans, policies, strategies, schedules, and decisions. These forward-looking statements are not historical facts; rather, they represent the assumptions of the Murata Group based on information currently available and certain assumptions we deem as reasonable. Actual results may differ materially from expectations due to various risks and uncertainties. Readers are therefore requested not to rely on these forward-looking statements as the sole basis for evaluating the Group. The Company has no obligation to revise any of the forward-looking statements as a result of new information, future events or otherwise.

Risks and uncertainties that may affect actual results include, but are not limited to, the following: (1) economic conditions of the Company's business environment, and trends, supply-demand balance, and price fluctuations in the markets for electronic equipment and components; (2) price fluctuations and insufficient supply of raw materials; (3) exchange rate fluctuations; (4) the Group's ability to provide a stable supply of new products that are compatible with the rapid technical innovation of the electronic components market and to continue to design and develop products and services that satisfy customers; (5) changes in the market value of the Group's financial assets; (6) drastic legal, political, and social changes in the Group's business environment; and (7) other uncertainties and contingencies.

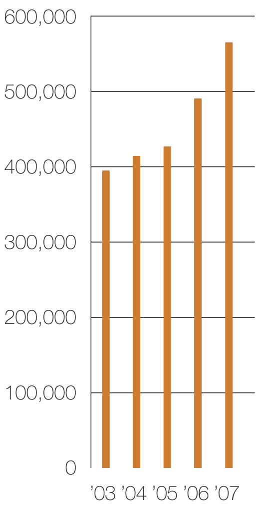
Five-Year Consolidated
Financial Highlights
Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2003-2007

	Millions of yen except per share amounts					Thousands of U.S. dollars except per share amounts (Note)
	2007	2006	2005	2004	2003	2007
Net sales	¥566,805	¥490,784	¥424,468	¥414,247	¥394,955	$4,803,432
Operating costs and expenses	453,440	400,945	354,953	340,037	335,768	3,842,712
Operating income	113,365	89,839	69,515	74,210	59,187	960,720
Other income (expenses)	4,638	1,841	3,390	4,475	(93)	39,305
Income before income taxes	118,003	91,680	72,905	78,685	59,094	1,000,025
Net income	71,309	58,448	46,578	48,540	39,467	604,314
Amounts per share:						
Earnings per share						
Basic	¥ 321.29	¥ 262.49	¥ 204.99	¥ 208.46	¥ 163.47	$ 2.72
Diluted	321.22	262.47	204.99	208.46	163.47	2.72
Cash dividends	80.00	55.00	50.00	50.00	50.00	0.68
Current assets	672,912	641,387	592,836	590,355	575,768	5,702,644
Property, plant and equipment less accumulated depreciation	283,944	232,877	225,735	221,964	234,117	2,406,305
Total assets	1,014,965	909,641	850,748	844,115	834,313	8,601,398
Shareholders' equity	822,893	755,394	712,309	700,937	692,090	6,973,669
Capital investment	99,651	51,040	48,033	33,088	18,161	844,500
Number of employees	29,392	26,956	25,924	26,469	26,435	

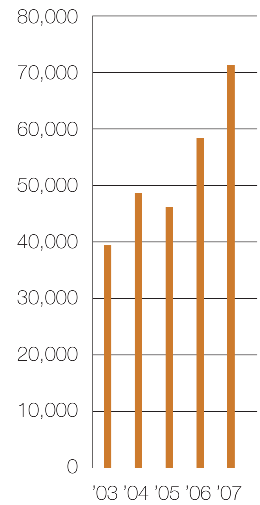
Note: The U.S. dollar amounts in this report represent translation of Japanese yen for convenience only at the rate of ¥118=U.S.$1.

* The operating income for the year ended March 31, 2004 includes gain amounting to ¥11,693 million related to the transfer of the substitutional portion of the Contributory Termination and Retirement Plans to the government. In the Consolidated Statement of Income, the difference between the substitutional portion of the accumulated benefit obligation and the related plan assets, amounting to ¥18,000 million, is indicated as "Subsidy from the government related to the transfer of the substitutional portion of the Contributory Termination and Retirement Plans to the government".

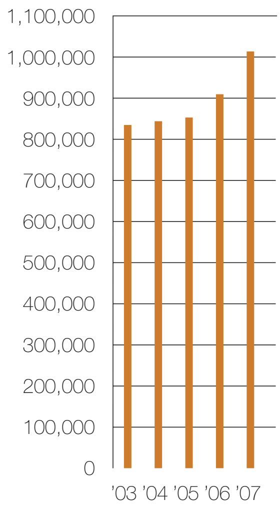
Net sales
(Millions of yen)



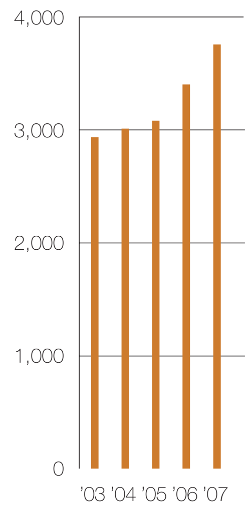
Net income
(Millions of yen)



Total assets
(Millions of yen)



Shareholders' equity per share*1 (Yen)



*1 Based on the number of common shares outstanding at term-end.

To Our Shareholders

Performance for Fiscal Year Ended March 2007

Higher Electronics Production Volume, More Sophisticated, Compact Models Provide Tail Wind

The global electronics market in the year under review saw steady production of mainstay products like mobile phones, computers and digital audio/video devices. Electronic devices also continued to become more advanced. These two trends resulted in major growth in demand for electronic components.

Looking at the market environment in terms of specific applications, the key mobile phone segment within the communication equipment market was marked by greater demand in developed countries for sophisticated handsets like 3G phones and Bluetooth®-equipped models and robust demand throughout the year in developing regions like China and India. In the market for computers and peripheral equipment, notebook computers maintained their strength and dual core MPUs made further headway. In the audio/visual equipment market, sales of flat-panel televisions, both LCD and plasma, were brisk, and in the second half of the year new game consoles hit the market. The automotive electronics market benefited from the increasing popularity of on-board electronics.

*Bluetooth® is a registered trademark of Bluetooth SIG, inc. of the United States.

Two Consecutive Years of Double-digit Growth in Both Net Sales and profit

Operating under these favorable market conditions, we aggressively augmented production capacity for key products to accommodate this demand growth while working to improve customer service. In addition, we responded to falling product prices by working to improve profitability and strengthen our business base. This was accomplished by carrying out cost cutting activities, including initiatives to boost productivity, and making progress in commercializing new products with high added value.

As a result of these developments, we enjoyed substantial gains in both sales and earnings. Net sales for the term increased 15.5% over the previous fiscal year, to ¥566,805 million ($4,803,432 thousand), operating income climbed 26.2%, to ¥113,365 million ($960,720 thousand), and net income rose 22.0%, to ¥71,309 million ($604,314 thousand).

Turning to sales of specific products, our mainstay multilayer ceramic capacitors (MLCC) experienced growth, primarily on large capacity, compact, specialized and other high-end products, with sales increasing a substantial 24.0% over the previous year. Sales of surface acoustic wave (SAW) filters also increased considerably thanks to growing demand from mobile phones. Short-range wireless communication modules, especially Bluetooth® modules, enjoyed increased sales, as did power supplies, primarily for flat-panel televisions. There was growth for noise suppression parts such as EMI suppression filters and chip coils, and sales of our GYROSTAR® product for audio/video equipment also increased.

On the profit side, operating income increased 26.2% over the previous year, as lower product prices and other factors negatively affecting income were offset by higher sales, capacity utilization gains from increased production capacity, productivity improvements and other cost cutting activities, yen depreciation, a better product mix thanks to a higher ratio of new products to sales and other income-boosting factors.

Projections for Fiscal Year Ended March 2008

Favorable Market Environment Expected to Continue

For fiscal 2008, we project continuing increases in production of key electronic devices and strong demand for electronic components. Mobile phones will likely continue to enjoy new demand in emerging markets, and handsets are expected to continue to develop in sophistication, largely in developed countries. Good conditions are also expected for digital audio/video products, with major growth projected for flat-panel televisions and strong sales expected for game consoles, led by new models. In the computers and peripherals market, continued growth in demand is anticipated for notebook computers.

Solidifying Our Competitive Advantage with Capital Investment

Based on this outlook, we project net sales in fiscal 2008 to rise 8.5% over the year under review, to ¥615,000 million, which would be a record high for the company.

In terms of profit, while depreciation expenses will likely increase in conjunction with aggressive capital investment, we forecast operating income to rise 7.6%, to ¥122,000 million and net income to increase 9.4%, to ¥78,000 million.

We are planning capital investment of ¥100,000 million, the same as fiscal 2007. The amount will be used to complete production and R&D facilities currently under construction, increase investment in R&D facilities involved in developing new products, and maintain our high level of investment in production facilities. This investment should further solidify our competitive advantage in the market.

*These forward-looking statements are current as of April 27, 2007

Management Issues for Growth

Reinforce Production Capabilities

We are proactively expanding production capacity in Japan to accommodate increasing global demand for electronic components and are constructing production facilities at key domestic sites in preparation for medium-term growth in demand. Overseas, we are working to enhance our production system. In China, where demand is growing at a remarkable pace, we are putting in an integrated MLCC production line in Wuxi and will establish a new company to produce power supplies in Shenzhen, among other initiatives.

Make New Products 40% of Net Sales

We have continually maintained a high ratio of R&D expenses to net sales of 7-8%. Based on a strategy of vertical technology integration, we are working to create new products with high added value by appropriately allocating R&D resources to the three technology areas of materials, manufacturing processes and product design.

Murata has been carrying out initiatives to make new product sales 40% of the overall total, and in the year under review moved a step closer to our goal, achieving 38%, an improvement on the 37% figure of a year ago. Leveraging our robust technological capabilities, we intend to continue to anticipate the needs of customers and develop and commercialize new products, including high capacity and compact MLCC products, high frequency filters and sensors, and short-range wireless communication modules.

Expand Our Business Domain

In order to ensure growth over the long term, we are also working to expand the domain of our business activities by creating new products on an ongoing basis and effectively utilizing outside resources. Murata has actively made use of corporate acquisitions and alliances, acquiring the U.S. startup SyChip, Inc., and initiating a business alliance aimed at entry into the rechargeable lithium ion battery business, for example.

Corporate Social Responsibility Activities

Corporate Governance and Compliance

In consideration of the interests of all stakeholders, we have taken steps to bolster our corporate governance framework, including speedy decision-making, improved management efficiency, and stronger management supervision. The Internal Control Committee was also established to ensure effective internal control as well as to build and operate a Group-wide internal control system by collaborating with related divisions.

As for compliance, we believe it is crucial for management to be proactive and take initiatives. Based on this thinking, the Murata Group has established the Compliance Promotion Committee, an advisory body to assist the president. Additionally, we appointed Compliance Promotion Leaders among employees who help to ensure that all their colleagues are fully aware of compliance issues.

Environmental Initiatives

Aspiring to do its part for the well-being of humanity, the Murata Group mainly develops and manufactures electronic materials and components, which exploit the unique properties of ceramics, and supplies them to customers worldwide. At the same time, we recognize that our production activities and the products themselves have an environmental impact. We at the Murata Group pledge to fully consider the effect of our activities on the environment in every respect. Accordingly, we place the reduction of environmental impact as an integral part of Murata's founding mission statement. We also make concerted efforts throughout the Company to continuously reduce our environmental impact. Finally, we are studying ways to combine our environmental goals with the aim of improving management efficiency.

Contributing to Society

In 1985, the Murata Group established the Murata Science Foundation to mark the fortieth anniversary of the company's founding. Through the foundation we provide grants for academic research, grants for participation in international symposiums and the like, and conduct a variety of other initiatives for the sake of facilitating the development of electronics-related science and technology and contributing to solutions to cultural, societal and scientific problems associated with globalization. In addition, over the past two years a total of 1,540 elementary and middle school students have visited nine of our business sites on field trips. We actively conduct programs to inspire the children's interest in manufacturing and raise their awareness of environmental issues.

Murata's Financial Policies

Basic Policy on Earnings Allocation

Our policy on distributing earnings to shareholders is to prioritize performance-based allocation via cash dividends. We are committed to increasing the dividend in a stable manner by increasing earnings per share while giving consideration to raising long-term corporate value and strengthening the company's foundation. On the basis of this policy we distribute earnings to shareholders through cash dividends after comprehensively considering consolidated performance, the payout ratio, and the level of internal reserves necessary for reinvestment in the company's future. Murata repurchases its own stock as appropriate and endeavors to raise capital efficiency while accommodating changes in the operating environment.

Dividend for Fiscal 2007 and 2008

The annual dividend for fiscal 2007 was ¥90 (interim dividend of ¥40 and year-end dividend of ¥50), an increase of ¥20 per share from the previous term.

We plan to raise the full year dividend for fiscal 2008 by another ¥10, to ¥100 per share (interim dividend of ¥50 and year-end dividend of ¥50). This dividend is based on the current business environment and performance forecasts for fiscal 2008.

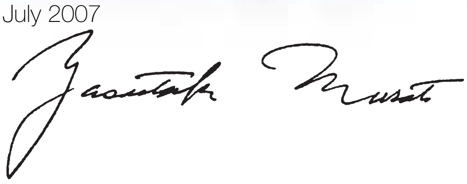
New President Appointed

Yasutaka Murata stepped down from the position of president in June 2007 and became chairman. The company enjoyed steady growth during his tenure, with sales and profits more than doubling in the fifteen years since his appointment in 1991.

Tsuneo Murata has been appointed as the company's new president (he was formerly a vice-president). We intend to continue to contribute to the evolution of an electronics-based society through the development and supply of distinctive electronic components.

Finally, we would like to thank you for your ongoing understanding and support.

July 2007



Yasutaka Murata
Chairman
Statutory Representative Director

Tsuneo Murata
President
Statutory Representative Director

General Business Review

Performance and Achievements of the Group

Overall General Condition

During the period under review, the global electronic market enjoyed a significant growth in demand for electronic components, due to vibrant developments in the production of major products such as mobile phones, personal computers, and digital AV equipment. The functional sophistication of electronic equipment also contributed to the upward trend.
Looking at the market environment segmented by application, the key mobile phone segment within the communication equipment market marked an increase in demand in advanced countries for sophisticated terminals such as third-generation phones and Bluetooth®-equipped models. Demand for mobile phones continued to run strong in China, India, and other emerging economies. In the market for computers and peripheral equipment, demand for notebook computers continued to ride high, while dual-core MPUs found an increasing use. In the AV equipment market, sales of flat-panel TVs using LCDs or plasma display panels (PDPs) were brisk, and new game consoles were released in the latter half of the period. The automotive electronics market was highlighted by a growing use of electronics in automobiles.

The Murata Group responded to this market environment by aggressively increasing production capacity for key products to deal with growing demand, while focusing on improving customer service. To cope with falling product prices, we improved profitability and strengthened the business base by further developing cost reduction activities such as productivity improvement, while pushing forward with the commercialization of new, high-value added products.

The Murata Group Results

	Millions of yen					
Years ended March 31	2007		2006		Growth	
	Amount	*1	Amount	*1	Amount	*2
Net sales	¥566,805	100.0%	¥490,784	100.0%	¥ 76,021	15.5%
Cost of sales	335,869	59.3%	295,958	60.3%	39,911	13.5%
Selling, general and administrative expenses	78,901	13.9%	70,291	14.3%	8,610	12.2%
Research and development expenses	38,670	6.8%	34,696	7.1%	3,974	11.5%
Operating income	113,365	20.0%	89,839	18.3%	23,526	26.2%
Other income (expenses)-net	4,638	0.8%	1,841	0.4%	2,797	151.9%
Income before income taxes	118,003	20.8%	91,680	18.7%	26,323	28.7%
Income taxes	46,694	8.2%	33,232	6.8%	13,462	40.5%
Net income	¥ 71,309	12.6%	¥ 58,448	11.9%	¥ 12,861	22.0%

*1 Ratio to net sales
*2 Ratio against the previous year

The Group results for the period under review are as follows.

[Net Sales]

Net sales increased 15.5% year on year to ¥566,805 million.

The contribution of electronic components, which represent the Group's core business, amounted to ¥564,855 million. By region, our business in Asia was highlighted by a dramatic growth in the sales of components for AV equipment, communication equipment and computers and peripheral equipment in China, and a substantial increase in demand for communication equipment, and computers and peripheral equipment in the ASEAN countries. As a result, net sales in the Asia and Others market grew 23.3% year on year to ¥305,675 million. Net sales in Japan rose 6.8% year on year to ¥142,624 million, mainly due to the sales growth in components for communication equipment, and computers and peripheral equipment. In Europe, sales rose 6.8% from a year earlier to ¥70,444 million, owing to the growth in sales of components for communication equipment and automotive electronics. Sales of components for automotive electronics and distributors increased in the Americas, with net sales from this geographic segment rising 10.7% to ¥46,112 million.

[Operating Income]

Operating income increased 26.2% year on year to ¥113,365 million.

The operating margin (the ratio of operating income to net sales) improved 1.7 percentage points from a year earlier to 20.0%. This is because the negative effects of product price declines were overshadowed by the positive effects of higher net sales, the ongoing introduction of new products, initiatives to reduce the cost of goods sold through cost cutting activities, and the weakening of the yen against the U.S. dollar-an average depreciation of ¥3.71 compared to the previous year.

[Income Before Income Taxes]

Income before income taxes increased 28.7% from a year earlier to ¥118,003 million.

[Net Income]

Net income increased 22.0% year on year to ¥71,309 million.

Capital Investment, Depreciation and Amortization

During the period under review, the Group made capital investments totaling ¥99,651 million, exclusive of consumption tax. This breaks down to ¥63,842 million to expand and rationalize production facilities, ¥19,926 million in purchase of buildings, and ¥6,954 million to expand research and development facilities.

There were no major abandonments or sales that would have a noteworthy impact on production capacity. Depreciation and amortization increased 10.4% from the previous fiscal year to ¥49,817 million.

Financial Position

Total assets as of March 31, 2007 increased ¥105,324 million from March 31, 2006 to ¥1,014,965 million. Liquidity in hand (cash, time deposits, and marketable securities) declined ¥12,107 million from the end of the previous fiscal year to ¥427,457 million. Notes and accounts receivable rose ¥16,434 million and inventories increased ¥19,655 million. Property, plant and equipment climbed ¥51,067 million. In addition, long-term receivables, advances and other assets increased by ¥23,499 million.

Shareholders' equity increased ¥67,499 million compared to the end of last year. However, due to the large increase in total assets, the ratio of shareholders' equity to total assets dropped 1.9 percentage points from March 31, 2006 to 81.1%.

Review of Operations by Product Category

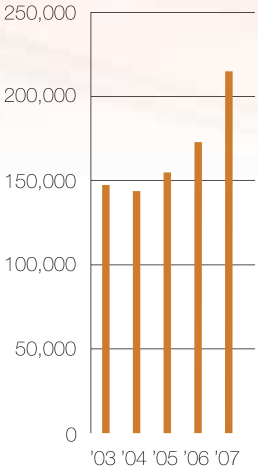
Sales by Product Category

Years ended March 31	Millions of yen					
	2007		2006		Growth	
	Amount	*1	Amount	*1	Amount	*2
Capacitors	¥215,255	38.1%	¥173,598	35.5%	¥ 41,657	24.0%
Piezoelectric Components	81,585	14.4%	73,242	15.0%	8,343	11.4%
Microwave Devices	114,108	20.2%	97,178	19.9%	16,930	17.4%
Module Products	59,306	10.5%	58,303	11.9%	1,003	1.7%
Other Products	94,601	16.8%	86,808	17.7%	7,793	9.0%
Net sales	¥564,855	100.0%	¥489,129	100.0%	¥ 75,726	15.5%

Note: The figures show the sales by product of electronics components and related products.
*1 Composition Ratio
*2 Ratio against the previous year

Capacitors

Sales
(Millions of yen)

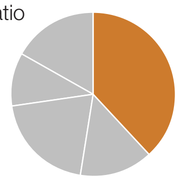


This capacitor category includes monolithic ceramic capacitors, ceramic disc capacitors, and trimmer capacitors.

In the period under review, chip monolithic ceramic capacitors, the main product in this category, showed very strong sales, as large-capacitance products grew sharply in all applications including AV equipment, communication equipment, and computers and peripheral equipment. Small-sized products also marked a significant sales growth in applications for communication equipment. The increasing use of dual-core MPUs led to a major sales gain in application-specific capacitors for computers and peripheral equipment.

As a result, overall net sales increased 24.0% from a year earlier, to ¥215,255 million.

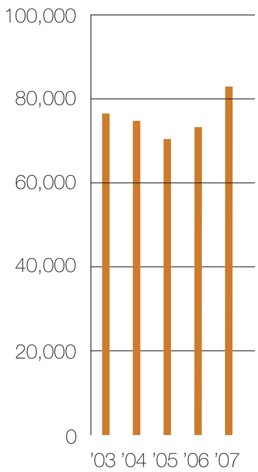
Composition ratio
38.1%



Chip Monolithic Ceramic Capacitors

Piezoelectric Components

Sales
(Millions of yen)

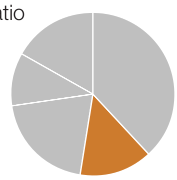


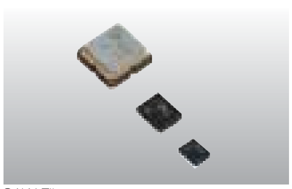
The piezoelectric components category includes ceramic filters, ceramic resonators, SAW (Surface Acoustic Wave) filters, piezoelectric sensors and piezoelectric buzzers.

In the period under review, sales of SAW filters for use in communication equipment grew well above the figures for the previous year. In piezoelectric sensors, sales of ultrasonic sensors for car electronics, and sensors for shock-detection use in HDDs increased. Sales of ceramic resonators for use in AV equipment, and computers and peripheral products suffered a decline. Ceramic filters for use in AV equipment and communication equipment also dropped in sales.

As a result, overall sales posted a year-on-year growth of 11.4%, to ¥81,585 million.

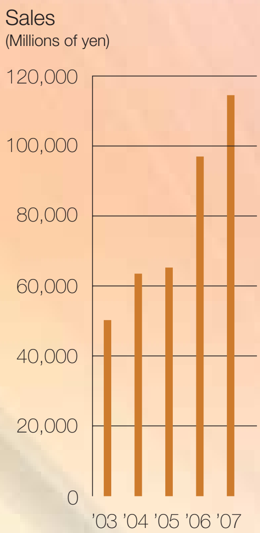
Composition ratio
14.4%





SAW Filters

Microwave Devices

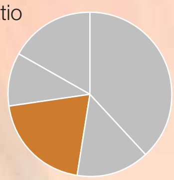


These devices include multilayer ceramic devices, short-range wireless communication modules (including Bluetooth® modules), dielectric filters, isolators and connectors.

In the period under review, short-range wireless communication modules grew dramatically in sales, due to strong demand for mobile phones. Sales of isolators and connectors for communication equipment also increased sharply. In contrast, there was a decline in the sales of multilayer ceramic devices and dielectric filters for communication equipment.

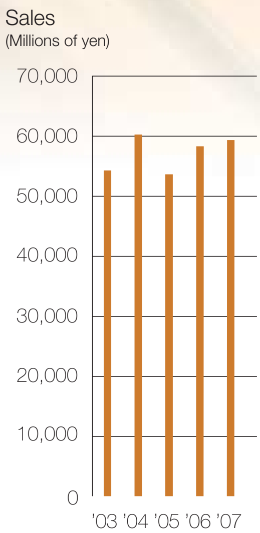
As a result, overall net sales increased 17.4% year on year, to ¥114,108 million.

Composition ratio
20.2%



Bluetooth® Modules

Module Products

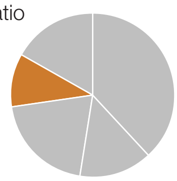


This product category includes circuit modules and power supplies.

In the period under review, sales of power supplies grew substantially, primarily in those for AV equipment such as flat-panel TVs and computers and peripheral equipment. In the circuit modules product line, sales of terrestrial digital tuners for mobile phones increased sharply, but sales of VCOs (voltage controlled oscillators) for communication equipment fell steeply.

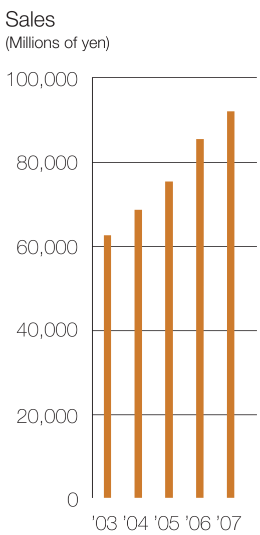
As a result, overall net sales increased 1.7% year on year to ¥59,306 million.

Composition ratio
10.5%



Terrestrial Digital Tuners for Mobile Phones

Other Products

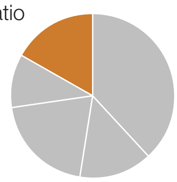


Other products include EMI suppression filters, coils, sensors, and resistors.

In the period under review, sales of EMI suppression filters for AV and communication equipment increased. Sales of chip coils grew sharply, due to strong demand for communication equipment. Among sensors, gyroscopes for use in AV equipment posted an increase in sales.

As a result, overall net sales posted a 9.0% year on year increase to ¥94,601 million.

Composition ratio
16.8%



Piezoelectric Vibrating Gyroscopes
(GYROSTAR®)

Note: Bluetooth® is a registered trademark of Bluetooth SIG, Inc. of the United States.

Review of Operations by Application

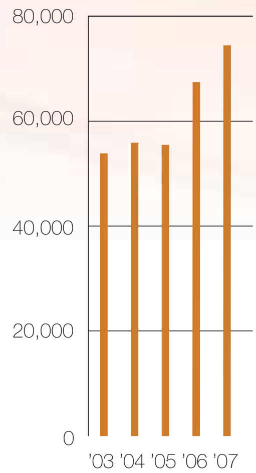
Sales by Application (based on the company's estimate)

Years ended March 31	2007 Amount	*1	2006 Amount	*1	Growth Amount	*2
	Millions of yen					
AV	¥ 74,373	13.2%	¥ 62,420	12.8%	¥ 11,953	19.1%
Communications	230,615	40.8%	204,214	41.7%	26,401	12.9%
Computers and Peripherals	117,199	20.7%	102,277	20.9%	14,922	14.6%
Automotive Electronics	61,453	10.9%	54,870	11.2%	6,583	12.0%
Home and Others	81,215	14.4%	65,348	13.4%	15,867	24.3%
Net sales	¥564,855	100.0%	¥489,129	100.0%	¥ 75,726	15.5%

Note: The figures show the sales by application of electronics components and related products.
*1 Composition Ratio
*2 Ratio against the previous year

Audio/Visual

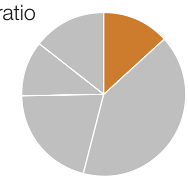
Sales
(Millions of yen)



Capacitors, power supplies and noise suppression filters for LCD and plasma televisions all performed well. Products for game consoles, new models of which came out during the term, also enjoyed substantial growth. Products used in digital cameras experienced growth as well, led by gyros for image stabilization. In the audio market, sales of products used in mobile audio players increased.

As a result of these developments, sales of products for audio and video devices increased 19.1% over the previous year to ¥74,373 million.

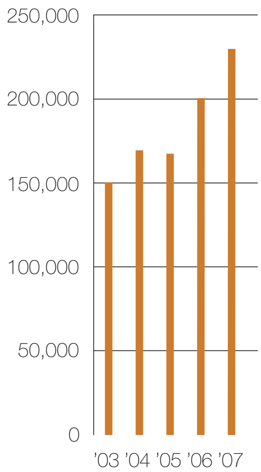
Composition ratio
13.2%



Switching Power Supplies for Flat Panel Displays

Communications

Sales
(Millions of yen)

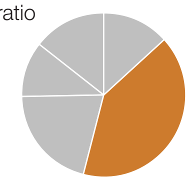


Sales of products for mobile phones, which continue to see market growth, increased significantly over last year. In terms of specific products, sales of Bluetooth® modules rose considerably as did sales of surface acoustic wave filters due to growing demand and large gains in our market share. Capacitors, especially compact models, and chip coils also enjoyed sales growth.

In other segments, sales of products for base stations, wireless LAN devices and fax machines increased, though sales of products used in cordless phones declined.

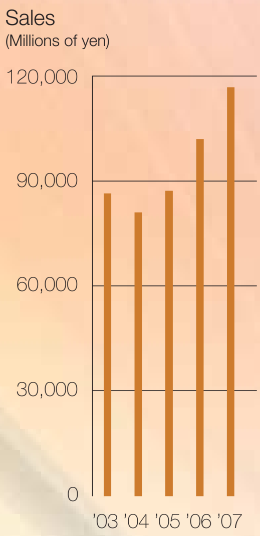
As a result, sales of products for communication devices increased 12.9% over the previous year, to ¥230,615 million.

Composition ratio
40.8%



Elastic Boundary Wave Filters
SAW Filters
SAW Duplexers

Computers and Peripherals

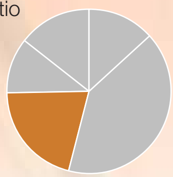


A buoyant notebook computer market and greater use of dual-core MPUs helped large-capacity capacitors and low-ESL capacitors to substantial sales growth.

In the area of peripheral devices, sales of power supplies for printers were brisk.

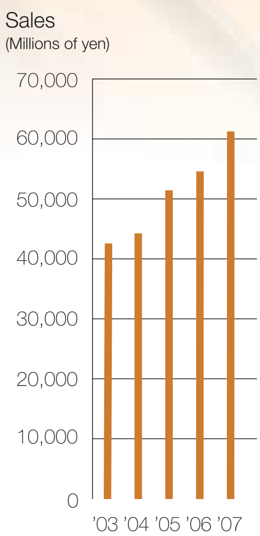
As a result, sales of products used in computers and peripheral devices increased 14.6% over the previous year to ¥117,199 million.

Composition ratio
20.7%



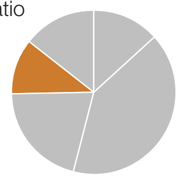
Low-ESL Capacitors

Automotive Electronics



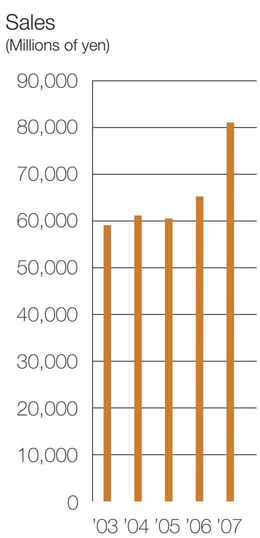
With car navigation systems growing in popularity and increasing use of on-board electronics, sales in this segment rose 12.0% over last year, to ¥61,453 million.

Composition ratio
10.9%



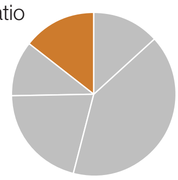
Ceramic Discriminators
SAW Resonators
Ceramic Filters (CERAFIL®) for TPMS

Home Electronics and Others



Products for distributors and other applications performed well, as sales in this segment climbed 24.3% over the previous year, to ¥81,215 million.

Composition ratio
14.4%



Research & Development

The Murata Group firmly believes that quality electronic equipment starts with quality electronic components and quality components start with quality materials. Guided by this principle, we employ an integrated production system that encompasses every stage of the manufacturing process, from materials to finished products. In support of this production system, we conduct R&D activities with an emphasis on the vertical integration of materials, process, design and production engineering technologies. Moreover, we aggressively work to acquire new technologies from outside the group. For example, we are developing lithium-ion secondary batteries for power supplies, and biosensors through alliances with outside companies and have used corporate acquisitions to acquire new technology including the introduction of module technology for wireless communications, integrated passive device technology and software technology.

In recent years, the world's electronics industry has witnessed rapid progress in the development of smaller and thinner devices featuring more sophisticated and diverse capabilities. Furthermore, growing markets for products based on high-frequency and digital technologies, especially wireless equipment such as mobile communication devices and computers, have created new demand for electronic components. Meanwhile, environmental measures, such as cutting CO_2 emissions to prevent global warming and reducing the use of environmentally hazardous substances, are becoming widespread. In response to these trends, the Murata Group has not only built frameworks and systems for environmental management that adhere to the Restriction of Hazardous Substances (EU-RoHS) Directive, but is also directing efforts to meet other upcoming standards such as China RoHS, REACH and EuP. Aiming to supply smaller products by using multi-layer technologies and micro-wave technologies, Murata is also developing high-frequency and noise suppression components as well as circuit modules and other products that are designed as chip profile. This will help reduce the energy consumption as well as the volume of raw materials used in manufacturing.

The Group's research and development framework under direct Headquarters control was reorganized on January 1, 2007. A new Technology and Business Development Unit was established to put into practice R&D themes in response to needs and efficiently commercialize the results of R&D endeavors. This includes an R&D Center in which the development of materials and functional devices has been integrated and unified. Also, in preparation for the future, the Research Center for Next Generation Technology, which explores potential new areas of business for Murata, was established in Kyoto Research Park, and we are actively pushing ahead with information exchange and joint research with universities and external research organizations. A new building has been constructed at the Yasu Plant, our largest research and development base, to enhance R&D activities in the energy field, into which Murata recently expanded its business. Activities at this facility are focused on early commercialization of energy-concerned products. We also began construction at the end of 2006 on a new R&D facility adjacent to Murata Headquarters, offering greater customer accessibility.

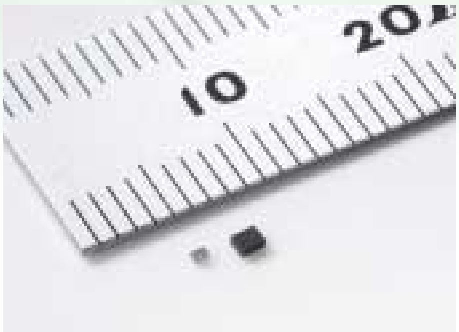
The Murata Group's mainstay business consists of the development, manufacture and sale of electronic components and related products. All the products in this business are similar in terms of applications, production methods, processing, markets and sales methods. Due to these similarities, R&D activities for these products are discussed collectively in this report. Research and development expenditure during the fiscal year under review totaled ¥38,670 million. Major R&D achievements for the term are summarized below.

Commercialization of Microchip Transformers (Balun Transformers) for One-Segment TV Tuners

We commercialized a microchip transformer (balun transformer) for use in the antenna inputs of TV tuner circuits for compact mobile devices that support one-segment broadcasting.

Compared to conventional products, the coil type reduces mounting space by approximately 75% and height by around 40%, while the film type cuts mounting space by approximately 95% and has a profile that is around 80% lower. These new transformers will help significantly reduce the overall size and thickness of mobile devices compatible with one-segment broadcasting, which are expected to grow in popularity going forward.

Commercialization of World's Smallest Elastic Boundary Wave Filter for Mobile Phones



Using an elastic boundary wave (a wave that propagates on the surface boundary between two cohered substances) as the propagation wave enabled us to successfully commercialize a simple planar (flat, film laminated structure) device without the hollow structure required by surface wave filters. It also allowed us to make the device more compact.

The product's dimensions are 0.8mm x 0.6mm x 0.365mm in size, which is around 31% smaller in terms of surface area than our conventional product (surface acoustic wave filter). The lack of a hollow structure makes it highly reliable and potentially simplifies module design considerations and shortens development times. The product was commercialized for use in mobile phones, but we also have plans to develop it for other wireless communications applications.

Corporate Governance

Approach to Corporate Governance

Corporate governance is one of the highest priorities of the management of the Murata Group. Taking into consideration the interests of all stakeholders, we have addressed this priority by building a sound corporate management structure and system. Concrete actions include improving management efficiency, strengthening management-monitoring functions, and ensuring thorough compliance with all relevant laws and regulations.

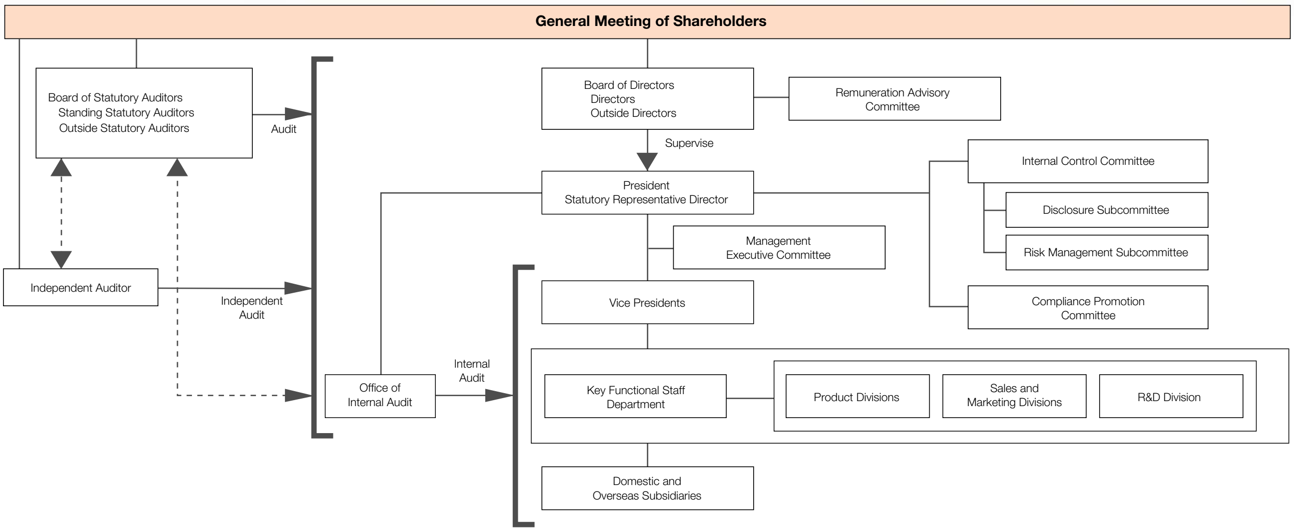
Implementation of Measures for Corporate Governance
Basic Corporate Structure

The Company has adopted the board of statutory auditors system. As of June 28, 2007, the Company's Board of Directors is comprised of 10 directors, 2 of whom are from outside the Company. The Company has 5 statutory auditors, 3 of whom are outside statutory auditors. The Company has also introduced a system of vice presidents, under which it has separated corporate decision-making on management policies and critical corporate activities and management of day-to-day business operations to further reinforce supervisory and operational functions. The Board focuses on its primary responsibilities of making decisions on management policies and critical business operations, as well as monitoring the performance of the Statutory Representative Directors. In addition, the Executive Conference functions as a deliberative body to assist the Board of Directors and Statutory Representative Directors in their decision-making. Comprised of Statutory Representative Directors, and other directors who occupy Senior Vice President positions or above, the conference deliberates and receives reports concerning matters stipulated by internal company regulations. Regarding compensation for Directors and Vice Presidents, the Remuneration Advisory Committee, including Outside Directors, has also been established. The committee is responsible for evaluating, reviewing and revising the remuneration system for Directors and Vice Presidents.

Auditing policies and plans are set by the Board of Statutory Auditors. Based on these guidelines, Statutory Auditors attend Board of Directors' meetings and other important meetings. Statutory Auditors are further responsible for conducting detailed audits of the performance of Directors from the standpoint of legal compliance and adequacy, including inspections of the operations and finances of the Company.

In addition, we have the Internal Control Committee, which was established as an advisory body to the President for the purpose of the maintenance and continuous improvement of the system for assuring appropriateness of operations (internal control system). We also have the Compliance Promotion Committee, which serves as another advisory body to the President, to develop and implement a compliance system.

Organizational Chart of the Company



Development of Internal Control System

The Internal Control Committee evaluates the development and operational status of the Group's internal control system. Through the committee's evaluation, related divisions collaborate in supporting and working to constantly improve a Group-wide internal control system to guarantee reliable financial reporting. In addition, for the timely and appropriate disclosure of corporate information, the Disclosure Subcommittee has been established under the oversight of the Internal Control Committee to decide which information requires disclosure and, if so, deliberate the content of disclosure materials.

In compliance, the Murata Group has enacted the "Corporate Ethics Policy and Code of Conduct" and the "Compliance Program Regulation" so that Directors and all the Murata Group employees base their business activities on higher ethical principles. This code, which is disseminated throughout the Group, outlines corporate ethical standards and specific codes of conduct from legal and ethical standpoints. The Compliance Promotion Committee was established to ensure compliance with these codes of conduct, and to prevent violation of ethics, laws, and regulations. Moreover, in order to deal with compliance-related problems appropriately, report acceptance points are established internally and externally, and measures are taken to ensure no disadvantage to persons who report.

In terms of risk management, to cope with the various risks of business activity, the Risk Management Subcommittee has been established within the Internal Control Committee for screening of all-Company risk management systems and policies. In addition, the Group has set up an organization in charge of risk management that includes risk identification, assessment, and countermeasures. Each core operational division also takes responsibility for managing risks in its everyday tasks and preventing the occurrence of problems.

Collaboration Between the Statutory Auditors and the Office of Internal Audit

The organizationally independent internal auditing department (the Office of Internal Audit) stays abreast and grants confirmation of the auditing policies and plans formulated by each core operational division (e.g., General Administration, Personnel & Industrial Relations, Accounting & Controller Department, others). The office also oversees audits performed under the auspices of the Group's internal control system, evaluating audit effectiveness once audits are conducted, among other tasks.

On a regular basis, the Statutory Auditors and the Board of Statutory Auditors exchange viewpoints with the Office of Internal Audit, present the board's auditing policies and plans to the office, and receive reports from it on internal auditing plans, implementation, and other matters concerning the internal auditing system. The Statutory Auditors and the Board also debate the adequacy of information provided by the office as part of the close working relationship maintained with it in an effort to ensure audit efficacy.

Collaboration Between the Statutory Auditors and the Independent Auditor

The Company has signed an agreement with Deloitte Touche Tohmatsu, under which Ikuo Yoshikawa, Designated Partner and Engagement Partner, and Koichiro Tsukuda, Designated Partner and Engagement Partner, both of whom are certified public accountants, take charge of the audit, along with 10 certified public accountants, 9 assistant certified public accountants, and 5 other assistants. The Company is audited pursuant to the Securities and Exchange Law and the Corporate Law. The Company also clarifies various issues related to accounting procedures and auditing whenever necessary. The independent auditor also closely collaborates with the Statutory Auditors and the Board of Statutory Auditors by holding regular meetings and reporting on the plan for internal audits and progress. Finally, to ensure effective auditing, the Statutory Auditors accompany the independent auditor when it conducts on-site audits at the Company.

Relationship Between Outside Directors and Outside Statutory Auditors

Outside Director Yasuro Tanahashi is Representative Director and Chairman of NS Solutions Corporation. Our Company receives consulting services in such fields as system planning from NS Solutions. The Company has no conflict of interests with the other outside director and 3 outside statutory auditors.

Compensation to Directors and Statutory Auditors

Compensation paid to directors and statutory auditors during the period under review (April 1, 2006 to March 31, 2007) was as follows:

Item	Compensation (millions of yen)
Directors (incl. Outside Directors)	412 (20)
Statutory auditors (incl. Outside Statutory Auditors)	63 (19)
Total (incl. Outside Directors and Statutory Auditors)	476 (40)

Notes:
1. The figures in the table exclude employee salaries and bonuses received by Directors who concurrently serve as Vice Presidents.
2. As of the date of the Ordinary General Meeting of Shareholders in June 2004, the Company abolished retirement benefits for directors and Statutory Auditors. Based on the resolution made at the meeting, an amount commensurate to the retirement benefits payable as of the date of the meeting was paid to each director and statutory auditor upon his or her retirement.
3. In addition to the above, ¥9 million in compensation expenses related to stock options granted to Directors and Statutory auditors ahead of the implementation of the Corporate Law was posted to the consolidated statement of income for the period under review. No stock options were granted in the period under review.

Compensation to Independent Auditors

Details of the compensation paid to the Company's independent auditors, Deloitte Touche Tohmatsu, are as follows.

	Item	Compensation (millions of yen)
(1)	Compensation for services under Article 2, Paragraph 1 of the Certified Public Accountant Law of Japan (in millions of yen)	70
(2)	Compensation other than the above (in millions of yen)	2

Notes:
1. The audit contract between the Company and the independent auditors does not distinguish between compensation for audits based on the Corporate Law and compensation for audits based on the Securities and Exchange Law, etc. Accordingly, the figure for (1) in the above table includes the sum of these amounts.
2. The Company pays compensation to the independent auditors for reviews of the effectiveness of internal control over financial reporting and other services that are not services defined by Article 2, Paragraph 1 of the Certified Public Accountants Law of Japan.
3. Among the Company's important subsidiaries, Murata Electronics North America, Inc., Murata Electronics Singapore (Pte.) Ltd. and Murata Company Limited are audited by certified public accountants or audit firms (including overseas firms with equivalent qualifications) other than the Company's independent auditors. This is limited to those audits provided for by the Corporate Law and Securities and Exchange Law, or equivalent overseas laws.

Summary of Limited Liability Agreements

Under Article 423, Paragraph 1 of the Corporate Law, the Company has concluded limited liability agreements with its Outside Directors and Outside Statutory Auditors. The upper limit of liability the agreements set is equivalent to the minimum prescribed in Article 425, Paragraph 1 of the Corporate Law.

Prescribed Number of Directors

The Company has prescribed in Articles of Incorporation that the number of Directors shall be no more than 15.

Resolution Regarding Repurchase of the Company's Own Shares

In accordance with the provisions of Paragraph 2 of Article 165 of the Corporate Law, the Company has prescribed in Articles of Incorporation that it may repurchase its own shares through market transactions or other methods pursuant to Paragraph 2 of the said Article by a resolution of the Board of Directors. The purpose of this provision is to enable execution of flexible management that responds to changes in the business environment.

Requirements for Special Resolutions at the General Meeting of Shareholders

Resolutions stipulated in Paragraph 2 of Article 309 of the Corporate Law shall be adopted by at least two-thirds of the votes of shareholders present at the meeting, where those shareholders have at least one-third of the voting rights of the shareholders who are entitled to exercise their voting rights thereat. Similarly, in accordance with the provisions of Article 341 of the Corporate Law, the Company has prescribed in the Articles of Incorporation that resolutions for the appointment of directors and statutory auditors shall be adopted by a simple majority of the votes of shareholders present at the meeting, where those shareholders have at least one-third of the voting rights of the shareholders who are entitled to exercise their voting rights thereat. The purpose of these provisions is to better ensure a quorum.

Members of the Board (as of July 1, 2007)

Board of Directors

Yasutaka Murata
Tsuneo Murata
Yoshitaka Fujita
Seiichi Arai
Yukio Sakabe
Atsushi Inoue
Hideharu Ieki
Koji Makino
Koji Tajika (Outside Director)
Yasuro Tanahashi (Outside Director)

Statutory Representative Directors

Chairman
    Yasutaka Murata
President
    Tsuneo Murata

Statutory Auditors

Standing Statutory Auditors
    Motohiko Nakayama
    Kunisaburo Tomono
Statutory Auditors
    Keiichi Yokobori (Outside Auditor)
    Tetsuya Hiraoka (Outside Auditor)
    Go Kawada (Outside Auditor)

Vice Presidents

Corporate Senior Executive Vice President
    Yoshitaka Fujita
Senior Executive Vice Presidents
    Seiichi Arai
    Yukio Sakabe
Executive Vice Presidents
    Atsushi Inoue
    Harufumi Mandai
Senior Fellow
    Yohei Ishikawa
Executive Vice Presidents
    Shinji Ushiro
    Hideharu Ieki
Vice Presidents
    Kazuya Togawa
    Hideo Sakamoto
    Fumio Sasaki
    Koji Makino
Fellow
    Michio Kadota
Vice Presidents
    Nobuo Tanaka
    Hiroshi Takagi
    Masao Nishimura
    Masaro Ito

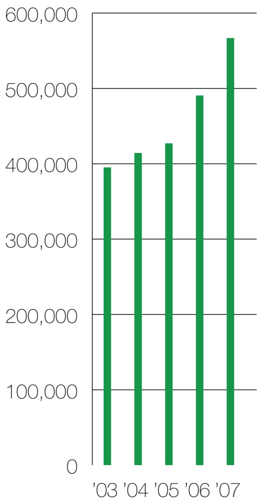
Financial Data Section

Contents

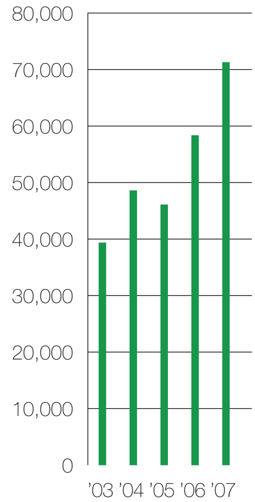
Financial Data

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2003–2007

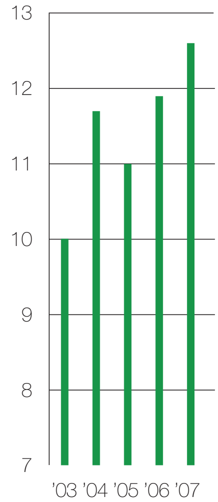
Net sales
(Millions of yen)



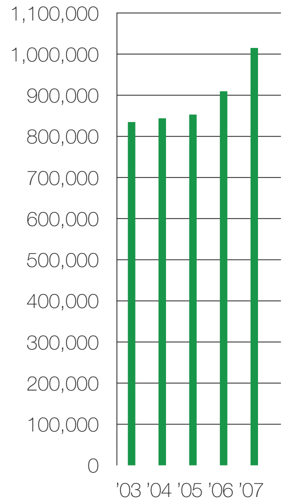
Net income
(Millions of yen)



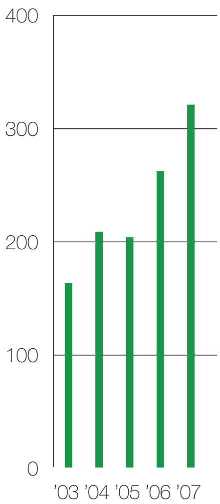
Return on net sales
(%)



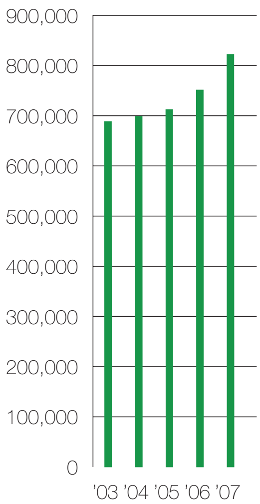
Total assets
(Millions of yen)



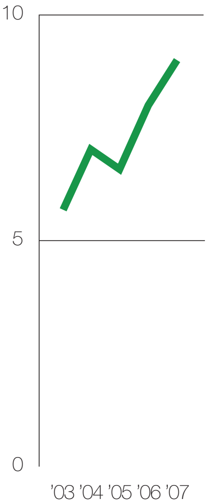
Diluted earnings per share*1 (Yen)



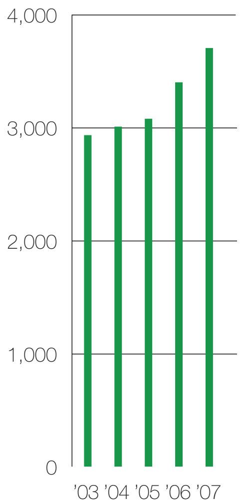
Shareholders' equity
(Millions of yen)



Return on equity (ROE)
(%)

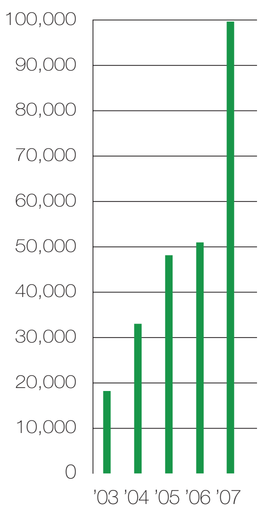


Shareholders' equity per share*2 (Yen)

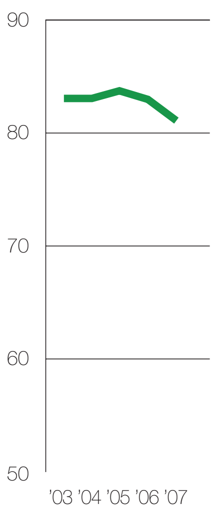


*1 Based on the average number of common shares outstanding and common equivalent shares outstanding such as those related to stock options.
*2 Based on the number of common shares outstanding at term-end.

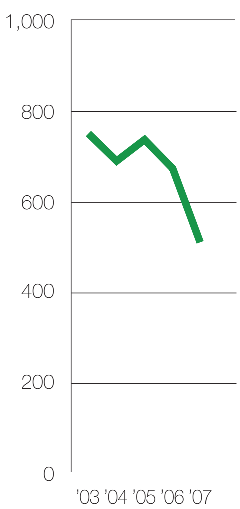
Capital investment
(Millions of yen)



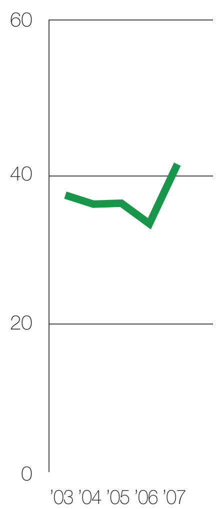
Shareholders' equity ratio (%)



Current ratio
(%)



Fixed assets ratio
(%)



Segment Information

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2007 and 2006

Geographic Segment Information

	Millions of yen					
2007	Japan	The Americas	Europe	Asia	Corporate and eliminations	Consolidated
Unaffiliated customers	¥233,284	¥ 45,858	¥ 51,713	¥235,950	–	¥566,805
Intersegment	233,178	9	2	25,519	¥(258,708)	–
Total revenue	466,462	45,867	51,715	261,469	(258,708)	566,805
Operating costs and expenses	376,097	46,991	49,380	244,488	(263,516)	453,440
Operating income (loss)	90,365	(1,124)	2,335	16,981	4,808	113,365
Assets	445,817	29,924	21,941	121,029	396,254	1,014,965

	Millions of yen					
2006	Japan	The Americas	Europe	Asia	Corporate and eliminations	Consolidated
Unaffiliated customers	¥223,893	¥ 37,565	¥ 48,431	¥180,895	–	¥490,784
Intersegment	182,222	8	13	19,621	¥(201,864)	–
Total revenue	406,115	37,573	48,444	200,516	(201,864)	490,784
Operating costs and expenses	335,244	35,027	46,164	189,583	(205,073)	400,945
Operating income	70,871	2,546	2,280	10,933	3,209	89,839
Assets	359,054	19,832	23,432	97,496	409,827	909,641

	Thousands of U.S. dollars					
2007	Japan	The Americas	Europe	Asia	Corporate and eliminations	Consolidated
Unaffiliated customers	$1,976,983	$ 388,627	$ 438,246	$1,999,576	–	$4,803,432
Intersegment	1,976,085	76	17	216,263	$(2,192,441)	–
Total revenue	3,953,068	388,703	438,263	2,215,839	(2,192,441)	4,803,432
Operating costs and expenses	3,187,263	398,228	418,475	2,071,932	(2,233,186)	3,842,712
Operating income (loss)	765,805	(9,525)	19,788	143,907	40,745	960,720
Assets	3,778,110	253,593	185,941	1,025,669	3,358,085	8,601,398

Overseas Sales

	Millions of yen			
2007	The Americas	Europe	Asia and Others	Total
Overseas sales	¥ 46,112	¥ 70,444	¥305,675	¥422,231
Consolidated sales				566,805
Percentage	8.2%	12.4%	53.9%	74.5%

	Millions of yen			
2006	The Americas	Europe	Asia and Others	Total
Overseas sales	¥ 41,665	¥ 65,944	¥247,995	¥355,604
Consolidated sales				490,784
Percentage	8.5%	13.5%	50.5%	72.5%

	Thousands of U.S. dollars			
2007	The Americas	Europe	Asia and Others	Total
Overseas sales	$ 390,780	$ 596,983	$2,590,466	$3,578,229
Consolidated sales				4,803,432

Note: The segment information is based on Japanese G. A. A. P.

Production, Order and Backlog by Product

Murata Manufacturing Co., Ltd. and Subsidiaries
Year ended March 31, 2007

	Millions of yen	Component ratio	Ratio against the previous year	Thousands of U.S. dollars
	2007			
Production by Product		%	%	
Capacitors	¥232,614	39.3	33.9	$1,971,305
Piezoelectric Components	84,727	14.3	18.9	718,025
Microwave Devices	116,350	19.7	14.5	986,017
Module Products	59,073	10.0	0.7	500,619
Other Products	98,880	16.7	10.7	837,966
Total	¥591,644	100.0	19.6	$5,013,932

*1 Figures are based on production quantity and sales price to customers.
*2 Exclusive of consumption taxes
*3 Production amounts of the foreign subsidiaries were translated into Japanese yen at average exchange rates for periods.
*4 The tables by product indicate production, order and backlog of electronics components and related products.
*5 The total production, order and backlog in Capacitors for this year have increased greatly compared to the previous year because the order performed well in the Companies' main market such as AV, communication and computers and peripherals equipment market.

	Millions of yen	Component ratio	Ratio against the previous year	Thousands of U.S. dollars
	2007			
Order by Product		%	%	
Capacitors	¥224,434	39.1	23.8	$1,901,983
Piezoelectric Components	81,804	14.3	10.0	693,254
Microwave Devices	113,763	19.8	17.5	964,093
Module Products	59,478	10.4	1.3	504,051
Other Products	94,054	16.4	5.9	797,068
Total	¥573,533	100.0	14.7	$4,860,449

*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
	2007			
Backlog by Product		%	%	
Capacitors	¥ 29,838	49.5	44.4	$252,865
Piezoelectric Components	7,497	12.4	3.0	63,534
Microwave Devices	5,837	9.7	(5.6)	49,466
Module Products	7,544	12.5	2.3	63,932
Other Products	9,600	15.9	(5.4)	81,356
Total	¥ 60,316	100.0	16.8	$511,153

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

Capital Investment

Murata Manufacturing Co., Ltd. and Subsidiaries
Year ended March 31, 2007

1) Capital Investment for the fiscal year ended March 2007 amounted to ¥99,651 million ($844,500 thousand). Major capital investment included expansion and rationalization of production facilities, construction of buildings and expansion of R&D facilities.

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

	Millions of yen				
2007	Land	Buildings	Machinery and equipment	Construction in progress	Total
Parent Company					
Plant, Office and other					
Head Office in Kyoto	¥ 170	¥ 1,311	¥ 1,067	¥ 51	¥ 2,601
Yokaichi Plant in Shiga	436	6,730	7,569	655	15,391
Yasu Plant in Shiga	7,260	15,132	11,160	566	34,119
Yokohama Technical Center in Kanagawa	3,002	2,642	1,234	16	6,897
Other	6,584	981	85	0	7,650

	Millions of yen				
2007	Land	Buildings	Machinery and equipment	Construction in progress	Total
Domestic subsidiaries					
Company Name					
Fukui Murata Manufacturing Co., Ltd.	¥ 2,025	¥13,918	¥24,717	¥ 3,590	¥44,250
Izumo Murata Manufacturing Co., Ltd.	1,244	8,525	17,630	2,345	29,744
Kanazawa Murata Manufacturing Co., Ltd.	1,261	4,467	10,330	4,835	20,893
Okayama Murata Manufacturing Co., Ltd.	–	5,230	7,765	5,806	18,801
Murata Land & Building Co., Ltd.	4,734	11,599	23	269	16,625
Toyama Murata Manufacturing Co., Ltd.	1,471	2,787	6,158	405	10,821

	Millions of yen				
2007	Land	Buildings	Machinery and equipment	Construction in progress	Total
Foreign subsidiaries					
Company Name					
Murata Electronics Singapore (Pte.) Ltd.	–	¥3,493	¥5,650	¥ 820	¥9,963
Wuxi Murata Electronics Co., Ltd.	–	3,678	5,242	264	9,184
Murata Electronics (Thailand), Ltd.	¥ 159	1,099	2,628	35	3,921
Shenzhen Murata Technology Co., Ltd.	–	2,865	246	–	3,111

Consolidated Balance Sheets

Murata Manufacturing Co., Ltd. and Subsidiaries
March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 2)
ASSETS	2007	2006	2007
Current assets:			
Cash	¥ 29,133	¥ 33,877	$ 246,890
Time deposits	77,903	92,506	660,195
Marketable securities (Note 3)	320,421	313,181	2,715,432
Notes and accounts receivable:			
Trade notes	7,347	9,036	62,263
Trade accounts	121,896	103,119	1,033,017
Allowance for doubtful notes and accounts	(1,810)	(1,156)	(15,339)
Inventories (Note 4)	86,074	66,419	729,441
Deferred income taxes (Note 9)	22,889	18,627	193,975
Prepaid expenses and other	9,059	5,778	76,770
Total current assets	672,912	641,387	5,702,644
Property, plant and equipment:			
Land	41,107	40,909	348,364
Buildings	225,310	205,752	1,909,407
Machinery and equipment	480,449	437,714	4,071,602
Construction in progress	25,519	13,992	216,263
Total	772,385	698,367	6,545,636
Accumulated depreciation	(488,441)	(465,490)	(4,139,331)
Net property, plant and equipment	283,944	232,877	2,406,305
Investments and other assets:			
Investments (Note 3)	17,122	19,674	145,102
Deferred income taxes (Note 9)	6,442	4,657	54,593
Long-term receivables, advances and other (Notes 6 and 16)	34,545	11,046	292,754
Total investments and other assets	58,109	35,377	492,449
Total assets	¥1,014,965	¥ 909,641	$8,601,398

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars (Note 2) 2007
Current liabilities:			
Short-term borrowings (Note 5)	¥ 13,114	¥ 8,556	$ 111,136
Trade notes payable	4,380	1,794	37,119
Trade accounts payable	33,723	27,089	285,788
Accrued payroll and bonuses	20,806	19,225	176,322
Income taxes payable	29,465	17,863	249,703
Accrued expenses and other (Note 6)	30,032	20,587	254,508
Total current liabilities	131,520	95,114	1,114,576
Long-term liabilities:			
Long-term debt (Note 5)	24	526	203
Termination and retirement benefits (Note 6)	40,390	47,296	342,288
Deferred income taxes (Note 9)	19,452	10,631	164,848
Other	686	680	5,814
Total long-term liabilities	60,552	59,133	513,153
Commitments and contingent liabilities (Note 13)			
Shareholders' equity (Notes 8 and 17):			
Common stock (authorized 581,000,000 shares in 2007 and 2006; issued 225,263,592 shares in 2007 and 2006)	69,377	69,377	587,941
Capital surplus	102,363	102,228	867,483
Retained earnings	655,240	601,685	5,552,881
Accumulated other comprehensive income (loss):			
Unrealized gains on securities	5,368	5,992	45,492
Minimum pension liability adjustments	–	(529)	–
Pension liability adjustments	8,466	–	71,746
Unrealized losses on derivative instruments	(29)	(33)	(246)
Foreign currency translation adjustments	384	(4,649)	3,254
Total accumulated other comprehensive income	14,189	781	120,246
Treasury stock, at cost 3,281,042 shares in 2007 and 3,356,091 shares in 2006	(18,276)	(18,677)	(154,882)
Total shareholders' equity	822,893	755,394	6,973,669
Total liabilities and shareholders' equity	¥1,014,965	¥ 909,641	$8,601,398

Consolidated Statements of Income

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2007	2006	2005	2007
Net sales	¥ 566,805	¥ 490,784	¥ 424,468	$4,803,432
Operating costs and expenses:				
Cost of sales	335,869	295,958	255,604	2,846,347
Selling, general and administrative	78,901	70,291	66,504	668,653
Research and development	38,670	34,696	32,845	327,712
Total operating costs and expenses	453,440	400,945	354,953	3,842,712
Operating income	113,365	89,839	69,515	960,720
Other income (expenses):				
Interest and dividend income	3,898	2,326	1,750	33,034
Interest expense	(342)	(201)	(129)	(2,898)
Foreign currency exchange loss	(1,908)	(1,730)	(560)	(16,170)
Other-net	2,990	1,446	2,329	25,339
Other income (expenses)-net	4,638	1,841	3,390	39,305
Income before income taxes	118,003	91,680	72,905	1,000,025
Income taxes (Note 9)	46,694	33,232	26,327	395,711
Net income	¥ 71,309	¥ 58,448	¥ 46,578	$ 604,314

	Yen			U.S. dollars (Note 2)
Amounts per share (Note 11):				
Basic earnings per share:	¥ 321.29	¥ 262.49	¥ 204.99	$ 2.72
Diluted earnings per share:	¥ 321.22	¥ 262.47	¥ 204.99	$ 2.72
Cash dividends per share	¥ 80.00	¥ 55.00	¥ 50.00	$ 0.68

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2007	2006	2005	2007
Net income	¥ 71,309	¥ 58,448	¥ 46,578	$ 604,314
Other comprehensive income (loss), net of tax (Note 12):				
Unrealized gains (losses) on securities	(624)	2,338	49	(5,288)
Minimum pension liability adjustments	(31)	434	74	(263)
Unrealized gains (losses) on derivative instruments	4	153	(288)	34
Foreign currency translation adjustments	5,033	9,541	3,537	42,652
Other comprehensive income	4,382	12,466	3,372	37,135
Comprehensive income	¥ 75,691	¥ 70,914	¥ 49,950	$ 641,449

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2007, 2006 and 2005

	Number of common shares issued	Millions of yen				
		Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock
Balance at March 31, 2004	234,263,592	¥ 69,377	¥102,222	¥571,478	¥ (15,057)	¥ (27,083)
Purchases of treasury stock at cost						(27,172)
Retirement of treasury stock	(9,000,000)			(51,138)		51,138
Net income				46,578		
Cash dividends, ¥50.00 per share				(11,406)		
Other comprehensive income, net of tax					3,372	
Balance at March 31, 2005	225,263,592	69,377	102,222	555,512	(11,685)	(3,117)
Purchases of treasury stock at cost						(15,609)
Exercise of stock options			6			49
Net income				58,448		
Cash dividends, ¥55.00 per share				(12,275)		
Other comprehensive income, net of tax					12,466	
Balance at March 31, 2006	225,263,592	69,377	102,228	601,685	781	(18,677)
Purchases of treasury stock at cost						(53)
Exercise of stock options			54			454
Stock-based compensation expense			81			
Net income				71,309		
Cash dividends, ¥80.00 per share				(17,754)		
Other comprehensive income, net of tax					4,382	
Adjustment to initially apply FASB Statement No. 158, net of tax					9,026	
Balance at March 31, 2007	225,263,592	¥ 69,377	¥102,363	¥655,240	¥ 14,189	¥ (18,276)

	Thousands of U.S. dollars (Note 2)				
	Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock
Balance at March 31, 2006	$587,941	$866,339	$5,099,025	$ 6,619	$(158,280)
Purchases of treasury stock at cost					(449)
Exercise of stock options		458			3,847
Stock-based compensation expense		686			
Net income			604,314		
Cash dividends, $0.68 per share			(150,458)		
Other comprehensive income, net of tax				37,135	
Adjustment to initially apply FASB Statement No. 158, net of tax				76,492	
Balance at March 31, 2007	$587,941	$867,483	$5,552,881	$120,246	$(154,882)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2007	2006	2005	2007
Operating activities:				
Net income	¥ 71,309	¥ 58,448	¥ 46,578	$ 604,314
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	49,817	45,139	42,384	422,178
Losses on sales and disposals of property, plant and equipment	461	315	1,112	3,907
Impairment losses on long-lived assets	428	639	1,767	3,627
Gains on sales of securities	(143)	(71)	(1,449)	(1,212)
Provision for termination and retirement benefits, less payments	(792)	704	4,016	(6,712)
Deferred income taxes	(2,179)	(1,347)	(3,231)	(18,466)
Changes in assets and liabilities:				
Decrease (increase) in trade notes and accounts receivable	(14,186)	(19,895)	7,005	(120,220)
Increase in inventories	(18,584)	(5,302)	(3,705)	(157,492)
Decrease (increase) in prepaid expenses and other	(3,024)	(1,447)	3,627	(25,627)
Increase (decrease) in trade notes and accounts payable	8,620	10,001	(1,018)	73,051
Increase (decrease) in accrued payroll and bonuses	1,498	1,698	(350)	12,695
Increase (decrease) in income taxes payable	11,490	2,058	(30)	97,373
Increase (decrease) in accrued expenses and other	9,116	633	(6,944)	77,254
Other–net	2,280	431	533	19,322
Net cash provided by operating activities	116,111	92,004	90,295	983,992
Investing activities:				
Capital expenditures	(99,651)	(51,040)	(48,033)	(844,500)
Payment for purchases of investments and other	(4,437)	(4,299)	(1,055)	(37,602)
Net decrease (increase) in marketable securities	(5,072)	17,929	24,996	(42,983)
Increase in long–term deposits	(1,000)	(1,000)	–	(8,475)
Proceeds from sales of property, plant and equipment	374	817	309	3,170
Proceeds from sales of investments	1,195	119	1,799	10,127
Acquisition of subsidiaries, net of cash acquired	(15,390)	–	–	(130,424)
Increase in time deposits	(881)	–	–	(7,466)
Other	20	5	8	170
Net cash used in investing activities	(124,842)	(37,469)	(21,976)	(1,057,983)
Financing activities:				
Net increase in short–term borrowings	4,025	2,458	70	34,110
Repayment of long–term debt	(500)	(500)	–	(4,237)
Dividends paid	(17,754)	(12,275)	(11,406)	(150,458)
Payment for purchases of treasury stock	(53)	(15,609)	(27,172)	(449)
Proceeds from exercise of stock options	508	55	–	4,305
Other	(3)	(2)	(6)	(25)
Net cash used in financing activities	(13,777)	(25,873)	(38,514)	(116,754)
Effect of exchange rate changes on cash and cash equivalents	2,280	4,050	1,962	19,321
Net increase (decrease) in cash and cash equivalents	(20,228)	32,712	31,767	(171,424)
Cash and cash equivalents at beginning of year	126,383	93,671	61,904	1,071,043
Cash and cash equivalents at end of year	¥106,155	¥126,383	¥ 93,671	$ 899,619
Additional cash flow information:				
Interest paid	¥ 331	¥ 192	¥ 127	$ 2,805
Income taxes paid	37,335	32,503	29,903	316,398
Additional cash and cash equivalents information:				
Cash	¥ 29,133	¥ 33,877	¥ 30,964	$ 246,890
Time deposits	77,903	92,506	62,707	660,195
Time deposits with the original maturities over three months	(881)	–	–	(7,466)
Cash and cash equivalents at end of year	¥106,155	¥126,383	¥ 93,671	$ 899,619
Non-cash financing activities:				
Decrease in retained earnings due to retirement of treasury stock	–	–	¥ 51,138	–

See notes to consolidated financial statements.

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 in numerous countries, with Japan, North America and certain other Asian and European countries as its primary markets. The Companies' major product groups are ceramic capacitors, piezoelectric components, microwave devices and module products, which 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, except for the omission of certain presentation of segment information required by Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information."

The principal adjustments to amounts recorded in the Companies' books of account include the measurement of net periodic cost for defined benefit retirement plans, the accrual of compensated absences, accounting for derivatives, and the provision for deferred income taxes relating to these adjustments.

(c) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. All significant intercompany items have been eliminated in consolidation.

(d) Cash and cash equivalents

The Companies consider cash and time deposits with original maturities of three months or less as cash and cash equivalents. Such time deposits may be withdrawn on demand without diminution of principal.

(e) Marketable securities and investments

Under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," the Companies classify all debt securities and marketable equity securities as available-for-sale and carry them at fair value with a corresponding recognition of the net unrealized holding gain or loss (net of tax) as a separate component of shareholders' equity. Gains and losses on sales of investments are computed on an average cost basis. Equity securities that do not have a readily determinable fair value are recorded at average cost (See Note 3). The Companies review the fair value of their marketable securities and investments on a regular basis to determine if the fair value of any individual investment has declined below its cost and if such decline is other than temporary. A determination of whether a decline in value represents 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' ability and intent to hold the investment. Losses from other-than-temporary impairments, if any, are charged to income as incurred.

(f) Inventories

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

(g) Property, plant and equipment

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

(h) Termination and retirement benefits

Termination and retirement benefits are accounted for in accordance with SFAS No.87, “Employers’ Accounting for Pensions” and SFAS No.158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R).” The Companies will adopt the measurement date provisions of SFAS No. 158 as of April 1, 2008.

(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, 2007, 2006 and 2005 were ¥2,050 million ($17,373 thousand), ¥1,871 million and ¥1,594 million, respectively.

(k) Taxes on Income

The Companies follow the provisions of SFAS No. 109, “Accounting for Income Taxes” to account for income taxes. Under SFAS No. 109, 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 amounts expected 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.

Provisions are made for taxes on unremitted earnings of all foreign subsidiaries as such earnings are not deemed to be permanently invested.

(l) Earnings per share

The Companies account for earnings per share in accordance with SFAS No. 128, “Earnings per Share.” Diluted earnings per share reflects the potential dilution from potential shares outstanding such as shares issuable upon the exercise of stock options. A reconciliation of the numerator and denominator of the basic and diluted earnings per share computation is included in Note 11.

(m) Derivatives

The Companies account for their derivative instruments and hedging activities in accordance with SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” SFAS No. 138, “Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133,” SFAS No. 149, “Amendment of Statement 133 on Derivative Instruments and Hedging Activities” and SFAS No. 155, “Accounting for Certain Hybrid Financial Instruments-an amendment of FASB Statements No. 133 and 140.” 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.

On the date the derivative contract is entered into, the Companies designate the derivative as a hedge of forecasted foreign currency cash flows. The Companies formally document all relationships between hedging instruments and hedged items, as well as their risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as foreign currency cash flow hedges to specific assets and liabilities in the consolidated balance sheet or to specific forecasted transactions. The Companies consider all hedges to be highly effective in offsetting changes in cash flows of hedged items, because the currencies and terms of the derivatives correspond to those of hedged items.

Changes in fair value of a derivative that is highly effective and that is designated and qualifies as a foreign currency 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.

(n) Stock-based Compensation

Prior to April 1, 2006, the Company accounted for stock-based awards to employees using the intrinsic value method in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," including related interpretations, that SFAS No. 123, "Accounting for Stock-Based Compensation" permitted an entity to apply.

No stock-based employee cost was reflected in the results of operations, as all options granted under the plan had an exercise price that exceeded the market value of the underlying common stock on the date of grant.

Effective April 1, 2006, the Company accounts for stock-based awards to employees in accordance with SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R"), using the modified prospective application. SFAS No. 123R requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The cost is recognized over the period during which an employee is required to provide service in exchange for the award on or after the effective date. Stock-based compensation for the year ended March 31, 2007 was ¥81 million ($686 thousand). There is no tax effect on the stock-based compensation.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation for the year ended March 31, 2006.

	Millions of yen
	2006
Net Income	
Reported	¥ 58,448
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	(131)
Pro forma	¥ 58,317

	Yen
	2006
Earnings per Share–Net income	
Reported	
Basic earnings per share	¥ 262.49
Diluted earnings per share	262.47
Pro forma	
Basic earnings per share	¥ 261.90
Diluted earnings per share	261.90

(o) Shipping and Handling costs

Shipping and Handling costs which were included in selling, general and administrative expenses for the years ended March 31, 2007, 2006 and 2005 were ¥5,895 million ($49,958 thousand), ¥5,106 million and ¥4,322 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 Emerging Issues Task Force ("EITF") No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer or Reseller of the Vendor's Products." EITF No. 01-9 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 SFAS No.144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement applies to all long-lived assets. The Companies' long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated and undiscounted future cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount exceeds the fair value of the assets. If the Companies determine to dispose of assets, depreciation estimates for the assets shall be revised to reflect those remaining useful lives. Assets classified as held for sale shall be measured at the lower of its carrying amount or fair value less cost to sell.

The Companies recognized ¥428 million ($3,627 thousand), ¥639 million and ¥1,767 million of impairment losses in selling, general and administrative expenses for the years ended March 31, 2007, 2006 and 2005, respectively.

In the year ended March 31, 2007, the Companies reviewed certain long-lived asset for impairment. As a result, certain land of a subsidiary, which was not expected to be used due to the change of certain business plans, was considered to be impaired. The fair value of this asset was determined by considering the estimate of future cash flow.

In the year ended March 31, 2006, the Companies reviewed certain long-lived assets for impairment. As a result, certain land and buildings of subsidiaries, which were not expected to be used due to the change of certain business plans, were considered to be impaired. The fair values of these assets were determined by considering the estimates of future cash flows.

In the year ended March 31, 2005, with the relocation of the head office, the Companies reviewed certain long-lived assets for impairment. As a result, land, which was not expected to be used in the future, was considered to be impaired. The fair values of the land were determined by considering values of the land evaluated for property tax purposes.

(r) Goodwill and other intangible assets

The Companies account for goodwill and other intangible assets in accordance with SFAS No. 142, “Goodwill and Other Intangible Assets.” 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.

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

(s) 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.

(t) Reclassifications

Certain items in prior years’ financial statements have been reclassified to conform to the 2007 presentation.

(u) New accounting standards

In June 2006, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation (“FIN”) No. 48, “Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109.” FIN No. 48 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. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN No. 48 is effective for fiscal years beginning after December 15, 2006 and the Companies will adopt this interpretation as of April 1, 2007. The Companies are currently evaluating the impact of adoption of this interpretation on the Companies’ consolidated financial statements as of the required effective date.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements.” SFAS No. 157 clarifies the definitions of fair value, which were different among the many accounting pronouncements that require or permit fair value measurement. SFAS No. 157 defines fair value as the price in an orderly transaction between market participants to sell the asset or transfer the liability in the market, clarifies that valuation techniques are consist with the market approach, income approach, and/or cost approach, and requires companies to apply them consistently. SFAS No. 157 also expands disclosures about the use of fair value to measure assets and liabilities. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and the Companies will adopt this statement as of April 1, 2008. The Companies are currently evaluating the impact of adoption of this statement on the Companies’ consolidated financial statement as of the required effective date.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)." SFAS No. 158 requires companies to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in the statement of financial position, and requires companies to measure the funded status of a plan as of the date of its year-end statement of financial position. On March 31, 2007, the Companies adopted the recognition of the funded status of defined benefit pension and other postretirement plans and the required disclosures with SFAS No.158. The Companies will adopt the measurement date provisions of SFAS No. 158 as of April 1, 2008. The adoption is not expected to have an effect on the Companies' consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115." SFAS No. 159 permits companies to choose to measure many financial assets and liabilities at fair value that are not currently required to be measured at fair value. Unrealized gains and losses on items for which the fair value option has been elected shall be recognized in earnings each reporting period. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 and the Companies will adopt this statement as of April 1, 2008. The Companies are currently evaluating the impact of adoption of this statement on the Companies' consolidated financial statement as of the required effective date.

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 ¥118 to $1, the approximate rate of exchange at March 31, 2007. 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, gross unrealized gains, gross unrealized losses and fair value for available-for-sale securities by major security type, at March 31, 2007 and 2006 were as follows:

	Millions of yen			
	2007			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Current:				
Governmental debt securities	¥ 21,617	¥ 17	¥ 16	¥ 21,618
Private debt securities	299,015	341	553	298,803
Total	¥320,632	¥ 358	¥ 569	¥320,421
Non-current:				
Equity securities	¥ 4,634	¥ 9,439	–	¥ 14,073
Investment trusts	600	3	–	603
Total	¥ 5,234	¥ 9,442	–	¥ 14,676

	Millions of yen			
	2006			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Current:				
Governmental debt securities	¥ 31,628	¥ 15	¥ 56	¥ 31,587
Private debt securities	282,583	91	1,080	281,594
Total	¥314,211	¥ 106	¥ 1,136	¥313,181
Non-current:				
Equity securities	¥ 4,738	¥ 11,322	–	¥ 16,060
Investment trusts	600	–	¥ 0	600
Total	¥ 5,338	¥ 11,322	¥ 0	¥ 16,660

	Thousands of U.S. dollars			
	2007			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Current:				
Governmental debt securities	$ 183,195	$ 144	$ 136	$ 183,203
Private debt securities	2,534,025	2,890	4,686	2,532,229
Total	$2,717,220	$ 3,034	$ 4,822	$2,715,432
Non-current:				
Equity securities	$ 39,271	$ 79,992	–	$ 119,263
Investment trusts	5,085	25	–	5,110
Total	$ 44,356	$ 80,017	–	$ 124,373

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, 2007 and 2006 were as follows:

	Millions of yen			
	2007			
	Less than 12 months		12 months or longer	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Current:				
Governmental debt securities	¥ 7,065	¥ 4	¥ 4,054	¥ 12
Private debt securities	58,724	87	146,424	466
Total	¥ 65,789	¥ 91	¥150,478	¥ 478

	Millions of yen			
	2006			
	Less than 12 months		12 months or longer	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Current:				
Governmental debt securities	¥ 12,521	¥ 56	–	–
Private debt securities	195,745	1,026	¥ 17,805	¥ 54
Total	¥208,266	¥ 1,082	¥ 17,805	¥ 54
Non-current:				
Investment trusts	¥ 600	¥ 0	–	–
Total	¥ 600	¥ 0	–	–

	Thousands of U.S. dollars			
	2007			
	Less than 12 months		12 months or longer	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Current:				
Governmental debt securities	$ 59,873	$ 34	$ 34,356	$ 102
Private debt securities	497,661	737	1,240,881	3,949
Total	$ 557,534	$ 771	$1,275,237	$ 4,051

The Companies did not recognize other-than-temporary impairment loss on debt securities which have a fair value below original cost as of March 31, 2007, as the Companies have the intention and ability to hold such securities until the maturity dates and as the issuers of the securities have favorable credit rating.

The aggregate carrying amounts of equity securities that do not have a readily determinable fair value at March 31, 2007 and 2006, which were valued at cost, were ¥2,446 million ($20,729 thousand) and ¥3,014 million, respectively. For the year ended 2007, equity securities of ¥2,445 million ($20,720 thousand) 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 as of March 31, 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	Cost	Fair Value	Cost	Fair Value
Within one year	¥ 107,799	¥ 107,759	$ 913,551	$ 913,212
After one year through five years	211,852	211,683	1,795,356	1,793,924
After five years	981	979	8,313	8,296
Total	¥ 320,632	¥ 320,421	$2,717,220	$2,715,432

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

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Proceeds from sales	¥ 2,401	¥ 119	¥ 5,964	$20,347
Gross realized gains	143	71	1,449	1,212
Gross realized losses	8	–	38	68

4. Inventories

Inventories at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Finished products	¥ 38,653	¥ 29,593	$327,568
Work-in-process	29,565	22,449	250,551
Materials and supplies	17,856	14,377	151,322
Total	¥ 86,074	¥ 66,419	$729,441

5. Short-Term Borrowings and Long-Term Debt

Short-Term Borrowings at March 31, 2007 and 2006 consisted of the following:

	Millions of yen	Weighted-Average Interest Rate	Millions of yen	Weighted-Average Interest Rate	Thousands of U.S. dollars
	2007		2006		2007
Bank loans	¥ 13,114	2.0%	¥ 8,556	1.9%	$111,136

Long-term debt at March 31, 2007 and 2006 consisted of the following:

	Millions of yen	Weighted-Average Interest Rate	Millions of yen	Weighted-Average Interest Rate	Thousands of U.S. dollars
	2007		2006		2007
Unsecured bank loans	–	–	¥500	0.3%	–
Other	¥ 26	3.4%	28	3.5	$220
Total	26	3.4	528	0.5	220
Less: Portion due within one year	2	3.7	2	3.9	17
Total	¥ 24	3.4%	¥526	0.5%	$203

The aggregate future maturities of long-term debt outstanding at March 31, 2007 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2008	¥ 2	$ 17
2009	2	17
2010	2	17
2011	2	17
2012	2	17
2013 and thereafter	16	135
Total	¥ 26	$220

Banks have a right to offset cash deposited with them against any debt or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the banks. None of the Companies' lenders have ever exercised this right.

6. Termination and Retirement Benefits

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

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

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

On March 31, 2007, the Companies adopted the recognition of the funded status of defined benefit pension and other postretirement plans and the required disclosures with SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)." The Companies had recognized a minimum pension liability, if the accumulated benefit obligations exceed the fair value of plan assets in accordance with SFAS No. 87, "Employers' Accounting for Pensions". However, after adoption of SFAS No. 158, the overfunded or underfunded status of defined benefit pension and other postretirement plans are recognized as an asset or liability in the statement of financial position, with an adjustment to accumulated other comprehensive income (loss). The adoption of SFAS No. 158 had no impact on the results of operations.

The Companies will adopt the measurement date provisions of SFAS No. 158 as of April 1, 2008.

The incremental effect of applying the recognition provisions of SFAS No. 158 on the individual line items in the balance sheet as of March 31, 2007 was as follows:

	Millions of yen		
	Before Application of SFAS No. 158	Adjustments	After Application of SFAS No. 158
Deferred income taxes (current asset)	¥ 22,340	¥ 549	¥ 22,889
Long-term receivables, advances and other	25,575	8,970	34,545
Deferred income taxes (non-current asset)	6,571	(129)	6,442
Accrued expenses and other	(30,023)	(9)	(30,032)
Termination and retirement benefits	(46,578)	6,188	(40,390)
Deferred income taxes (non-current liability)	(12,909)	(6,543)	(19,452)
Minimum pension liability adjustments	560	(560)	–
Pension liability adjustments	–	(8,466)	(8,466)

	Thousands of U.S. dollars		
	Before Application of SFAS No. 158	Adjustments	After Application of SFAS No. 158
Deferred income taxes (current asset)	$ 189,323	$ 4,652	$ 193,975
Long-term receivables, advances and other	216,737	76,017	292,754
Deferred income taxes (non-current asset)	55,686	(1,093)	54,593
Accrued expenses and other	(254,432)	(76)	(254,508)
Termination and retirement benefits	(394,728)	52,440	(342,288)
Deferred income taxes (non-current liability)	(109,399)	(55,449)	(164,848)
Minimum pension liability adjustments	4,745	(4,745)	–
Pension liability adjustments	–	(71,746)	(71,746)

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
	2007	2006	2007
Change in benefit obligation:			
Benefit obligation at beginning of year	¥ 91,842	¥ 97,732	$ 778,322
Service cost	5,296	5,260	44,881
Interest cost	1,786	1,737	15,136
Amendments	(1,534)	(9,346)	(13,000)
Actuarial loss	3,015	692	25,551
Benefits paid	(1,115)	(1,041)	(9,449)
Settlement paid	(2,495)	(3,192)	(21,144)
Benefit obligation at end of year	96,795	91,842	820,297
Change in plan assets:			
Fair value of plan assets at beginning of year	59,945	48,800	508,008
Actual return on plan assets	2,040	9,853	17,288
Employer contribution	3,595	3,202	30,466
Benefits paid	(1,115)	(1,041)	(9,449)
Settlement paid	(452)	(869)	(3,830)
Fair value of plan assets at end of year	64,013	59,945	542,483
Funded status	(32,782)	(31,897)	(277,814)
Unrecognized actuarial loss	–	9,751	–
Unrecognized prior service benefit	–	(24,215)	–
Net amount recognized	¥ (32,782)	¥ (46,361)	$(277,814)
Amounts recognized in the consolidated balance sheet consist of:			
Long-term receivables, advances and other	¥ 8,970	–	$ 76,017
Accrued expenses and other	(1,362)	–	(11,543)
Termination and retirement benefits	(40,390)	¥ (47,296)	(342,288)
Minimum pension liability adjustments, before tax	–	935	–
Net amount recognized	¥ (32,782)	¥ (46,361)	$(277,814)
Accumulated benefit obligation at end of year	¥ 92,587	¥ 85,749	$ 784,636

Accumulated benefit obligations for all of the Companies' termination and retirement plans were in excess of their plan assets at March 31, 2007 and 2006.

Amounts recognized in accumulated other comprehensive income (loss) at March 31, 2007 consisted of as following:

	Millions of yen	Thousands of U.S. dollars
	2007	2007
Actuarial loss	¥ 9,649	$ 81,771
Prior service benefit	(23,811)	(201,788)
Pension liability adjustments, before tax	¥(14,162)	$(120,017)

The expense recorded for the noncontributory termination and retirement plans included the following components for the years ended March 31:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Service cost	¥ 5,296	¥ 5,260	¥ 5,687	$ 44,881
Interest cost	1,786	1,737	1,838	15,136
Expected return on plan assets	(1,193)	(972)	(925)	(10,110)
Amortization of prior service benefit	(1,938)	(1,888)	(1,315)	(16,424)
Recognized actuarial loss	853	2,104	2,965	7,229
Net periodic benefit cost	¥ 4,804	¥ 6,241	¥ 8,250	$ 40,712

The estimated prior service cost and net loss for the termination and retirement benefit plans that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost over the next fiscal year are a gain of ¥1,988 million ($16,847 thousand) and a loss of ¥259 million ($2,195 thousand), respectively.

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 five years.

In the year ended March 31, 2006, due to the agreement reached between labor and management concerning the revision of pension and severance plans, the Company applied for the approval of the revision to the Japanease Ministry of Health, Labor and Welfare on April 27, 2005. On July 1, 2005, the Company introduced a severance plan based on the employee's position and assessment of performance and also started a pension plan in which the pension benefit is linked with the market interest rate. The revisions reduced the projected benefit obligation by ¥9,346 million in April 2005, which is being amortized as an unrecognized prior service benefit on a straight-line basis over the average remaining service period of the Company's employees, approximately sixteen years.

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

	2007	2006
Discount rate	2.0%	2.0%
Compensation increase rate	–	2.0~3.1%

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

	2007	2006	2005
Discount rate	2.0%	2.0%	2.0%
Compensation increase rate	–	2.0~3.1%	2.0%
Expected long-term rate of return on plan assets	2.0%	2.0%	2.0%

The Companies determined the discount rate based on a risk-free rate estimated considering the long-term rate of return on Japanese Government Bonds and the rate of returns on other high-quality fixed-income investments. The Companies determined the expected long-term rate of return on plan assets, based on the historical performance of various invested asset categories, as well as the long-term rate of return on Japanese Government Bonds.

Compensation increase rate for the year ended March 31, 2007 is not used in the calculation of benefit obligation and net periodic benefit cost under the point system.

The Company and a domestic subsidiary use a March 31 measurement date for the majority of their plans.

The Companies' benefit plan weighted-average asset allocations at March 31, 2007 and 2006 by asset category were as follows:

	2007	2006
Equity securities	47.1%	46.6%
Debt securities	29.3	30.1
Life insurance company general accounts	16.4	16.2
Other	7.2	7.1
	100.0%	100.0%

Equity securities include common stock of the Company in the amounts of ¥116 million ($983 thousand) (0.18% of total plan assets) and ¥74 million (0.12% of total plan assets) at March 31, 2007 and 2006, respectively.

Plan assets are invested for the purpose of achieving a sufficient rate of return to maintain pension plan assets for future payment of benefits to plan participants. Considering the expected rate of return on invested assets, a related standard deviation, and a related correlation coefficient, the Companies believe the current asset allocation is adequate for purposes of meeting investment objectives. For achieving the expected rate of return on plan assets on a mid-term to long-term basis, the Companies select optimal investing institutions by invested asset category and entrust the investment of plan assets to them. The Companies revise the asset allocation when and to the extent considered necessary. The asset allocation of the Company's plan assets which account for most of plan assets at March 31, 2007 consists of 42% of equity securities, 50% of debt securities and life insurance company general accounts, and 8% of other.

The Companies expect to contribute ¥3,993 million ($33,839 thousand) to their defined benefit plans in the year ending March 31, 2008.

The future benefit payments are expected as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2008	¥ 3,060	$ 25,932
2009	3,289	27,873
2010	3,504	29,695
2011	3,449	29,229
2012	3,701	31,364
2013–2017	21,518	182,356

7. Stock-based Compensation

For the year ended March 31, 2006, the Company authorized the grant of options to purchase common stock of the Company to employees of the Company and its subsidiaries under a fixed stock option plan.

Under the above plan, the exercise price of the option exceeds the market price of the Company's common stock on the date of grant and the options expire six years after the date of grant.

Generally, the options granted become fully vested and exercisable after two years.

A summary of the Company's fixed stock option plan activity and related information for the year ended March 31, 2007 was as follows:

Fixed Options	Number of Shares	Yen Weighted-Average Exercise Price	Years Weighted-Average Remaining Contractual Term	Millions of yen Aggregate Intrinsic Value
Outstanding at beginning of year	276,900	¥ 6,144		
Granted	–	–		
Exercised	(81,600)	6,224		
Forfeited	–	–		
Outstanding at end of year	195,300	6,111	3.09	¥ 486
Options exercisable at end of year	121,500	¥ 6,370	2.34	¥ 271

Fixed Options	U.S. dollars Weighted-Average Exercise Price	Thousands of U.S. dollars Aggregate Intrinsic Value
Outstanding at beginning of year	$ 52.07	
Granted	–	
Exercised	52.75	
Forfeited	–	
Outstanding at end of year	51.79	$ 4,119
Options exercisable at end of year	$ 53.98	$ 2,297

The Company has not granted any options during the year ended March 31, 2007. The weighted-average grant-date fair value of options granted during the year ended March 31, 2006 was ¥1,586.

The total intrinsic value of options exercised during the years ended March 31, 2007 and 2006 was ¥173 million ($1,466 thousand) and ¥10 million, respectively.

As of March 31, 2007, there was ¥20 million ($169 thousand) of total unrecognized compensation expense. That cost is expected to be recognized over a weighted-average period of 0.33 years.

The fair value of options granted as of the grant date was estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

Weighted-average assumptions:	2006
Risk Free interest rate (%)	0.39
Expected lives (years)	4.00
Expected volatility (%)	43.10
Expected dividend (%)	1.11

8. Shareholders' Equity

On and after May 1, 2006, Japanese companies are subject to a new corporate law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan (the "Code") with various revisions that are, for the most part, applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below;

(a) Dividends

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

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

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

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

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

(c) Treasury stock and treasury stock acquisition rights

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

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

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

9. Income Taxes

The provision for income taxes for the years ended March 31, 2007, 2006 and 2005, consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Current	¥ 48,873	¥ 34,579	¥ 29,558	$414,177
Deferred	(2,179)	(1,347)	(3,231)	(18,466)
Provision for income taxes	¥ 46,694	¥ 33,232	¥ 26,327	$395,711

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

	2007	2006	2005
Normal Japanese statutory rates	40.4%	40.4%	40.4%
Increase (decrease) in taxes resulting from:			
Tax credits	(2.6)	(3.9)	(5.2)
Permanently non-deductible items	0.7	0.1	0.2
Net change in valuation allowance for deferred tax assets	0.6	(0.1)	(0.7)
Other-net	0.5	(0.3)	1.4
Effective tax rates	39.6%	36.2%	36.1%

The approximate effects of temporary differences and tax loss carryforwards that gave rise to deferred tax balances at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Deferred tax assets:			
Intercompany profits	¥ 4,618	¥ 2,658	$ 39,136
Termination and retirement benefits	12,412	18,936	105,186
Enterprise taxes	2,142	1,440	18,152
Compensated absences	1,745	1,676	14,788
Inventory valuation	2,682	2,102	22,729
Tangible and intangible assets	7,638	6,598	64,729
Accrued bonuses	5,868	5,295	49,729
Other temporary differences	8,963	6,770	75,958
Tax loss carryforwards	2,149	130	18,212
Total	48,217	45,605	408,619
Valuation allowance	(1,967)	(1,221)	(16,670)
Total	¥ 46,250	¥ 44,384	$391,949
Deferred tax liabilities:			
Undistributed earnings of foreign subsidiaries	¥ 23,987	¥ 20,476	$203,280
Marketable securities and investments adjustments	3,124	3,533	26,475
Tangible and intangible assets	1,874	808	15,881
Other temporary differences	7,430	6,914	62,966
Total	¥ 36,415	¥ 31,731	$308,602

The total valuation allowance increased ¥746 million ($6,322 thousand) for the year ended March 31, 2007 and decreased ¥72 million for the year ended March 31, 2006.

Based upon the level of historical taxable income and projections for future taxable income over the periods which the net deductible temporary differences are expected to reverse, management believes it is more likely than not that the Companies will realize the benefits of these deferred tax assets, net of existing valuation allowances at March 31, 2007 and 2006.

Certain subsidiaries have tax loss carryforwards approximating ¥6,223 million ($52,737 thousand) available to reduce future taxable income at March 31, 2007, which will expire substantially in the period from 2008 to 2027.

10. Foreign Operations

Net sales and Shareholders' equity of foreign subsidiaries were as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Net sales	¥333,521	¥266,891	¥216,842	$2,826,449
Shareholders' equity	156,638	142,612	119,956	1,327,441

11. Amounts per Share

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

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Net income	¥ 71,309	¥ 58,448	¥ 46,578	$604,314

	Numbers of shares		
	2007	2006	2005
Average common shares outstanding	221,948,319	222,669,988	227,225,426
Dilutive effect of stock options	46,480	18,216	–
Diluted common shares outstanding	221,994,799	222,688,204	227,225,426

	Yen			U.S. dollars
	2007	2006	2005	2007
Earnings per share:				
Basic	¥ 321.29	¥ 262.49	¥ 204.99	$ 2.72
Diluted	321.22	262.47	204.99	2.72

12. Comprehensive Income

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

	Millions of yen		
	2007		
	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
Unrealized gains (losses)on securities:			
Unrealized holding losses arising during period	¥ (945)	¥ 382	¥ (563)
Reclassification adjustment for gains included in net income	(103)	42	(61)
	(1,048)	424	(624)
Minimum pension liability adjustments	(51)	20	(31)
Unrealized gains (losses) on derivative instruments:			
Unrealized holding losses arising during period	(1,438)	586	(852)
Reclassification adjustment for losses included in net income	1,437	(581)	856
	(1)	5	4
Foreign currency translation adjustments	5,377	(344)	5,033
Other comprehensive income	¥ 4,277	¥ 105	¥ 4,382

	Millions of yen		
	2006		
	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
Unrealized gains (losses) on securities:			
Unrealized holding gains arising during period	¥ 3,879	¥ (1,567)	¥ 2,312
Reclassification adjustment for losses included in net income	44	(18)	26
	3,923	(1,585)	2,338
Minimum pension liability adjustments	732	(298)	434
Unrealized gains (losses) on derivative instruments:			
Unrealized holding losses arising during period	(1,348)	541	(807)
Reclassification adjustment for losses included in net income	1,611	(651)	960
	263	(110)	153
Foreign currency translation adjustments	11,369	(1,828)	9,541
Other comprehensive income	¥ 16,287	¥ (3,821)	¥ 12,466

	Millions of yen		
	2005		
	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
Unrealized gains (losses) on securities:			
Unrealized holding gains arising during period…	¥ 1,495	¥ (605)	¥ 890
Reclassification adjustment for gains included in net income	(1,411)	570	(841)
	84	(35)	49
Minimum pension liability adjustments	124	(50)	74
Unrealized gains (losses) on derivative instruments:			
Unrealized holding losses arising during period	(589)	237	(352)
Reclassification adjustment for losses included in net income	108	(44)	64
	(481)	193	(288)
Foreign currency translation adjustments	4,027	(490)	3,537
Other comprehensive income	¥ 3,754	¥ (382)	¥ 3,372

	Thousands of U.S. dollars		
	2007		
	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
Unrealized gains (losses) on securities:			
Unrealized holding losses arising during period	$(8,008)	$ 3,237	$(4,771)
Reclassification adjustment for gains included in net income	(873)	356	(517)
	(8,881)	3,593	(5,288)
Minimum pension liability adjustments	(433)	170	(263)
Unrealized gains (losses) on derivative instruments:			
Unrealized holding losses arising during period	(12,186)	4,966	(7,220)
Reclassification adjustment for losses included in net income	12,178	(4,924)	7,254
	(8)	42	34
Foreign currency translation adjustments	45,567	(2,915)	42,652
Other comprehensive income	$36,245	$ 890	$37,135

13. Commitments and Contingent Liabilities

Outstanding commitments at March 31, 2007 and 2006 for the purchase of property, plant and equipment approximated ¥22,175 million ($187,924 thousand) and ¥13,412 million, respectively.

At March 31, 2007 and 2006, the Companies were contingently liable for trade accounts receivable discounted and transferred to banks of ¥193 million ($1,636 thousand) and ¥460 million, respectively, which were accounted for as sales when discounted and transferred.

14. Financial Instruments and Concentration of Credit Risk

In the normal course of its business, the Companies invest in various financial assets and incur various financial liabilities. The Companies also enter into agreements for derivative financial instruments to manage their exposure to fluctuations in foreign currency exchange rates. The fair value estimates of financial instruments presented below are not necessarily indicative of the amounts the Companies might pay or receive from actual market transactions. The Companies had the following financial assets and liabilities at March 31, 2007 and 2006:

Financial Assets and Liabilities

(1) Cash, time deposits, notes and accounts receivable, short-term borrowings, notes and accounts payable and long-term debt

Fair value approximates carrying amounts indicated in the balance sheets at March 31, 2007 and 2006.

(2) Marketable securities and Investments

Fair value is primarily based on quoted market prices or estimated using discounted cash flow analysis, 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.

(3) Long-term receivables, advances and other assets

Fair value is primarily based on dealer quotes for the same or similar instruments. The fair values of applicable long-term receivables, advances and other assets at March 31, 2007 and 2006 were ¥34,607 million ($293,280 thousand) and ¥11,102 million compared with carrying amounts of ¥34,545 million ($292,754 thousand) and ¥11,046 million, respectively.

Forward exchange contracts

The Companies had ¥17,750 million ($150,424 thousand) and ¥16,532 million in notional amounts of forward exchange contracts outstanding as of March 31, 2007 and 2006, respectively, in order to hedge the foreign currency risk of various sales and supply transactions, accounts receivable and accounts payable, which transactions are expected to occur within the next three months.

The estimated fair values of the Companies' forward exchange contracts at March 31, 2007 and 2006, which equal the carrying amounts, were a liability of ¥79 million ($669 thousand) and ¥78 million, respectively.

Changes in the fair value of forward exchange contracts designated and qualifying as cash flow hedges are reported in accumulated other comprehensive income (loss). These amounts are subsequently reclassified into earnings through other income (expenses) in the same period that the hedged items affect earnings. Most reclassifications occur when the products related to hedged transaction are sold from overseas subsidiaries to their customers. Substantially all unrealized gains or losses on derivatives included in accumulated other comprehensive income (loss) at the end of the year are expected to be recognized in earnings within the next three months.

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 gains or losses arising from these contracts are applied to offset gains or losses on related hedged assets, liabilities or future commitments.

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. Acquisition

In April, 2006, Murata Electronics North America, Inc. ("MEA"), a wholly-owned subsidiary of Murata Manufacturing Co., Ltd. acquired a US company, SyChip, Inc. ("SyChip") as MEA's wholly-owned subsidiary. The total acquisition price is ¥15,542 million.

SyChip designs, develops and markets Radio Frequency Modules. Its products are supplied for mobile terminals such as POS terminals, PDAs, IP Phones and media players. SyChip's application markets such as VoIP, which are not covered by the Companies' current businesses, are anticipated to extend. This acquisition is expected to broaden our wireless module business market.

Business results of SyChip, Inc. were included in the Companies' consolidated financial statements after the acquisition date.

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

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 3,922	$ 33,237
Property, plant and equipment	50	424
Intangible assets	3,043	25,788
Goodwill	7,981	67,636
In-process research and development	2,042	17,305
Other assets	14	119
Total assets acquired	17,052	144,509
Current liabilities	(445)	(3,771)
Long-term liabilities	(1,065)	(9,026)
Total liabilities assumed	(1,510)	(12,797)
Net assets acquired	¥ 15,542	$131,712

Most of the acquired intangible assets were unpatented technology, and are subject to amortization, which have useful lives of four or five years. The total amount of goodwill is not deductible for tax purposes.

In-process research and development represents the estimated fair value assigned to particular research and development projects, and was charged to operations as of the acquisition date and included in research and development expenses in the consolidated statement of income.

16. Goodwill and other intangible assets

Intangible assets other than goodwill acquired during the year ended March 31, 2007 totaled ¥5,996 million ($50,814 thousand) and primarily consist of software ¥2,788 million ($23,627 thousand). The weighted average useful life for software is 4.76 years.

Intangible assets other than goodwill, at March 31, 2007 and 2006 are as follows.

	Millions of yen		
	2007		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets			
Software	¥ 8,466	¥3,097	¥ 5,369
Patents	2,081	791	1,290
Other	4,354	997	3,357
Total	¥14,901	¥4,885	¥10,016
Unamortized intangible assets			¥ 193

	Millions of yen		
	2006		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets			
Software	¥6,175	¥2,575	¥3,600
Patents	2,117	551	1,566
Other	1,204	395	809
Total	¥9,496	¥3,521	¥5,975
Unamortized intangible assets			¥ 135

	Thousands of U.S. dollars		
	2007		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets			
Software	$ 71,746	$26,246	$45,500
Patents	17,636	6,704	10,932
Other	36,898	8,449	28,449
Total	$126,280	$41,399	$84,881
Unamortized intangible assets			$ 1,636

Total amortization expenses of intangible assets during the years ended March 31, 2007 and 2006 amounted to ¥2,105 million ($17,839 thousand) and ¥1,179 million, respectively. The estimated amortization expenses for intangible assets for the next five years are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2008	¥2,012	$17,051
2009	1,820	15,424
2010	1,536	13,017
2011	791	6,703
2012	315	2,669

The changes in the carrying amount of goodwill for the years ended March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Balance at beginning of year	¥1,796	¥1,036	$15,220
Acquisition	7,981	760	67,636
Balance at end of year	¥9,777	¥1,796	$82,856

17. Subsequent Events

The Board of Directors of the Company intends to propose for approval to pay a cash dividend of ¥50 ($0.42) per share to shareholders of record as of March 31, 2007, or a ¥11,099 million ($94,059 thousand) at the shareholders' meeting in June 2007.

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 balance sheets of Murata Manufacturing Co., Ltd. and subsidiaries (the "Company") as of March 31, 2007 and 2006, 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, 2007, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Certain information required by Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" has not been presented in the accompanying consolidated financial statements. In our opinion, presentation of various segment information regarding operations is required for a complete presentation of the Company's consolidated financial statements in accordance with accounting principles generally accepted in the United States of America.

In our opinion, except for the omission of certain segment information as discussed in the preceding paragraph, such consolidated financial statements present fairly, in all material respects, the financial position of Murata Manufacturing Co., Ltd. and subsidiaries as of March 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

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 conformity with the basis stated in Note 2. Such U.S. dollar amounts are presented solely for convenience of readers outside of Japan.

Deloitte Touche Tohmatsu

June 5, 2007

Member of
Deloitte Touche Tohmatsu

Subsidiaries and Affiliates (as of March 31, 2007)

Branch
Tokyo Branch: Shibuya-ku, Tokyo

Plants
Yokaichi Plant: Higashiomi-shi, Shiga
Yasu Plant: Yasu-shi, Shiga
Yokohama Technical Center:
Midori-ku, Yokohama-shi, Kanagawa
Nagaoka Plant: Nagaokakyo-shi, Kyoto

Number of Subsidiaries
Consolidated: 56 (23 in Japan and 33 overseas)

Domestic Subsidiaries
Fukui Murata Manufacturing Co., Ltd.
Izumo Murata Manufacturing Co., Ltd.
Toyama Murata Manufacturing Co., Ltd.
Komatsu Murata Manufacturing Co., Ltd.
Kanazawa Murata Manufacturing Co., Ltd.
Okayama Murata Manufacturing Co., Ltd.
and 17 other companies

Overseas Subsidiaries
North & South America
Murata Electronics North America, Inc. (USA)
SyChip, Inc. (USA)
Murata Electronics Trading México, S.A. de C. V. (Mexico)
Murata World Comércio Ltda. (Brazil)
Murata Amazônia Indústria E Comércio Ltda. (Brazil)
Murata Eletrônica Do Brasil Ltda. (Brazil)

Europe
Murata Europe Management B.V. (Netherlands)
Murata Electronics (Netherlands) B.V. (Netherlands)
Murata Elektronik GmbH (Germany)
Murata Electronics (UK) Limited (U.K.)
Murata Electronique SAS (France)
Murata Electronics Switzerland AG (Switzerland)
Murata Elettronica S.p.A. (Italy)
and 2 other companies

Asia
Beijing Murata Electronics Co., Ltd. (China)
Murata Electronics Trading (Tianjin) Co., Ltd. (China)
Wuxi Murata Electronics Co., Ltd. (China)
Murata（China）Investment Co., Ltd.
Murata Electronics Trading (Shanghai) Co., Ltd. (China)
SyChip Electronic Technology (Shanghai) Ltd. (China)
Shenzhen Murata Technology Co., Ltd (China)
Murata Electronics Trading (Shenzhen) Co., Ltd. (China)
Murata Company Limited (Hong Kong, China)
Hong Kong Murata Electronics Company, Limited (Hong Kong, China)
Korea Murata Electronics Company, Limited (Korea)
Taiwan Murata Electronics Co., Ltd. (Taiwan)
Murata Electronics Singapore (Pte.) Ltd. (Singapore)
Murata Electronics Philippines Inc. (Philippines)
Murata Electronics (Thailand), Ltd. (Thailand)
Thai Murata Electronics Trading, Ltd. (Thailand)
Murata Electronics (Malaysia) Sdn. Bhd. (Malaysia)
Murata Trading (Malaysia) Sdn. Bhd. (Malaysia)

Company Information

Trade Name
Murata Manufacturing Co., Ltd.

Date of Incorporation
December 23, 1950 (established in October 1944)

Common Stock
¥69,376 million (as of March 31, 2007)

President and Statutory Representative Director
Tsuneo Murata (as of July 1, 2007)

Sales Amount (as of March 31, 2007)
Consolidated Basis: ¥566,805 million
Parent Co. Basis: ¥490,642 million

Number of Employees (as of March 31, 2007)
Consolidated Basis: 29,392
Parent Co. Basis: 5,832

Stock Exchange Listings
In Japan: Tokyo, Osaka
Overseas: Singapore

Products
Monolithic Ceramic Capacitors
Ceramic Filters
Ceramic Resonators
Surface Acoustic Wave Filters
Multilayer Ceramic Devices
Short-range wireless communication modules (including Bluetooth® modules)
Dielectric Filters
Isolators
Circuit Modules
Power Supplies
EMI Suppression Filters
Coils
Sensors
Thermistors
Trimmer Potentiometers
Resistor Networks
High Voltage Resistors and others

URL
http://www.murata.com/

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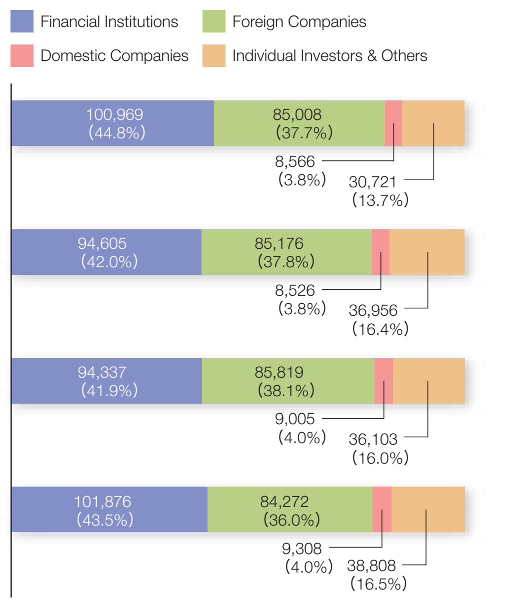
Yasu Plant: Yasu-shi, Shiga
Yokohama Technical Center:
Midori-ku, Yokohama-shi,
Kanagawa
Nagaoka Plant: Nagaokakyo-shi,
Kyoto

Stock Information

Major Shareholders

Name	Number of Shares	Share holding rate
	Thousands of Shares	%
The Master Trust Bank of Japan, Ltd. (trust account)	13,716	6.1
Japan Trustee Services Bank, Ltd. (trust account)	11,277	5.0
The Chase Manhattan Bank N.A., London	10,976	4.9
Nippon Life Insurance Company	9,685	4.3
State Street Bank and Trust Company	6,322	2.8
Meiji Yasuda Life Insurance Company	5,610	2.5
The Bank of Kyoto, Ltd.	5,260	2.3
Japan Trustee Services Bank, Ltd. (trust account 4)	4,605	2.0
State Street Bank and Trust Company 505103	3,634	1.6
The Chase Manhattan Bank 385036	3,608	1.6
Total	74,697	33.2

Number of Shares Outstanding (Thousands of Shares)



Murata
Manufacturing Co., Ltd.

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