2003

ANNUAL REPORT

Murata Manufacturing Co., Ltd.

Date of Incorporation : December 23, 1950

Offices and plants :

Head Office : 26-10,Tenjin 2-chome, Nagaokakyo-shi, Kyoto 617-8555
phone : (075) 951-9111
http://www.murata.com/

Branch : Tokyo Branch : Shibuya-ku,Tokyo

Plants : Yokaichi Plant : Yokaichi-shi, Shiga
Yasu Plant : Yasu-cho, Yasu-gun, Shiga
Yokohama Technical Center : Midori-ku, Yokohama-shi, Kanagawa

Number of Subsidiaries :

Consolidated : 53 (23 in Japan and 30 overseas)
Affiliated :1 (overseas)

Stock Exchange Listings :

Tokyo Stock Exchange
Osaka Securities Exchange
Stock Exchange of Singapore (DRSs)

Transfer Agent :

Mizuho Trust & Banking Co., Ltd.
5-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo
100-0005

(As of March 31, 2003)

Contents

Board of Directors

Yasutaka Murata
Tsuneo Murata
Shigekazu Wakamura
Yoshitaka Fujita
Ichiro Nozaki
Seiichi Arai
Yukio Sakabe
Yohei Ishikawa
Atsushi Inoue
Katsuro Kanzaki
Koji Tajika

Statutory Auditors

Standing Statutory Auditors
Toshio Taji
Michihiro Murata

Statuary Auditors
Minoru Yamada
Keiichi Yokobori

Statutory Representative Directors

President
Yasutaka Murata

Executive Deputy President
Tsuneo Murata

Vice Presidents

Seinor Executive Vice President
Shigekazu Wakamura

Executive Vice President
Yoshitaka Fujita

Senior Vice Presidents
Ichiro Nozaki
Seiichi Arai

Vice Presidents
Yukio Sakabe
Yohei Ishikawa
Atsushi Inoue
Harufmi Mandai
Kazuya Togawa
Shinji Ushiro
Hiroshi Jozuka
Hideharu Ieki
Hideo Sakamoto

Main Products

Monolithic Ceramic Capacitors
Thermistors
Trimmer Potentiometers
Resistor Networks
High Voltage Resistors
Ceramic Filters
Ceramic Resonators
Surface Acoustic Wave Filters
Multilayer Ceramic Devices
Dielectric Filters
Isolators
Circuit Modules
Power Supplies
EMI Suppression Filters
Sensors
Coils and others

Murata Manufacturing Co., Ltd. is a world leader in electronic components. The Company claims leading world market shares in ceramic capacitors, ceramic filters, and various indispensable electronic components.

Since its founding in 1944, Murata has followed a balanced strategy based on consistent investment in R & D and a global network of manufacturing and marketing subsidiaries.

Message from the President

Market Overview

In the period under review, in the global electronics market, inventory adjustment of equipment and parts was completed by the end of the previous term, and a trend toward recovery was visible, with factors such as the diffusion of products with sophisticated functions in the fields of telecommunications equipment and digital audio/video equipment. However, amid the global economic slowdown, final demand for electronic equipment overall was slow, and downward pressure on component prices remained strong, resulting in a continued severe market environment.

In the telecommunications equipment market, in the key mobile phone segment, the number of subscribers in China continued to increase, while in other regions, the trend continued toward new types of phones with more sophisticated functions, such as models with color liquid crystal displays and models equipped with digital cameras. However, growth in the number of mobile phones sold was limited to small increases due to market saturation in Japan, Europe and the United States. The market for network equipment also continued to suffer from weak capital investment by telecommunications companies, and the telecommunications equipment market as a whole was lackluster.

Despite the development of sophisticated functions such as higher MPU speeds, incorporation of high-speed interfaces and wireless LAN compatibility, the computers and peripheral equipment market was generally sluggish due to continuing low capital investment by companies and stagnant sales to consumers.

In the consumer electronics market, a market for thin, large-screen televisions using plasma display panels (PDPs) and LCDs emerged, and unit sales of DVD players and digital cameras continued to grow substantially. However, the market was lackluster overall due to the effect of falling prices for equipment.

Performance and Achievements

In this market environment, Murata worked to enhance its lineup of products that meet market needs by developing new products and technologies that respond to trends such as digitalization, high frequency, smaller size and modulization. In addition, the Company strengthened its production and sales network in East Asia, particularly in China. Responding to the sharp decline in product prices, Murata made efforts to bolster its profit structure by promoting cost reductions, with a focus on productivity improvements.

As a result of these factors, net sales for the fiscal year were ¥394,955 million, operating income was ¥59,187 million (a year-on-year increase of 16.1 percent), and income before income taxes and cumulative effect of a change in accounting for derivative instruments was ¥59,094 million (a year-on-year increase of 12.8 percent). Although an income tax refund related to transfer price taxation in the past fiscal year was decreased for the fiscal year compared that for prior fiscal year, deferred tax liabilities for undistributed earnings of foreign subsidiaries were decreased due to a tax rate change. As a result of this and other factors, net income was ¥39,467 million (a year-on-year increase of 12.8%).

Issues Facing the Company

In the electronic components industry, in which Murata operates, downward pressure on component prices remains strong due to increasing competition from other companies in our industry, in the midst of a delay in full-fledged recovery of demand. As a result, our operating environment will continue to be challenging.

Over the medium and long term, however, several trends point to steadily broadening demand for components. These trends include more sophisticated functions for mobile phones and personal computers, the expansion of wireless communication systems such as wireless LAN and Bluetooth®, the rise of broadband communications, the spread of digital information appliances and the growing use of electronics in automobiles.

In response to the expansion of these markets, Murata will promote the innovation and integration of core technologies such as material, process, design and production technologies. We will speed up product development through focused allocation of development resources, and further reinforce marketing and sales functions to swiftly provide high-value-added new products that anticipate customer needs. In addition, we will boost our competitiveness by thoroughly reducing costs through innovation and streamlining of production technology and improvement of administrative operations.

We have demonstrated concern for the environment in our business activities by promoting environmental protection efforts such as conservation of resources and energy, waste reduction and recycling. In the period under review, we issued an environmental report summarizing these activities. Going forward, we will make further efforts to show concern for the environment in our business activities, including achieving zero emissions and strengthening and expanding our product assessment and environmental cost management system.

At the Ordinary General Meeting of Shareholders in June 2002, a resolution was approved for the repurchase of shares up to a maximum of ¥100,000 million and 10 million shares. As of the end of the period under review, we had repurchased 8,787,400 shares worth a total of ¥48,038 million. We will continue working to increase capital efficiency while responding to changes in the operating environment.

Because the current head office building is aging and small, Murata has decided to construct a new head office building, with completion targeted for September 2004. This will enable us to consolidate central management-related functions at the head office, enhance the head office's function as an R&D base and facilitate collection and sharing of information. As a result, it will promote speedier management and a stronger R&D structure.

Policy on Dividends

For the year ended March 31, 2003, although the business environment continued to be challenging, in view of the results for the period and accumulated retained earnings, the Company plans to pay a year-end dividend of ¥25 per share. In combination with the interim dividend already paid, this would bring total cash dividends for the fiscal year to ¥50 per share, the same as in the previous fiscal year.

For the year ending March 31, 2004, the Company plans to pay total cash dividends of ¥50 per share, the same as in the fiscal year. This dividend per share amount is based on current projections of business results and business conditions for the next fiscal year.

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

Note: The Bluetooth trademarks are owned by Bluetooth SIG, Inc., U.S.A., and used by Murata Manufacturing Co., Ltd. under license.

Financial Review

As a result of these factors, net sales for the fiscal year were ¥394,955 million, operating income was ¥59,187 million (a year-on-year increase of 16.1 percent), and income before income taxes and cumulative effect of a change in accounting for derivative instruments was ¥59,094 million (a year-on-year increase of 12.8 percent). Although an income tax refund related to transfer price taxation in the past fiscal year was decreased for the fiscal year compared that for prior fiscal year, deferred tax liabilities for undistributed earnings of foreign subsidiaries were decreased due to a tax rate change. As a result of this and other factors, net income was ¥39,467 million (a year-on-year increase of 12.8%).

Sales by Product

In response to changes in actual composition of sales, reclassifications have been made for certain products in "Other Products" for which sales are expanding, including presenting some in "Module Products" from the year under review.

	Millions of yen					
Years ended March 31	2003		2002		Growth	
	Amount	*1	Amount	*1	Amount	*2
Capacitors	¥148,299	37.7%	¥159,660	40.6%	¥ (11,361)	(7.1%)
Resistors	13,909	3.5%	13,092	3.3%	817	6.2%
Piezoelectric components	76,797	19.5%	73,640	18.7%	3,157	4.3%
Microwave Devices	50,044	12.7%	45,833	11.7%	4,211	9.2%
Module Products	54,187	13.8%	56,234	14.3%	(2,047)	(3.6%)
Other products	50,389	12.8%	44,927	11.4%	5,462	12.2%
Net sales	¥393,625	100.0%	¥393,386	100.0%	¥ 239	0.1%

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

<Capacitors>

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

For the period under review, chip monolithic ceramic capacitors, the main product in this category, showed growth in sales volume, centered on smaller products. However, the impact of the continuing drop in product prices was substantial, and sales were lower than in the previous fiscal year.

As a result, overall sales of capacitors decreased 7.1 percent year on year to ¥148,299 million.

<Resistors>

This product category includes thermistors, trimmer potentiometers, resistor networks and high-voltage resistors.

For the period under review, sales of thermistors and trimmer potentiometers, particularly chip-type products for computer related equipment and telecommunications equipment, showed a sharp increase, exceeding sales in the previous fiscal year.

As a result, overall sales of resistors increased 6.2 percent year on year to ¥13,909 million.

<Piezoelectric Components>

This product category includes ceramic filters, ceramic resonators, surface acoustic wave filters and piezoelectric buzzers.

For the period under review, sales of ceramic filters for consumer electronics in China increased, but sales for telecommunications equipment in Japan and the United States decreased, resulting in decreasing in overall sales compared with the previous fiscal year. Sales of ceramic resonators increased substantially over the previous fiscal year, led by robust growth in sales of chip-type products. Sales of surface acoustic wave filters for telecommunications equipment such as mobile phones showed high growth.

As a result, overall sales of piezoelectric components increased 4.3 percent year on year to ¥76,797 million.

<Microwave Devices>

This product category includes multilayer ceramic devices, dielectric filters, isolators and connectors.

For the period under review, sales of multilayer ceramic devices increased dramatically, supported by strong growth for telecommunications equipment in Japan and East Asia, as well as the launch of Bluetooth®* modules for telecommunications equipment in Europe. However, sales of dielectric filters and isolators decreased compared with the previous fiscal year due to lower sales for mobile phones.

As a result, overall sales of microwave devices increased 9.2 percent year on year to ¥50,044 million.

<Module Products>

This product category includes circuit modules and various types of power supplies.

For the period under review, among circuit modules, sales of data transmission cards decreased but sales of wireless modules for telecommunications equipment were solid. Sales of power supplies were lower than in the previous fiscal year due to a decrease in sales for computer-related equipment.

As a result, overall sales of module products decreased 3.6 percent year on year to ¥54,187 million.

<Other Products>

This product category includes EMI suppression filters and various types of sensors and coils.

For the period under review, sales of EMI suppression filters were solid, particularly for the computer- related equipment market in Asia. Sales of chip coils also showed strong growth over the previous fiscal year, driven by an increase in sales for telecommunications equipment.

As a result, overall sales of other products increased 12.2 percent year on year to ¥50,389 million.

* The Bluetooth trademarks are owned by Bluetooth SIG, Inc., U.S.A., and used by Murata Manufacturing Co., Ltd. under license.

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

Years ended March 31	2003		2002		Growth	
	Millions of yen					
	Amount	*3	Amount	*3	Amount	*4
Video	¥ 45,134	11.4%	¥ 53,020	13.5%	¥ (7,886)	(14.9%)
Audio	20,310	5.2%	21,242	5.4%	(932)	(4.4%)
Consumer Total	65,444	16.6%	74,262	18.9%	(8,818)	(11.9%)
Communication	151,114	38.4%	145,723	37.0%	5,391	3.7%
EDP and Others *1	86,925	22.1%	95,102	24.2%	(8,177)	(8.6%)
Industrial Total	238,039	60.5%	240,825	61.2%	(2,786)	(1.2%)
Home and Others *2	90,142	22.9%	78,299	19.9%	11,843	15.1%
Net sales	¥393,625	100.0%	¥393,386	100.0%	¥ 239	0.1%

Note: The figures show the sales by application of electronics components and related products.
*1 "EDP and Others" include computers and peripherals, copy machines, and measuring instruments.
*2 "Home and Others" include automotive electronics and household electrical appliances such as air conditioners, refrigerators, and lighting apparatuses.
*3 Component Ratio
*4 Ratio against the previous year

<Consumer Electronics Equipment>

In consumer electronics equipment, sales of components for PDPs and LCD TVs increased due to expansion of the market, but sales of set-top boxes, etc. in Europe and the United States were sluggish, and sales of audio equipment components were also lackluster. Combined with the effect of a drop in component prices, these factors resulted in an overall year-on-year decline of 11.9 percent in sales in this category.

<Industrial Electronics Equipment>

In industrial electronics equipment, sales of components for mobile phones increased due to factors such as growing demand in China, while sales of Bluetooth® modules also expanded strongly. As a result, despite a decline in sales for network equipment, sales for telecommunications equipment exceeded the level in the previous fiscal year. In computers and related equipment, sales of products for personal computers were solid, but sales for peripheral equipment declined. As a result, overall sales in this category declined 1.2 percent year-on-year.

<Home Electrical Appliances and Other Products>

In home electrical appliances and other products, sales of applications for car electronics were favorable because of the increasing use of electronics in automobiles, while sales of products for distributors, which had been in a prolonged period of inventory adjustments, rebounded. As a result, overall sales in this category increased 15.1 percent year-on-year.

Sales by Area

Years ended March 31	2003		2002		Growth	
	Millions of yen					
	Amount	*1	Amount	*1	Amount	*2
North and South America	¥ 51,095	13.0%	¥ 56,074	14.3%	¥ (4,979)	(8.9%)
Europe	55,947	14.2%	56,706	14.4%	(759)	(1.3%)
Asia and Others	149,421	38.0%	140,089	35.6%	9,332	6.7%
Overseas Total	256,463	65.2%	252,869	64.3%	3,594	1.4%
Japan	137,162	34.8%	140,517	35.7%	(3,355)	(2.4%)
Net sales	¥393,625	100.0%	¥393,386	100.0%	¥ 239	0.1%

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

Sales in North and South America and Europe decreased, but sales in Asia and other regions expanded, resulting in a 1.4 percent increase in overseas sales. As a percentage of total net sales, overseas sales increased from 64.3 percent in the previous fiscal year to 65.2 percent.

<North and South America>

Reflecting the shift of production to East Asia and a drop in sales of network equipment, sales in North and South America declined 8.9 percent year-on-year.

<Europe>

Although sales of products for telecommunications equipment showed an upturn that started in the previous fiscal year, sales of products for consumer electronics equipment, computers and other industrial electronics equipment declined. As a result, sales in Europe were down 1.3 percent year-on-year.

<Asia and Others>

Sales of products for computer peripheral equipment declined, but sales of products for mobile phones climbed dramatically, driven by expanding production in China and elsewhere. As a result, sales in Asia and other regions increased 6.7 percent year-on-year.

<Japan>

In Japan, sales of products for mobile phones rebounded after suppliers completed inventory adjustments. However, sales of components for computers and other industrial electronics equipment were lower than in the previous fiscal year due to stagnant domestic demand, while sales for consumer electronics equipment were also sluggish. As a result, overall sales in Japan decreased 2.4 percent year-on-year.

Costs, Expenses and Income

	Millions of yen					
Years ended March 31	2003		2002		Growth	
	Amount	*1	Amount	*1	Amount	*2
Net sales	¥394,955	100.0%	¥394,775	100.0%	¥ 180	0.0%
Cost of sales	244,923	62.0%	253,316	64.2%	(8,393)	(3.3%)
Selling,general and administrative expenses	59,418	15.0%	58,864	14.9%	554	0.9%
Research and development expenses	31,427	8.0%	31,594	8.0%	(167)	(0.5%)
Operating income	59,187	15.0%	51,001	12.9%	8,186	16.1%
Other income (expenses) —net	(93)	(0.0%)	1,407	0.4%	(1,500)	(106.6%)
Income before income taxes and cumulative effect of a change in accounting for derivative instruments	59,094	15.0%	52,408	13.3%	6,686	12.8%
Income taxes	19,627	5.0%	17,197	4.4%	2,430	14.1%
Income before cumulative effect of changes in accounting principle	39,467	10.0%	35,211	8.9%	4,256	12.1%
Cumulative effect of changes in accounting principle	–	–	(212)	(0.0%)	212	–
Net income	¥ 39,467	10.0%	¥ 34,999	8.9%	¥ 4,468	12.8%

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

While net sales were essentially unchanged compared with the previous fiscal year, the Company introduced a succession of new products, raised productivity and reduced costs. In addition, depreciation expenses decreased and production output increased. As a result, operating income rose 16.1 percent year-on-year, and income before income taxes and cumulative effect of a change in accounting for derivative instruments climbed 12.8 percent.

The refund of income taxes on past transfer pricing assessments was lower than in the previous fiscal year. However, deferred tax liabilities related to undivided profit of overseas subsidiaries at the end of the period decreased, reflecting changes in enterprise tax rates due to the adoption of pro forma standard taxation. As a result of these and other factors, net income increased 12.8 percent year-on-year. The exchange rate averaged US$1 = ¥121.95 during the fiscal year, compared with US$1 = 125.14 in the previous fiscal year.

Capital Investment, Depreciation and Amortization

	Millions of yen		
Years ended March 31	**2003**	2002	2001
Capital investment	**¥18,161**	¥34,591	¥107,796
Depreciation and Amortization	**50,846**	56,488	53,950

Capital investment decreased ¥16,430 million from the previous fiscal year to ¥18,161 million, and mainly comprised investment in production facilities for products such as chip monolithic ceramic capacitors and high-frequency devices.

Depreciation and amortization reflected the decrease in capital investment, declining 10.0 percent year-on-year to ¥50,846 million.

Financial Position

Years ended March 31	**2003**	2002	2001
Shareholder's Equity Ratio(%)	**83.0**	86.5	79.4
Return on Equity (ROE)(%)	**5.6**	4.9	16.4
Income before taxes* on Total Assets(%)	**7.1**	6.1	21.3
Shareholder's Equity per Share(yen)	**2,939.41**	2,973.22	2,870.51

* Income before taxes stands for income before income taxes and cumulative effect of a change in accounting for derivative instruments.

Total assets decreased 0.6 percent from a year earlier to ¥834,313 million. Shareholders' equity decreased 4.7 percent to ¥692,090 million, mainly because of the acquisition of treasury stock. The shareholders' equity ratio fell 3.5 percentage points to 83.0 percent, reflecting the decrease in shareholders' equity.

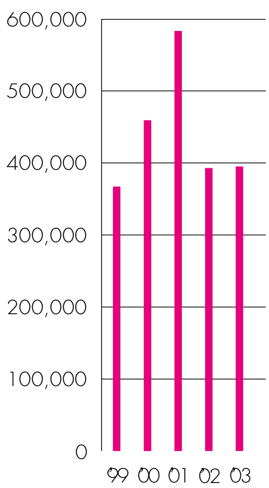
Selected Financial Data

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 1999-2003

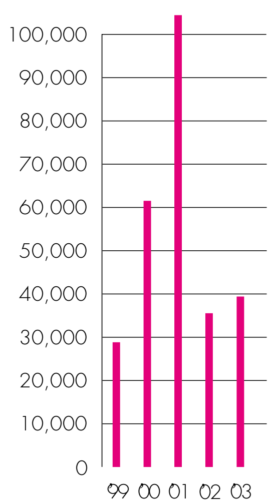
	Millions of yen except per share amounts					Thousands of U.S. dollars except per share amounts (Note 1)
	2003	2002	2001	2000	1999	2003
Net sales	¥394,955	¥394,775	¥584,011	¥459,125	¥367,048	$3,291,292
Operating costs and expenses	335,768	343,774	409,763	358,358	309,987	2,798,067
Operating income	59,187	51,001	174,248	100,767	57,061	493,225
Other income (expenses)	(93)	1,407	(323)	7,307	4,566	(775)
Income before income taxes and cumulative effect of changes in accounting principle	59,094	52,408	173,925	108,074	61,627	492,450
Net income	39,467	34,999	104,927	61,626	28,884	328,892
Amounts per share:						
Earnings per share						
Basic	¥ 163.47	¥ 143.91	¥ 434.52	¥ 256.54	¥ 120.52	$1.36
Diluted	163.47	143.34	429.83	252.70	118.65	1.36
Cash dividends	50.00	50.00	37.50	28.50	22.00	0.42
Pro forma amounts assuming accounting change applied retroactively;						
Net income	–	–	–	63,257	28,208	–
Amounts per share:						
Earnings per share						
Basic	–	–	–	263.33	117.69	–
Diluted	–	–	–	259.38	115.88	–
Current assets	575,768	545,881	558,876	491,494	423,278	4,798,067
Property, plant and equipment less accumulated depreciation	234,117	269,392	292,053	235,649	213,688	1,950,975
Total assets	834,313	839,372	876,836	755,212	662,050	6,952,608
Shareholders' equity	692,090	726,236	696,403	585,325	531,745	5,767,417
Capital investment	18,161	34,591	107,796	71,459	42,798	151,342
Number of employees	26,435	27,386	27,851	25,427	23,536	

Notes: 1. The U.S. dollar amounts in this report represent translation of Japanese yen for convenience only at the rate of ¥120=U.S.$1.
2. Pro forma data reflect the effect of accounting change of termination and retirement benefits described in Note 6 of Notes to Consolidated Financial Statements.

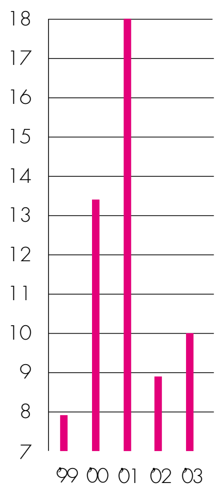
Net sales
(Millions of yen)



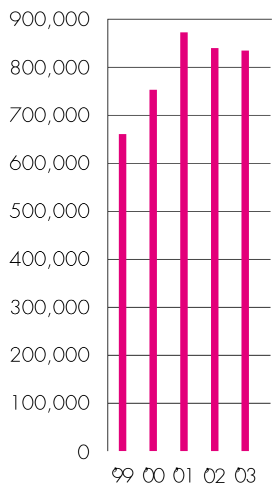
Net income
(Millions of yen)



Return on net sales
(%)



Total assets
(Millions of yen)



Segment Information

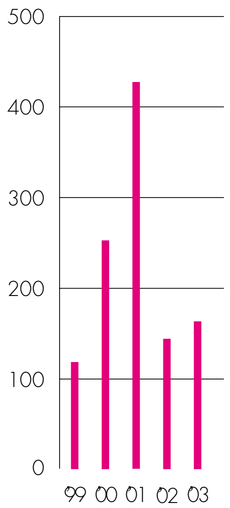
Geographic Segment Information

2003	Millions of yen					
	Japan	The Americas	Europe	Asia	Corporate and eliminations	Consolidated
Unaffiliated customers	¥196,798	¥47,056	¥44,066	¥107,035	¥ –	¥394,955
Intersegment	106,868	152	163	14,743	(121,926)	–
Total revenue	303,666	47,208	44,229	121,778	(121,926)	394,955
Operating expenses	259,343	45,180	41,154	112,830	(122,739)	335,768
Operating income	44,323	2,028	3,075	8,948	813	59,187
Assets	333,169	16,267	22,005	64,664	398,208	834,313

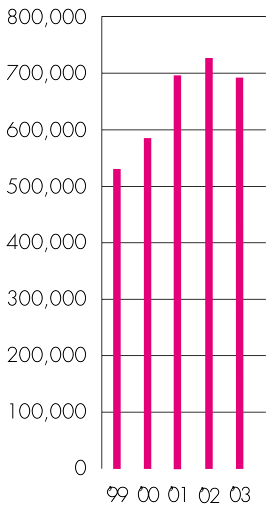
2002	Millions of yen					
	Japan	The Americas	Europe	Asia	Corporate and eliminations	Consolidated
Unaffiliated customers	¥195,182	¥50,777	¥49,070	¥99,746	¥ –	¥394,775
Intersegment	90,332	694	366	13,009	(104,401)	–
Total revenue	285,514	51,471	49,436	112,755	(104,401)	394,775
Operating expenses	255,013	51,153	42,142	101,053	(105,587)	343,774
Operating income	30,501	318	7,294	11,702	1,186	51,001
Assets	385,544	24,617	23,096	68,085	338,030	839,372

2003	Thousands of U.S.dollars					
	Japan	The Americas	Europe	Asia	Corporate and eliminations	Consolidated
Unaffiliated customers	$1,639,983	$392,133	$367,217	$891,959	$ –	$3,291,292
Intersegment	890,567	1,267	1,358	122,858	(1,016,050)	–
Total revenue	2,530,550	393,400	368,575	1,014,817	(1,016,050)	3,291,292
Operating expenses	2,161,192	376,500	342,950	940,250	(1,022,825)	2,798,067
Operating income	369,358	16,900	25,625	74,567	6,775	493,225
Assets	2,776,408	135,558	183,375	538,867	3,318,400	6,952,608

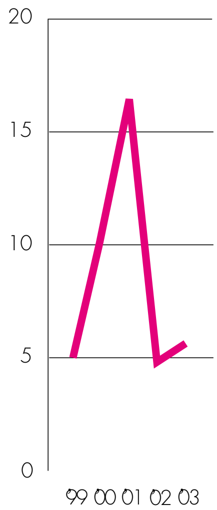
Diluted earnings per share*1
(Yen)



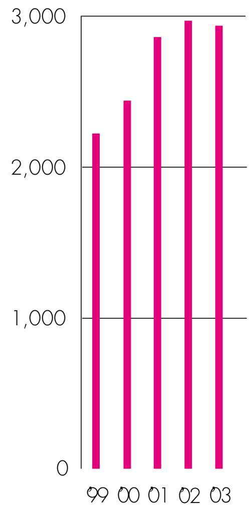
Shareholders' equity
(Millions of yen)



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 the Company's convertible bonds matured in March, 2002.
*2 Based on the number of common shares outstanding at term-end.

Overseas Sales

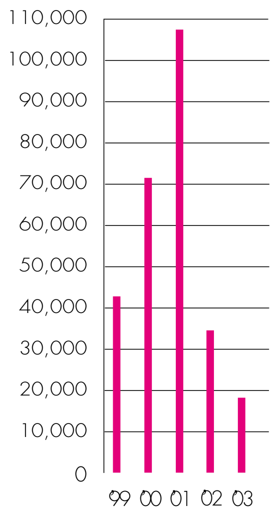
2003	Millions of yen The Americas	Europe	Asia and Others	Total
Overseas sales	¥51,095	¥55,947	¥149,421	¥256,463
Consolidated sales				394,955
Percentage	12.9%	14.2%	37.8%	64.9%

2002	Millions of yen The Americas	Europe	Asia and Others	Total
Overseas sales	¥56,074	¥56,706	¥140,089	¥252,869
Consolidated sales				394,775
Percentage	14.2%	14.4%	35.5%	64.1%

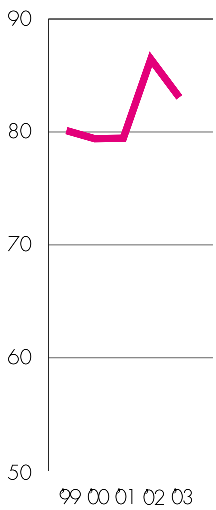
2003	Thousands of U.S.dollars The Americas	Europe	Asia and Others	Total
Overseas sales	$425,792	$466,225	$1,245,175	$2,137,192
Consolidated sales				3,291,292

Note: The segment information is required by the Japanese Securities Exchange Law.

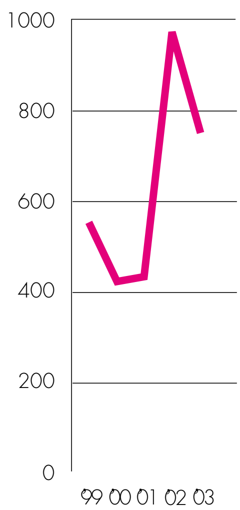
Capital investment
(Millions of yen)



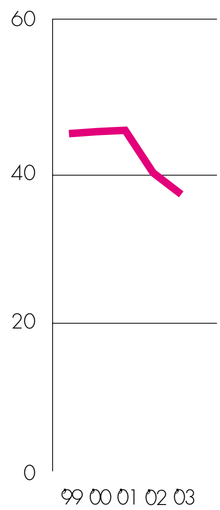
Shareholders' equity ratio
(%)



Current ratio
(%)



Fixed assets ratio
(%)



Production, Order and Backlog by Product

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

	Millions of yen	Component ratio	Ratio against the previous year
	2003		
Production by Product		%	%
Capacitors	¥145,661	37.1	19.4
Resistors	14,293	3.6	15.8
Piezoelectric Components	78,348	19.9	12.8
Microwave Devices	50,421	12.8	19.8
Module Products	54,137	13.8	0.3
Other Products	50,345	12.8	41.4
Total	¥393,205	100.0	17.2

*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, backlog of electronics components and related products.

	Millions of yen	Component ratio	Ratio against the previous year
	2003		
Order by Product		%	%
Capacitors	¥144,324	37.2	1.7
Resistors	13,669	3.5	7.9
Piezoelectric Components	75,706	19.5	6.6
Microwave Devices	49,662	12.8	22.1
Module Products	53,927	13.9	8.3
Other Products	50,699	13.1	19.9
Total	¥387,987	100.0	8.3

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

	Millions of yen	Component ratio	Ratio against the previous year
	2003		
Backlog by Product		%	%
Capacitors	¥10,871	30.3	(26.8)
Resistors	1,616	4.5	(12.9)
Piezoelectric Components	6,472	18.1	(14.4)
Microwave Devices	4,543	12.7	(7.8)
Module Products	6,937	19.3	(3.6)
Other Products	5,403	15.1	6.1
Total	¥35,842	100.0	(13.6)

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

Capital Investment

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

1) Capital Investment for the fiscal year ended March 2003 amounted to ¥18,161 million (US$151,342 Thousand). Major capital investment included the expansion of Domestic subsidiaries, and R&D facility.

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

2003	Millions of yen				
	Land	Buildings	Machinery and equipment	Construction in progress	Total
Parent Company					
Plant, Office and other					
Head Office in Kyoto	¥ 175	¥ 1,032	¥ 973	¥ 396	¥ 2,577
Yokaichi Plant in Shiga	269	6,118	6,409	175	12,972
Yasu Plant in Shiga	8,530	15,410	7,009	256	31,206
Yokohama Plant in Kanagawa	2,654	3,021	937	1	6,615
Tokyo Branch	4,622	3,467	74	–	8,165
Other	6,870	804	6,744	–	14,420

2003	Millions of yen				
	Land	Buildings	Machinery and equipment	Construction in progress	Total
Domestic subsidiaries					
Company Name					
Fukui Murata Manufacturing Co.,Ltd.	¥2,025	¥11,852	¥18,244	¥ 325	¥32,446
Izumo Murata Manufacturing Co.,Ltd.	1,161	8,848	13,016	861	23,886
Kanazawa Murata Manufacturing Co.,Ltd.	1,261	5,793	9,247	292	16,593
Toyama Murata Manufacturing Co.,Ltd.	1,471	3,444	5,638	219	10,772
Okayama Murata Manufacturing Co.,Ltd.	–	7,618	2,443	32	10,093

2003	Millions of yen				
	Land	Buildings	Machinery and equipment	Construction in progress	Total
Foreign subsidiaries					
Company Name					
Murata Electronics Singapore (Pte.) Ltd.	¥ –	¥3,816	¥9,610	¥ 51	¥13,477
Murata Electronics (Thailand), Ltd.	127	1,222	2,463	85	3,897
Wuxi Murata Electronics Co., Ltd.	–	1,901	1,404	342	3,647
Murata Electronics North America, Inc.	172	1,196	841	–	2,209
Beijing Murata Electronics Co., Ltd.	–	960	1,118	36	2,114

Consolidated Balance Sheets

Murata Manufacturing Co., Ltd. and Subsidiaries
March 31, 2003 and 2002

ASSETS	Millions of yen 2003	Millions of yen 2002	Thousands of U.S. dollars (Note 2) 2003
Current assets:			
Cash	¥ 21,221	¥ 26,062	$ 176,842
Time deposits	56,552	52,991	471,266
Total cash and cash equivalents	77,773	79,053	648,108
Marketable securities (Note 3)	343,257	284,212	2,860,475
Notes and accounts receivable:			
Trade notes	14,153	20,400	117,942
Trade accounts	70,123	63,169	584,358
Allowance for doubtful notes and accounts	(886)	(1,055)	(7,383)
Inventories (Note 4)	53,317	59,192	444,308
Income tax refunds receivable	–	24,828	–
Prepaid expenses and other	3,716	2,401	30,967
Deferred income taxes (Note 9)	14,315	13,681	119,292
Total current assets	575,768	545,881	4,798,067
Property, plant and equipment:			
Land	42,838	42,989	356,983
Buildings	185,314	183,761	1,544,283
Machinery and equipment	415,679	419,244	3,463,992
Construction in progress	3,950	6,560	32,917
Total	647,781	652,554	5,398,175
Accumulated depreciation	(413,664)	(383,162)	(3,447,200)
Net property, plant and equipment	234,117	269,392	1,950,975
Investments and other assets:			
Investments (Note 3)	8,218	10,100	68,483
Long-term receivables, advances and other	5,440	6,668	45,333
Deferred income taxes (Note 9)	10,770	7,331	89,750
Total investments and other assets	24,428	24,099	203,566
Total	¥834,313	¥839,372	$6,952,608

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2003	2002	Thousands of U.S. dollars (Note 2) 2003
Current liabilities:			
Short-term borrowings (Note 5)	¥ 3,134	¥ 925	$ 26,117
Trade notes payable	1,092	860	9,100
Trade accounts payable	13,791	11,154	114,925
Accrued payroll and bonuses	16,337	15,781	136,142
Income taxes payable	20,232	4,228	168,600
Accrued expenses and other	19,528	23,109	162,733
Current portion of long-term debt	4	4	33
Total current liabilities	74,118	56,061	617,650
Long-term liabilities:			
Long-term debt	53	65	442
Termination and retirement benefits (Note 6)	64,207	47,373	535,058
Deferred income taxes (Note 9)	3,845	9,637	32,041
Total long-term liabilities	68,105	57,075	567,541
Commitments and contingent liabilities (Note 13)			
Shareholders' equity (Notes 8 and 15):			
Common stock (authorized 600,000,000 shares; issued 244,263,592 shares in 2003 and 2002)	69,377	69,377	578,142
Additional paid-in capital	102,222	102,222	851,850
Retained earnings	587,893	560,590	4,899,108
Accumulated other comprehensive income (loss):			
Unrealized gains on securities	118	261	983
Minimum pension liability adjustments	(10,055)	(2,937)	(83,792)
Unrealized gains (losses) on derivative instruments	21	(4)	175
Foreign currency translation adjustments	(9,302)	(3,238)	(77,516)
Total accumulated other comprehensive loss	(19,218)	(5,918)	(160,150)
Treasury stock, at cost 8,811,683 shares in 2003 and 4,213 shares in 2002	(48,184)	(35)	(401,533)
Total shareholders' equity	692,090	726,236	5,767,417
Total	¥834,313	¥839,372	$6,952,608

Consolidated Statements of Income

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2003	2002	2001	2003
Net sales	¥394,955	¥394,775	¥584,011	$3,291,292
Operating costs and expenses:				
Cost of sales	244,923	253,316	314,758	2,041,025
Selling, general and administrative	59,418	58,864	64,466	495,150
Research and development	31,427	31,594	30,539	261,892
Total operating costs and expenses	335,768	343,774	409,763	2,798,067
Operating income	59,187	51,001	174,248	493,225
Other income (expenses):				
Interest and dividend income	2,507	2,444	3,022	20,892
Interest expense	(82)	(142)	(444)	(683)
Losses on impairment of investment securities	(2,364)	(2,853)	(1,040)	(19,700)
Foreign currency exchange gain (loss)	1,243	241	(2,013)	10,358
Other-net	(1,397)	1,717	152	(11,642)
Other income (expenses)-net	(93)	1,407	(323)	(775)
Income before income taxes and cumulative effect of a change in accounting for derivative instruments	59,094	52,408	173,925	492,450
Income taxes (Note 9)	19,627	17,197	68,998	163,558
Income before cumulative effect of a change in accounting for derivative instruments	39,467	35,211	104,927	328,892
Cumulative effect of a change in accounting for derivative instruments (Notes 1. m)	–	(212)	–	–
Net income	¥ 39,467	¥ 34,999	¥104,927	$ 328,892

	Yen			U.S. dollars (Note 2)
Amounts per share (Note 11):				
Basic earnings per share:				
Income before cumulative effect of a change in accounting for derivative instruments	¥163.47	¥144.78	¥434.52	$1.36
Cumulative effect of a change in accounting for derivative instruments	–	(0.87)	–	–
Net income	¥163.47	¥143.91	¥434.52	$1.36
Diluted earnings per share:				
Income before cumulative effect of a change in accounting for derivative instruments	¥163.47	¥144.21	¥429.83	$1.36
Cumulative effect of a change in accounting for derivative instruments	–	(0.87)	–	–
Net income	¥163.47	¥143.34	¥429.83	$1.36
Cash dividends per share	¥ 50.00	¥ 50.00	¥ 37.50	$0.42

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2003	2002	2001	2003
Net income	¥ 39,467	¥ 34,999	¥104,927	$328,892
Other comprehensive income (loss), net of tax (Note 12):				
Unrealized losses on securities	(143)	(1,447)	(1,567)	(1,192)
Minimum pension liability adjustments	(7,118)	(2,937)	1,129	(59,317)
Unrealized gains (losses) on derivative instruments	25	(4)	–	208
Foreign currency translation adjustments	(6,064)	8,005	10,966	(50,533)
Other comprehensive income (loss)	(13,300)	3,617	10,528	(110,834)
Comprehensive income	¥ 26,167	¥ 38,616	¥115,455	$218,058

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2003, 2002 and 2001

	Number of common shares issued	Millions of yen				
		Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock
Balance at March 31, 2000	240,514,713	¥65,567	¥ 97,974	¥441,847	¥(20,063)	
Shares issued upon conversion of debt	2,061,123	2,110	2,102			
Shares issued to acquire a company	30,487	2	452			
Net income				104,927		
Cash dividends, ¥37.5 per share				(9,043)		
Other comprehensive income, net of tax					10,528	
Balance at March 31, 2001	242,606,323	67,679	100,528	537,731	(9,535)	
Shares issued upon conversion of debt	1,657,269	1,698	1,694			
Purchases of Treasury stock at cost						¥ (35)
Net income				34,999		
Cash dividends, ¥50.0 per share				(12,140)		
Other comprehensive income, net of tax					3,617	
Balance at March 31, 2002	244,263,592	69,377	102,222	560,590	(5,918)	(35)
Purchases of Treasury stock at cost						(48,149)
Net income				39,467		
Cash dividends, ¥50.0 per share				(12,164)		
Other comprehensive loss, net of tax					(13,300)	
Balance at March 31, 2003	244,263,592	¥69,377	¥102,222	¥587,893	¥(19,218)	¥(48,184)

	Thousands of U.S. dollars (Note 2)				
	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock
Balance at March 31, 2002	$578,142	$851,850	$4,671,583	$ (49,316)	$ (291)
Purchases of Treasury stock at cost					(401,242)
Net income			328,892		
Cash dividends, $0.42 per share			(101,367)		
Other comprehensive loss, net of tax				(110,834)	
Balance at March 31, 2003	$578,142	$851,850	$4,899,108	$ (160,150)	$(401,533)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2003	2002	2001	2003
Operating activities:				
Net income	¥ 39,467	¥ 34,999	¥104,927	$ 328,892
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	50,846	56,488	53,950	423,717
Losses on sales and disposals of property, plant and equipment	650	105	961	5,417
Losses (gains) on sales of investments	(39)	(119)	2	(325)
Losses on impairment of investment securities	2,364	2,853	1,040	19,700
Provision for termination and retirement benefits, less payments	4,830	3,977	3,914	40,250
Deferred income taxes	(3,896)	9,630	(10,344)	(32,467)
Cumulative effect of a change in accounting for derivative instruments	–	212	–	–
Changes in assets and liabilities:				
Decrease (increase) in trade notes and accounts receivable	(2,126)	36,067	(2,075)	(17,717)
Decrease (increase) in inventories	4,528	34,348	(14,439)	37,734
Decrease (increase) in income tax refunds receivable	24,828	(24,828)	–	206,900
Decrease (increase) in prepaid expenses and other	(1,277)	1,065	617	(10,642)
Increase (decrease) in trade notes and accounts payable	2,983	(13,158)	(2,106)	24,858
Increase (decrease) in accrued payroll and bonuses	557	(2,506)	1,153	4,642
Increase (decrease) in income taxes payable	16,003	(44,935)	10,637	133,358
Increase (decrease) in accrued expenses and other	(3,500)	(6,863)	2,954	(29,167)
Other–net	437	623	602	3,642
Net cash provided by operating activities	136,655	87,958	151,793	1,138,792
Investing activities:				
Capital expenditures	(18,161)	(34,591)	(107,796)	(151,342)
Payment for purchases of investments	(1,031)	(1,036)	(18)	(8,592)
Net decrease (increase) in marketable securities	(58,798)	(121,116)	26,817	(489,983)
Issuance of loans receivable	(5)	(7)	(37)	(42)
Proceeds from sales of property, plant and equipment	95	154	294	792
Proceeds from sales of investments	93	801	1	775
Collection of loans receivable	22	52	329	183
Acquisition of a company	–	–	593	–
Net cash used in investing activities	(77,785)	(155,743)	(79,817)	(648,209)
Financing activities:				
Net increase (decrease) in short–term borrowings	2,396	(2,788)	(2,601)	19,967
Increase in long–term debt	–	–	141	–
Repayments of long–term debt	(12)	(570)	(769)	(100)
Dividends paid	(12,164)	(12,140)	(9,043)	(101,367)
Payment for purchases of treasury stock	(48,149)	–	–	(401,242)
Net cash used in financing activities	(57,929)	(15,498)	(12,272)	(482,742)
Effect of exchange rate changes on cash and cash equivalents	(2,221)	3,519	2,063	(18,508)
Net increase (decrease) in cash and cash equivalents	(1,280)	(79,764)	61,767	(10,667)
Cash and cash equivalents at beginning of year	79,053	158,817	97,050	658,775
Cash and cash equivalents at end of year	¥ 77,773	¥ 79,053	¥158,817	$ 648,108
Additional cash flow information:				
Interest paid	¥ 78	¥ 136	¥ 465	$ 650
Income taxes paid (received), net of refunds	(17,309)	77,330	68,705	(144,242)
Non-cash financing activities:				
Convertible debt converted into common stock	–	¥ 3,394	¥ 4,221	–

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Murata Manufacturing Co., Ltd. and Subsidiaries

1. Summary of Significant Accounting Policies

(a) Nature of operations

Murata Manufacturing Co., Ltd. (the "Company") and subsidiaries (together the "Companies") are engaged in the development, manufacture and sale of electronic components 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, resistors, piezoelectric components, microwave devices and module products, which are sold mainly to electronics companies for use as components in telecommunication, computer, audio, video 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

In reporting cash flows, the Companies include cash and time deposits in Japanese banks 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 Company classifies all its debt securities and marketable equity securities as available-for-sale and carries them at market 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. Losses from other-than-temporary impairments in the value of marketable and nonmarketable securities, if any, are charged to income as incurred.

(f) Inventories

Inventories are stated at the lower of cost or market. The average cost method is used to determine cost for approximately 94% of the inventories, and the first-in, first-out (FIFO) method is used for substantially all other inventories.

(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." The provision for termination and retirement benefits includes those for directors and corporate auditors of the Company.

(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, 2003, 2002 and 2001 were ¥1,507 million ($12,558 thousand), ¥1,483 million and ¥1,667 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 Company accounts for its 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 those related to the Company's convertible bonds matured in March, 2002. A reconciliation of the numerator and denominator of the basic and diluted earnings per share computation is included in Note 11.

(m) Derivatives

On April 1, 2001, the Companies adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133." Both 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.

The cumulative effect adjustment upon the adoption of SFAS No. 133 and No. 138 at April, 2001, net of the related income tax effect resulted in a decrease in net income of approximately ¥212 million and a decrease in other comprehensive income of approximately ¥395 million.

Prior to the adoption of SFAS No.133 and No.138, gains and losses on derivatives used to hedge existing assets or liabilities were recognized in income, as were the offsetting foreign exchange losses and gains on the items hedged. Gains and losses related to qualifying hedges of future commitments were deferred and recognized in income when the hedged transaction occurred.

(n) Stock-based Compensation

The Company accounts for stock-based awards to employees using the intrinsic value method in accordance with APB Opinion No.25 "Accounting for Stock Issued to Employees", including related interpretations, that SFAS No.123, "Accounting for Stock Based Compensation" permits 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 exceeded the market value of the underlying common stock on the date of grant.

The Company follows the disclosure provision of SFAS No.123 and SFAS No.148, "Accounting for Stock-Based Compensation-Transition and Disclosure" that was issued in December 2002. At March 31, 2003, the Company had a stock-based employee compensation plan, which is described more fully in Note7.

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.

	Millions of yen	Thousands of U.S. dollars
	2003	2003
Net Income		
Reported	¥39,467	$328,892
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	(54)	(450)
Pro forma	¥39,413	$328,442

	Yen	U.S. dollars
Earnings per Share–Net income	2003	2003
Reported		
Basic earnings per share	¥163.47	$1.36
Diluted earnings per share	163.47	1.36
Pro forma		
Basic earnings per share	¥163.24	$1.36
Diluted earnings per share	163.24	1.36

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

Weighted-average assumptions:		
Risk Free interest rate	0.26	%
Expected lives	4.00	years
Expected volatility	55.40	%
Expected dividend	0.80	%

(o) Shipping and Handling costs

Shipping and Handling costs which were included in selling, general and administrative expenses for the years ended March 31, 2003, 2002 and 2001 were ¥3,492 million ($29,100 thousand), ¥3,222 million and ¥3,963 million, respectively.

(p) Consideration given by a vendor to a customer

On April 1, 2002, the Companies adopted the Emerging Issues Task Force ("EITF") Issue 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. The adoption resulted in a reduction in net sales and a corresponding decrease in selling, general and administrative expenses, and had no material effect on the consolidated statement of income for the year ended March 31, 2003. The figures for previous years have not been reclassified because the adoption had no material effect on the consolidated statement of income for the years ended March 31, 2002 and 2001.

(q) Impairment of Disposal of Long-Lived Assets

On April 1, 2002, the Companies adopted SFAS No.144, "Accounting for the Impairment or Disposal of Long-Lived Assets". This statement applies to all long-lived assets (including discontinued operations) and it develops one accounting model for long-lived assets that are impaired or to be disposed. The adoption has no material effect on the consolidated financial statements.

(r) Guarantees

On April 1, 2002, the Companies adopted FASB Interpretation ("FIN") No.45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". This statement addresses the disclosure to be made by guarantor about its obligations under certain guarantees it has issued and clarifies the accounting for such guarantees. The effect of adoption of FIN No.45 is described in Note 13.

(s) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 2003 presentation.

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 and have been made at the rate of ¥120 to $1, the approximate free rate of exchange at March 31, 2003. 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, 2003 and 2002 were as follows:

	Millions of yen			
	2003			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Current:				
Governmental debt securities	¥135,497	¥ 8	¥ 12	¥135,493
Private debt securities	207,917	317	470	207,764
Total	¥343,414	¥ 325	¥ 482	¥343,257
Non-current:				
Private debt securities	¥ 8	–	–	¥ 8
Equity securities	5,224	¥ 729	¥ 120	5,833
Total	¥ 5,232	¥ 729	¥ 120	¥ 5,841

	Millions of yen			
	2002			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Current:				
Governmental debt securities	¥ 84,803	¥ 52	¥ 8	¥ 84,847
Private debt securities	199,813	320	768	199,365
Total	¥284,616	¥ 372	¥ 776	¥284,212
Non-current:				
Private debt securities	¥ 20	–	¥ 9	¥ 11
Equity securities	7,590	¥1,260	163	8,687
Total	¥ 7,610	¥1,260	¥ 172	¥ 8,698

	Thousands of U.S. dollars			
	2003			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Current:				
Governmental debt securities	$1,129,142	$ 66	$ 100	$1,129,108
Private debt securities	1,732,642	2,642	3,917	1,731,367
Total	$2,861,784	$ 2,708	$ 4,017	$2,860,475
Non-current:				
Private debt securities	$ 67	–	–	$ 67
Equity securities	43,533	$ 6,075	$ 1,000	48,608
Total	$ 43,600	$ 6,075	$ 1,000	$ 48,675

The aggregate carrying amounts of the equity securities that do not have a readily determinable fair value at March 31, 2003 and 2002, which were valued at cost, were ¥2,377 million ($19,808 thousand) and ¥1,402 million, respectively. They were not included in the above schedule.

Contractual maturities of debt securities as of March 31, 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	Cost	Fair Value	Cost	Fair Value
Within one year	¥246,704	¥246,645	$2,055,867	$2,055,375
After one year through five years	83,826	83,957	698,550	699,642
After five years	12,892	12,663	107,434	105,525
Total	¥343,422	¥343,265	$2,861,851	$2,860,542

Sales of available-for-sale securities were as follows:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	2003
Proceeds from sales	¥1,085	¥ 530	¥1,002	$9,042
Gross realized gains	41	5	136	342
Gross realized losses	7	25	2	58

4. Inventories

Inventories at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Finished products	¥20,627	¥23,195	$171,892
Work-in-process	23,028	24,567	191,900
Materials and supplies	9,662	11,430	80,516
Total	¥53,317	¥59,192	$444,308

5. Short-Term Borrowings

Short-term borrowings at March 31, 2003 and 2002 consisted of bank loans.

The weighted average annual interest rates of short-term borrowings at March 31, 2003 and 2002 were 1.2% and 3.2%, respectively.

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 against the debt of the Companies.

6. Termination and Retirement Benefits

The Companies sponsor termination and retirement benefit plans which cover substantially all employees. Benefits are primarily based on the employees' 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.

Contributory Termination and Retirement Plans ("CTRP")

The Company and a domestic subsidiary have contributory termination and retirement plans that are interrelated with the Japanese government social welfare program which consists of a substitutional portion requiring employee and employer contributions, plus a corporate portion established by the employers. Periodic pension payments required under the substitutional portion are prescribed by the Japanese Ministry of Health, Labour and Welfare. Benefits under the corporate portion are usually paid in a lump sum at the earlier of termination or retirement although periodic payments are also available under certain conditions.

Noncontributory Termination and Retirement Plans

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. Payments to directors and corporate auditors require approval by the shareholders before payment.

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

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Change in benefit obligation:			
Benefit obligation at beginning of year	¥115,294	¥102,801	$ 960,784
Service cost	5,715	6,531	47,625
Interest cost	2,820	2,995	23,500
Plan participants' contributions	511	612	4,258
Amendments	–	(1,667)	–
Actuarial loss	8,789	6,841	73,242
Benefits paid	(1,319)	(1,182)	(10,992)
Settlement paid	(1,790)	(1,637)	(14,917)
Benefit obligation at end of year	130,020	115,294	1,083,500
Change in plan assets:			
Fair value of plan assets at beginning of year	56,664	56,272	472,200
Actual return on plan assets	(7,527)	(3,366)	(62,725)
Employer contribution	4,604	4,566	38,367
Plan participants' contributions	511	612	4,258
Benefits paid	(1,319)	(1,182)	(10,992)
Settlement paid	(204)	(238)	(1,700)
Fair value of plan assets at end of year	52,729	56,664	439,408
Funded status	(77,291)	(58,630)	(644,091)
Unrecognized transition obligation	133	268	1,108
Unrecognized actuarial loss	46,348	33,301	386,233
Unrecognized prior service benefit	(16,150)	(17,274)	(134,583)
Net amount recognized	¥ (46,960)	¥ (42,335)	$(391,333)
Amounts recognized in the consolidated balance sheet consist of:			
Termination and retirement benefits	¥ (64,207)	¥ (47,373)	$(535,058)
Minimum pension liability adjustments, before tax	17,247	5,308	143,725
Net amount recognized	¥ (46,960)	¥ (42,335)	$(391,333)
Accumulated benefit obligation at end of year	¥114,936	¥104,463	$ 957,800

Accumulated benefit obligations for all of the Companies' termination and retirement plans were in excess of their plan assets at March 31, 2003 and 2002.

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

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	2003
Service cost, net of plan participants' contributions	¥ 5,715	¥ 6,531	¥ 7,683	$47,625
Interest cost	2,820	2,995	3,184	23,500
Expected return on plan assets	(1,412)	(1,677)	(1,662)	(11,767)
Amortization of transition obligation	134	134	134	1,116
Recognized actuarial loss	4,460	3,114	1,896	37,167
Amortization of prior service benefit	(1,123)	(1,116)	(477)	(9,358)
Net periodic cost	¥10,594	¥ 9,981	¥10,758	$88,283

The following assumptions were utilized to calculate the actuarial present value of the benefit obligation as of March 31 and expected return on plan assets for the period then ended:

	2003	2002	2001
Discount rate	2.0%	2.5%	3.0%
Compensation increase rate	2.0%	2.0%	3.5%
Expected long-term rate of return on plan assets	2.5%	3.0%	3.0%

The unrecognized transition obligation is being amortized over fifteen years.

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

In the year ended March 31, 2002, the Company and a domestic subsidiary amended their contributory termination and retirement plans. Major changes were amendments in the benefits calculation factor of the corporate portion. As a result of these amendments, the benefit obligation decreased by ¥1,667 million during the year ended March 31, 2002. The unrecognized prior service benefit due to these amendments is being amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits.

The Company and a subsidiary made applications for an exemption from the obligation to pay benefits for future employee service related to the substitutional portion and were given approval from the Japanese Ministry of Health, Labour and Welfare on January 30, 2003. Following the provisions of EITF Issue No.03-2 "Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities", which was released in February 2003, the Company and a subsidiary will account for the remaining benefit obligation of the substitutional portion as well as the related government-specified portion of the plan assets of the CTRP after the applications are approved by the government and the assets and related obligations are transferred.

7. Stock-based Compensation

The Company has 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. The original number of authorized shares available for grant is 72,700.

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 the 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 2003 is as follows:

		Yen	U.S.dollars
Fixed Options	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Exercise Price
Outstanding at beginning of year ...	–	–	–
Granted ...	72,700	¥7,264	$60.53
Exercised ...	–	–	–
Forfeited ...	–	–	–
Outstanding at end of year ...	72,700	¥7,264	$60.53
Options exercisable at end of year ...	–	–	–
Weighted average fair value of options granted during the year ..		¥2,246	$18.72

The following summarizes information about fixed stock options outstanding at March 31, 2003:

Yen	Options Outstanding			
		Years	Yen	U.S.dollars
Range of Exercise Prices	Number of Shares	Weight-Average Remaining Contractual Life	Weighted-Average Exercise Price	Weighted-Average Exercise Price
¥7,264	72,700	5.33	¥7,264	$60.53

No options were exercisable as of March 31, 2003.

8. Shareholders' Equity

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which certain amendments became effective from October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The revised Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equal 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting and dispose of such treasury stock by resolution of the Board of Directors beginning April 1, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve to be reduced where such reduction was resolved at the general shareholders meeting.

The amount of retained earnings available for dividends under the Code was ¥218,035 million ($1,816,958 thousand) as of March 31, 2003, based on the amount recorded in the parent company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings avilable for dividends.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

On March 1, 2001, the Company acquired an insurance agency. The Company issued 30,487 new shares to acquire this company. Due to the acquisition, the balances of common stock and additional paid-in capital as of March 31, 2001, increased by ¥2 million and ¥452 million, respectively.

9. Income Taxes

The provision for income taxes for the years ended March 31, 2003, 2002 and 2001, consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	2003
Current	¥23,523	¥ 7,567	¥79,342	$196,025
Deferred	(3,896)	9,630	(10,344)	(32,467)
Provision for income taxes	¥19,627	¥17,197	¥68,998	$163,558

Current income tax expense for the years ended March 31, 2003 and 2002 includes income tax refunds of ¥1,765 million ($14,708 thousand) and ¥5,537 million, respectively. In the year ended March 31, 1999, the Company paid additional income taxes to the Japanese National Tax Authority ("JNTA") and other foreign tax jurisdictions based on their examination of the Company's transfer prices charged for sales of products to the Company's subsidiaries outside of Japan during the years ended March 31, 1992 through 1996. Subsequently, the Company sought mutual consultation of the JNTA and other foreign tax jurisdictions and filed a claim for review to the Japanese National Tax Tribunal. The Company received the above-mentioned refunds related to this transfer pricing issue in the years ended March 31, 2003 and 2002. As a result, this matter was completely resolved.

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:

	2003	2002	2001
Normal Japanese statutory rates	41.7%	41.7%	41.7%
Increase (decrease) in taxes resulting from:			
Tax credits	(4.4)	(3.6)	(1.0)
Permanently non-deductible items	0.1	0.2	0.1
Net change in valuation allowance for deferred tax assets	(0.5)	4.9	(0.1)
Income tax refund related to prior years' income	(2.6)	(9.5)	–
Effect of enacted future tax rate reduction on deferred taxes	(1.1)	–	–
Other–net	(0.0)	(0.9)	(1.0)
Effective tax rates	33.2%	32.8%	39.7%

Under the provisions of SFAS No.109, the effect of a change in tax laws or rates is included in income in the period the change is enacted and includes a cumulative recalculation of deferred tax balances based on the new tax laws or rates in effect. Such a change occurred at March 31, 2003, which decreased the normal statutory tax rate from 41.7% to 40.4% effective April 1, 2004. The provision for income tax-deferred for the year ended March 31, 2003 includes a credit of ¥677 million ($5,642 thousand) for the effect of the tax rate decrease on net deferred tax balances.

The approximate effect of temporary differences and tax loss carryforwards that gave rise to deferred tax balances at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Deferred tax assets:			
Intercompany profits	¥1,967	¥2,783	$ 16,391
Termination and retirement benefits	22,994	16,176	191,617
Enterprise taxes	1,771	159	14,758
Compensated absences	1,543	1,738	12,858
Inventory valuation	2,792	4,724	23,267
Marketable securities and investment adjustments	416	421	3,467
Depreciation	4,075	4,938	33,958
Accrued bonuses	4,035	2,471	33,625
Other temporary differences	6,860	4,675	57,167
Tax loss carryforwards	213	2,892	1,775
Total	46,666	40,977	388,883
Valuation allowance	(2,336)	(2,652)	(19,466)
Total	¥44,330	¥38,325	$369,417
Deferred tax liabilities:			
Undistributed earnings of foreign subsidiaries	¥18,239	¥20,635	$151,991
Enterprise taxes	–	1,670	–
Depreciation	905	995	7,542
Other temporary differences	3,962	3,714	33,017
Total	¥23,106	¥27,014	$192,550

The total valuation allowance decreased ¥316 million ($2,633 thousand) for the year ended March 31, 2003 and increased ¥2,594 million for the year ended March 31, 2002.

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, 2003 and 2002.

Certain subsidiaries have tax loss carryforwards approximating ¥957 million ($7,975 thousand) available to reduce future taxable income at March 31, 2003, which will expire substantially in the period from 2004 to 2008.

10. Foreign Operations

Net sales and net assets of foreign subsidiaries were as follows:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	2003
Net sales	¥198,157	¥199,593	¥323,175	$1,651,308
Net assets	136,474	144,093	130,661	1,137,283

11. Amounts per Share

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

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	2003
Income before cumulative effect of a change in accounting for derivative instruments	¥39,467	¥35,211	¥104,927	$328,892
Effect of dilutive securities				
1.8% convertible debentures	–	14	54	–
Diluted income before cumulative effect of a change in accounting for derivative instruments	¥39,467	¥35,225	¥104,981	$328,892

	Numbers of shares		
	2003	2002	2001
Average common shares outstanding	241,433,886	243,205,574	241,478,108
Dilutive effect of			
1.8% convertible debentures	–	1,057,733	2,758,565
Diluted common shares outstanding	241,433,886	244,263,307	244,236,673

	Yen			U.S. dollars
	2003	2002	2001	2003
Income before cumulative effect of a change in accounting for derivative instruments per share:				
Basic	¥163.47	¥144.78	¥434.52	$1.36
Diluted	163.47	144.21	429.83	1.36

Stock options to purchase 72,700 shares were not dilutive and, therefore, were not included in the computations of diluted earnings per share.

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, are as follows:

	Millions of yen		
	2003		
	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
Unrealized losses on securities:			
Unrealized holding losses arising during period ..	¥ (2,546)	¥ 1,032	¥ (1,514)
Reclassification adjustment for losses included in net income	2,300	(929)	1,371
	(246)	103	(143)
Minimum pension liability adjustments	(12,209)	5,091	(7,118)
Unrealized gains on derivative instruments:			
Unrealized holding gains arising during period	261	(108)	153
Reclassification adjustment for gains included in net income	(219)	91	(128)
	42	(17)	25
Foreign currency translation adjustments ...	(7,351)	1,287	(6,064)
Other comprehensive income (loss)	¥ (19,764)	¥ 6,464	¥ (13,300)

	Millions of yen		
	2002		
	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
Unrealized losses on securities:			
Unrealized holding losses arising during period	¥ (5,324)	¥ 2,220	¥ (3,104)
Reclassification adjustment for losses included in net income	2,842	(1,185)	1,657
	(2,482)	1,035	(1,447)
Minimum pension liability adjustments	(5,038)	2,101	(2,937)
Unrealized losses on derivative instruments:			
Cumulative effect of a change in accounting for derivative instruments	(678)	283	(395)
Unrealized holding losses arising during period	(357)	149	(208)
Reclassification adjustment for losses included in net income	1,028	(429)	599
	(7)	3	(4)
Foreign currency translation adjustments	9,353	(1,348)	8,005
Other comprehensive income (loss)	¥ 1,826	¥ 1,791	¥3,617

	Millions of yen		
	2001		
	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
Unrealized losses on securities:			
Unrealized holding losses arising during period	¥ (3,464)	¥ 1,445	¥ (2,019)
Reclassification adjustment for losses included in net income	776	(324)	452
	(2,688)	1,121	(1,567)
Minimum pension liability adjustments	3,685	(2,556)	1,129
Foreign currency translation adjustments	13,034	(2,068)	10,966
Other comprehensive income (loss)	¥14,031	¥(3,503)	¥10,528

	Thousands of U.S. Dollars		
	2003		
	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
Unrealized losses on securities:			
Unrealized holding losses arising during period	$ (21,217)	$ 8,600	$ (12,617)
Reclassification adjustment for losses included in net income	19,167	(7,742)	11,425
	(2,050)	858	(1,192)
Minimum pension liability adjustments	(101,742)	42,425	(59,317)
Unrealized gains on derivative instruments:			
Unrealized holding gains arising during period	2,175	(900)	1,275
Reclassification adjustment for gains included in net income	(1,825)	758	(1,067)
	350	(142)	208
Foreign currency translation adjustments	(61,258)	10,725	(50,533)
Other comprehensive income (loss)	$(164,700)	$53,866	$(110,834)

13. Commitments and Contingent Liabilities

Outstanding commitments at March 31, 2003 for the purchase of property, plant and equipment approximated ¥3,159 million ($26,325 thousand). At March 31, 2003, the Company was contingently liable for trade accounts receivable discounted and transferred to banks of ¥398 million ($3,317 thousand), which are accounted for as sales when discounted and transferred.

The Company guarantees its subsidiaries' bank loan and other ¥3,169 million ($26,408 thousand) at March 31, 2003. The guarantee continues until the loans, including interests and fees, have been paid in full by the subsidiaries. Payment by the Company would be required in the event of default and certain other specified events occurred by the subsidiaries.

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 Companies do not use derivative financial instruments for trading purposes. 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, 2003 and 2002:

Financial Assets and Liabilities

(1) Cash and cash equivalents, 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, 2003 and 2002.

(2) Marketable Securities

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 are presented in Note 3.

(3) Investments, long-term receivables, advances and other assets

Fair value is primarily based on quoted market prices or dealer quotes for the same or similar instruments. The fair values of applicable investments, long-term receivables, advances and other assets at March 31, 2003 and 2002 were ¥13,659 million ($113,825 thousand) and ¥16,682 million, compared with carrying amounts of ¥13,658 million ($113,817 thousand) and ¥16,768 million, respectively.

Forward Exchange Contracts

The Companies had ¥4,796 million ($39,967 thousand) and ¥2,376 million in notional amounts of forward exchange contracts outstanding as of March 31, 2003 and 2002, respectively, in order to hedge the foreign currency risk of various intercompany supply contracts, accounts receivable, accounts payable and short-term bank borrowings, which transactions are expected to occur within the next three months.

The estimated fair values of the Companies' forward exchange contracts at March 31, 2003 and 2002, which equal the carrying amounts, were ¥40 million ($333 thousand) and ¥15 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 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 are 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. Subsequent Events

The Board of Directors of the Company intends to propose for approval at the shareholders' meeting in June 2003:

(1) The payment of a cash dividend of ¥25 ($0.21) per share to shareholders of record as of March 31, 2003, or a total of ¥5,886 million ($49,050 thousand);
(2) The purchase of treasury stock up to a maximum of 10,000,000 shares or ¥50,000 million ($416,667 thousand) during the period commencing after the shareholders' meeting and extending until the following year's shareholders' meeting; and,
(3) The introduction of a stock option plan for directors, officers and certain management granting them stock purchase options, with certain restrictions. The Company plans to purchase its own shares up to a maximum of 100,000 shares, in order to satisfy the expected requirements of future stock option exercises.

INDEPENDENT AUDITORS' REPORT

Deloitte
Touche
Tohmatsu

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 as of March 31, 2003 and 2002, 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, 2003, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 ("SFAS") 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, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2003, 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. The translation of the financial statement amounts into U.S. dollars has been made solely for convenience.

Deloitte Touche Tohmatsu

June 6, 2003

Innovator in Electronics

Murata Manufacturing Co., Ltd.

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Printed in Japan
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