MURATA
SEMIANNUAL REPORT

For the six months ended September 30, 2003

Innovator in Electronics

Murata
Manufacturing Co., Ltd.

To Our Shareholders

In presenting this semiannual report on Murata's business performance for the 68th period (ending March 31, 2004), we would like to present here an overview of our business operations during the semiannual period.

In the first quarter of this semiannual period, which did not see a full-scale recovery of demand for electronic equipment, the world's electronic equipment market as a whole was sluggish due to reduced demand in some areas caused by the outbreak of SARS (severe acute respiratory syndrome) in Asia. Into the second quarter, however, the declaration of the end of SARS triggered an increase in equipment production and renewed demand for major electronic equipment such as mobile phones, personal computers, and digital AV equipment. These factors resulted in a recovery of demand for electronic components.

In the telecommunications equipment market, mobile phones, one of our main product lines, exhibited a favorable trend as a result of widespread use of advanced-function models such as those equipped with color LCDs and cameras, as well as a continuing increase in the number of new subscribers in new markets such as China.

In the computer-related equipment market, the demand for notebook computers grew, showing a recovery in production totals of personal computers; however, a reduction in equipment prices continued.

In the consumer electronics equipment market, a favorable trend was seen mainly in the American and Japanese markets,in both thin- and large-screen PDP and LCD television sets, as well as digital AV devices such as digital still cameras and digital video cameras. Meanwhile, the production of previous analog devices decreased.

Under these market conditions, Murata pushed forward the development of new products and technologies that will address the future trends in electronic equipment—digitization, high frequency application, smaller size, and modularization—with the aim of strengthening its product lineup to enable it to better respond to market needs. Murata also sought to strengthen its sales system in the East Asia region with China as the hub, making every effort to speed up delivery times in response to the sharp increase in demand and thereby improve Murata's service to its customers. To counter declining product prices, Murata continued its efforts to reduce costs by enhancing productivity, making efforts to build a profitable corporate structure by introducing new products that are smaller and more multifunctional.

As a result of these efforts, Murata achieved net sales of 198,713 million yen (up 0.5% from the previous semiannual period), operating income of 26,008 million yen (down 10.6%), income before taxes of 28,549 million yen (down 4.9%), and semiannual net income of 18,001 million yen (down 5.3%).

The general situation regarding sales of each type of product is as follows:

[Capacitors]

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

During this semiannual period, chip monolithic ceramic capacitors, the main product in this category, saw a recovery of orders mainly for the telecommunications equipment market beginning in the second quarter, with small-sized and large-capacity products showing a substantial increase in the number of items sold. However, affected by sluggish sales and a decline of product prices in the first quarter, the sales amount was lower than in the semiannual period the previous fiscal year. As a result, sales for the entire capacitor operation were 69,319 million yen, down 9.4% compared to the semiannual period in the previous fiscal year.

[Resistors]

This product line includes thermistors, trimmer potentiometers, resistance networks, high voltage resistors and related components.

During this semiannual period, sales of high voltage resistors declined sharply mainly in applications for consumer equipment in ASEAN countries. As a result, overall sales were 6,673 million yen, down 8.9% compared to the semiannual period in the previous fiscal year.

[Piezoelectric Components]

This product line includes ceramic filters, ceramic resonators, surface acoustic wave filters, piezoelectric buzzers and related components.

This semiannual period saw an increase in sales of surface acoustic wave filters destined for telecommunications equipment, surpassing the sales amount in the previous semiannual period. In contrast, ceramic filters and ceramic resonators saw a reduction in sales in the consumer electronic equipment and computer-related equipment fields, with products with lead terminals most affected, and showed a track record lower than in the semiannual period in the previous fiscal year. As a result, overall sales were 37,631 million yen, down 3.9% compared to the semiannual period in the previous fiscal year.

[Microwave Devices]

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

During this semiannual period, not only Bluetooth® modules destined for Europe, but also multilayer module products recorded great strides. As a result, overall sales were 29,240 million yen, up 32.6% compared to the semiannual period in the previous fiscal year.

[Module Products]

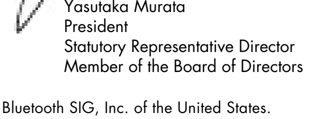
This product line includes circuit modules and various types of power supplies.

Among circuit modules, voltage controlled oscillators (VCOs) underwent a decline in sales in this semiannual period; however, other module products used for telecommunications equipment saw an increase in sales. In addition, power supply modules for consumer electronics and telecommunications equipment marked an increase, greatly surpassing the sales amount in the semiannual period in the previous fiscal year. As a result, overall sales were 27,754 million yen, up 3.1% compared to the semiannual period in the previous fiscal year.

[Other Products]

These products include EMI suppression filters and various types of sensors and coils.

In this semiannual period, sales of EMI suppression filters remained flat compared with the semiannual period last year. However, chip coils exhibited a great increase in applications for telecommunications equipment. Moreover, various sensors were up in Japan for both consumer and industrial electronics equipment. Reflecting these increases, sales greatly increased over the semiannual period in the previous fiscal year. As a result, overall sales were 27,438 million yen, up 9.2% compared to the semiannual period in the previous fiscal year.



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

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

SELECTED FINANCIAL DATA (UNAUDITED)

Murata Manufacturing Co., Ltd. and Subsidiaries
Six months ended September 30, 2003, 2002 and 2001

	Millions of yen except per share amounts			Thousands of U.S. dollars except per share amounts (Note)
	2003	2002	2001	**2003**
Net sales	**¥198,713**	¥197,795	¥202,543	**$1,790,207**
Operating costs and expenses	**172,705**	168,703	173,368	**1,555,901**
Operating income	**26,008**	29,092	29,175	**234,306**
Other income	**2,541**	929	2,704	**22,892**
Income before income taxes and cumulative effect of a change in accounting for derivative instruments	**28,549**	30,021	31,879	**257,198**
Net income	**18,001**	19,003	18,636	**162,171**
Amounts per share:				
Earnings per share				
Basic	**¥76.85**	¥77.94	¥76.74	**$0.69**
Diluted	**76.85**	77.94	76.36	**0.69**
Cash dividends	**25.00**	25.00	25.00	**0.23**
Current assets	**582,545**	573,619	516,541	**5,248,153**
Property, plant and equipment less accumulated depreciation	**225,044**	249,999	281,460	**2,027,423**
Total assets	**834,660**	846,562	821,948	**7,519,459**
Shareholders' equity	**696,828**	718,522	705,255	**6,277,730**
Capital investment	**12,346**	7,542	19,420	**111,225**
Number of employees	**26,604**	27,263	28,324	

Note:The U.S. dollar amounts in this report represent translation of Japanese yen for convenience only at the rate of ¥111=U.S.$1.

SEGMENT INFORMATION (UNAUDITED)

Murata Manufacturing Co., Ltd. and Subsidiaries
Six months ended September 30, 2003 and 2002

Geographic Segment Information

	Millions of yen					
2003	Japan	The Americas	Europe	Asia	Corporate and eliminations	Consolidated
Unaffiliated customers	**¥102,775**	**¥18,528**	**¥21,799**	**¥55,611**	**¥ –**	**¥198,713**
Intersegment	**52,996**	**84**	**1**	**8,428**	**(61,509)**	**–**
Total revenue	**155,771**	**18,612**	**21,800**	**64,039**	**(61,509)**	**198,713**
Operating expenses	**133,716**	**19,263**	**20,441**	**61,219**	**(61,934)**	**172,705**
Operating income (loss)	**22,055**	**(651)**	**1,359**	**2,820**	**425**	**26,008**

	Millions of yen					
2002	Japan	The Americas	Europe	Asia	Corporate and eliminations	Consolidated
Unaffiliated customers	¥95,484	¥25,664	¥22,061	¥54,586	¥ –	¥197,795
Intersegment	55,960	78	92	7,915	(64,045)	–
Total revenue	151,444	25,742	22,153	62,501	(64,045)	197,795
Operating expenses	130,506	24,994	20,493	57,355	(64,645)	168,703
Operating income	20,938	748	1,660	5,146	600	29,092

	Thousands of U.S.dollars					
2003	Japan	The Americas	Europe	Asia	Corporate and eliminations	Consolidated
Unaffiliated customers	**$925,901**	**$166,919**	**$196,387**	**$501,000**	**$ –**	**$1,790,207**
Intersegment	**477,441**	**757**	**9**	**75,928**	**(554,135)**	**–**
Total revenue	**1,403,342**	**167,676**	**196,396**	**576,928**	**(554,135)**	**1,790,207**
Operating expenses	**1,204,648**	**173,541**	**184,153**	**551,523**	**(557,964)**	**1,555,901**
Operating income (loss)	**198,694**	**(5,865)**	**12,243**	**25,405**	**3,829**	**234,306**

Overseas Sales

	Millions of yen			
2003	The Americas	Europe	Asia and Others	Total
Overseas sales	**¥20,646**	**¥29,035**	**¥76,051**	**¥125,732**
Consolidated sales				**198,713**
Percentage	**10.4%**	**14.6%**	**38.3%**	**63.3%**

	Millions of yen			
2002	The Americas	Europe	Asia and Others	Total
Overseas sales	¥27,974	¥25,765	¥74,397	¥128,136
Consolidated sales				197,795
Percentage	14.2%	13.0%	37.6%	64.8%

	Thousands of U.S.dollars			
2003	The Americas	Europe	Asia and Others	Total
Overseas sales	**$186,000**	**$261,577**	**$685,144**	**$1,132,721**
Consolidated sales				**1,790,207**

Note:The segment information is in accordance with the Japanese Securities Exchange Law.

Production, Order and Backlog by Product (Unaudited)

Murata Manufacturing Co., Ltd. and Subsidiaries
Six months ended September 30, 2003 and 2002

	Millions of yen	Component ratio	Millions of yen	Component ratio	Thousands of U.S.dollars
	2003		2002		2003
Production by Product		%		%	
Capacitors	¥65,796	33.5	¥78,677	38.6	$592,757
Resistors	6,424	3.3	7,613	3.7	57,874
Piezoelectric Components	36,834	18.8	41,842	20.5	331,838
Microwave Devices	31,515	16.1	23,068	11.3	283,919
Module Products	28,385	14.5	27,256	13.4	255,720
Other Products	27,187	13.8	25,611	12.5	244,928
Total	¥196,141	100.0	¥204,067	100.0	$1,767,036

Notes: 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 each period.
4. The tables by product indicate production, order and backlog of electronics components and related products.

2003	Millions of yen	Component ratio	Millions of yen	Component ratio
	Order		Backlog	
Order and Backlog by Product		%		%
Capacitors	¥71,229	35.0	¥12,781	30.8
Resistors	6,616	3.2	1,559	3.8
Piezoelectric Components	38,833	19.1	7,674	18.5
Microwave Devices	31,179	15.3	6,482	15.6
Module Products	27,854	13.7	7,037	16.9
Other Products	28,011	13.7	5,976	14.4
Total	¥203,722	100.0	¥41,509	100.0

2002	Millions of yen	Component ratio	Millions of yen	Component ratio
	Order		Backlog	
Order and Backlog by Product		%		%
Capacitors	¥75,011	38.0	¥13,308	31.9
Resistors	7,283	3.7	1,814	4.3
Piezoelectric Components	38,881	19.7	7,283	17.5
Microwave Devices	25,779	13.1	8,660	20.8
Module Products	25,358	12.8	5,629	13.5
Other Products	25,050	12.7	5,007	12.0
Total	¥197,362	100.0	¥41,701	100.0

2003	Thousands of U.S.dollars	
	Order	Backlog
Order and Backlog by Product		
Capacitors	$641,703	$115,144
Resistors	59,603	14,045
Piezoelectric Components	349,847	69,135
Microwave Devices	280,892	58,396
Module Products	250,937	63,397
Other Products	252,351	53,838
Total	$1,835,333	$373,955

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

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

Murata Manufacturing Co., Ltd. and Subsidiaries
As of September 30, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note2)
	2003	2002	**2003**
ASSETS			
Current assets:			
Cash	**¥ 17,073**	¥ 26,892	**$ 153,811**
Time deposits	**52,878**	49,667	**476,378**
Total cash and cash equivalents	**69,951**	76,559	**630,189**
Marketable securities (Note 1, 3)	**348,801**	337,313	**3,142,351**
Notes and accounts receivable:			
Trade notes	**16,951**	17,771	**152,712**
Trade accounts	**75,118**	68,121	**676,739**
Allowance for doubtful notes and accounts	**(865)**	(1,149)	**(7,793)**
Inventories (Note 1)	**51,717**	56,330	**465,919**
Prepaid expenses and other	**4,429**	3,496	**39,901**
Deferred income taxes	**16,443**	15,178	**148,135**
Total current assets	**582,545**	573,619	**5,248,153**
Property, plant and equipment (Note 1):			
Land	**42,986**	42,848	**387,261**
Buildings	**185,448**	182,881	**1,670,703**
Machinery and equipment	**417,271**	417,902	**3,759,198**
Construction in progress	**4,195**	5,299	**37,793**
Total	**649,900**	648,930	**5,854,955**
Accumulated depreciation	**(424,856)**	(398,931)	**(3,827,532)**
Net property, plant and equipment	**225,044**	249,999	**2,027,423**
Investments and other assets:			
Investments (Note 1, 3)	**11,169**	9,668	**100,622**
Long-term receivables, advances and other	**6,041**	5,531	**54,423**
Deferred income taxes (Note 1)	**9,861**	7,745	**88,838**
Total investments and other assets	**27,071**	22,944	**243,883**
Total	**¥834,660**	¥846,562	**$7,519,459**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term borrowings	**¥ 4,547**	¥ 2,068	**$ 40,964**
Trade notes payable	**924**	739	**8,324**
Trade accounts payable	**15,288**	12,167	**137,730**
Accrued payroll and bonuses	**16,536**	17,131	**148,973**
Income taxes payable	**12,389**	16,920	**111,613**
Accrued expenses and other	**22,529**	19,559	**202,964**
Total current liabilities	**72,213**	68,584	**650,568**
Long-term liabilities:			
Termination and retirement benefits (Note 1)	**59,603**	52,012	**536,964**
Deferred income taxes (Note 1)	**5,967**	7,381	**53,757**
Other	**49**	63	**440**
Total long-term liabilities	**65,619**	59,456	**591,161**
Commitments and contingent liabilities (Note 7)			
Shareholders' equity (Note 1, 9):			
Common stock (authorized 590,000,000 shares in 2003 and 600,000,000 shares in 2002; issued 234,263,592 shares in 2003 and 244,263,592 shares in 2002)	**69,377**	69,377	**625,018**
Additional paid-in capital	**102,222**	102,222	**920,919**
Retained earnings	**546,778**	573,487	**4,925,928**
Accumulated other comprehensive income (loss):			
Unrealized gains on securities	**1,718**	329	**15,478**
Minimum pension liability adjustments	**(5,507)**	(4,246)	**(49,613)**
Unrealized gains (losses) on derivative instruments	**49**	(6)	**441**
Foreign currency translation adjustments	**(13,999)**	(9,240)	**(126,117)**
Total accumulated other comprehensive loss	**(17,739)**	(13,163)	**(159,811)**
Treasury stock, at cost 715,617 shares in 2003 and 1,953,480 shares in 2002	**(3,810)**	(13,401)	**(34,324)**
Total shareholders' equity	**696,828**	718,522	**6,277,730**
Total	**¥834,660**	¥846,562	**$7,519,459**

See notes to consolidated financial statements.

Consolidated Statements of Income and Retained Earnings (Unaudited)

Murata Manufacturing Co., Ltd. and Subsidiaries
Six months ended September 30, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note2)
	2003	2002	2001	**2003**
Net sales (Note 1)	**¥198,713**	¥197,795	¥202,543	**$1,790,207**
Operating costs and expenses (Note 1):				
Cost of sales	**123,736**	123,012	126,755	**1,114,739**
Selling, general and administrative	**32,572**	29,959	30,547	**293,441**
Research and development	**16,397**	15,732	16,066	**147,721**
Total operating costs and expenses	**172,705**	168,703	173,368	**1,555,901**
Operating income	**26,008**	29,092	29,175	**234,306**
Other income (expenses) (Note 1):				
Interest and dividend income	**966**	1,310	1,502	**8,702**
Interest expense	**(41)**	(37)	(124)	**(369)**
Losses on impairment of investment securities	**(14)**	(332)	(169)	**(126)**
Foreign currency exchange gain	**744**	898	1,096	**6,703**
Other - net	**886**	(910)	399	**7,982**
Other income - net	**2,541**	929	2,704	**22,892**
Income before income taxes and cumulative effect of a change in accounting for derivative instruments	**28,549**	30,021	31,879	**257,198**
Income taxes (Note 1, 5):				
Current	**13,136**	13,628	7,445	**118,342**
Deferred	**(2,588)**	(2,610)	5,586	**(23,315)**
	10,548	11,018	13,031	**95,027**
Income before cumulative effect of a change in accounting for derivative instruments	**18,001**	19,003	18,848	**162,171**
Cumulative effect of a change in accounting for derivative instruments (Note1)	**–**	–	(212)	**–**
Net income	**18,001**	19,003	18,636	**162,171**
Retained earnings:				
Balance at beginning of period	**587,893**	560,590	537,729	**5,296,334**
Retirement of 10,000,000 shares of treasury stock	**(53,230)**	–	–	**(479,550)**
Cash dividends - ¥25.0 ($0.23) per share in 2003, 2002 and 2001	**(5,886)**	(6,106)	(6,065)	**(53,027)**
Balance at end of period	**¥546,778**	¥573,487	¥550,300	**$4,925,928**

	Yen			U.S. dollars (Note2)
Amounts per share (Note 1, 6):				
Basic earnings per share:				
Income before cumulative effect of a change in accounting for derivative instruments	**¥76.85**	¥77.94	¥77.61	**$0.69**
Cumulative effect of a change in accounting for derivative instruments	**–**	–	(0.87)	**–**
Net income	**¥76.85**	¥77.94	¥76.74	**$0.69**
Diluted earnings per share:				
Income before cumulative effect of a change in accounting for derivative instruments	**¥76.85**	¥77.94	¥77.22	**$0.69**
Cumulative effect of a change in accounting for derivative instruments	**–**	–	(0.86)	**–**
Net income	**¥76.85**	¥77.94	¥76.36	**$0.69**
Cash dividends per share	**¥25.00**	¥25.00	¥25.00	**$0.23**

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income (Unaudited)

Murata Manufacturing Co., Ltd. and Subsidiaries
Six months ended September 30, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note2)
	2003	2002	2001	**2003**
Net income	**¥18,001**	¥19,003	¥18,636	**$162,171**
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on securities	**1,600**	68	(1,965)	**14,414**
Minimum pension liability adjustments	**4,548**	(1,309)	–	**40,973**
Unrealized gains (losses) on derivative instruments	**28**	(2)	4	**252**
Foreign currency translation adjustments	**(4,697)**	(6,002)	(2,455)	**(42,315)**
Other comprehensive income (loss)	**1,479**	(7,245)	(4,416)	**13,324**
Comprehensive income	**¥19,480**	¥11,758	¥14,220	**$175,495**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows (Unaudited)

Murata Manufacturing Co., Ltd. and Subsidiaries
Six months ended September 30, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note2)
	2003	2002	2001	**2003**
Operating activities:				
Net income	**¥ 18,001**	¥ 19,003	¥ 18,636	**$ 162,171**
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	**20,840**	24,092	27,279	**187,748**
Losses on sales and disposal of property, plant and equipment	**317**	132	95	**2,856**
Gains on sales of investments	**(74)**	(0)	(141)	**(667)**
Losses on impairment of investment securities	**14**	332	169	**126**
Provision for termination and retirement benefits, less payments	**3,029**	2,390	1,788	**27,288**
Deferred income taxes	**(2,588)**	(2,610)	5,586	**(23,315)**
Cumulative effect of a change in accounting for derivative instruments	**–**	–	212	**–**
Changes in assets and liabilities:				
Decrease (increase) in trade notes and accounts receivable	**(9,083)**	(3,655)	23,424	**(81,829)**
Decrease in inventories	**898**	1,582	16,077	**8,090**
Decrease in income tax refunds receivable	**–**	24,828	–	**–**
Decrease (increase) in prepaid expenses and other	**(619)**	(1,102)	1,065	**(5,577)**
Increase (decrease) in trade notes and accounts payable	**1,395**	1,003	(14,778)	**12,568**
Increase (decrease) in accrued payroll and bonuses	**199**	1,351	(669)	**1,793**
Increase (decrease) in income taxes payable	**(7,762)**	12,692	(39,974)	**(69,928)**
Increase (decrease) in accrued expenses and other	**3,000**	(3,494)	(5,569)	**27,027**
Other-net	**(1,384)**	2,211	1,290	**(12,468)**
Net cash provided by operating activities	**26,183**	78,755	34,490	**235,883**
Investing activities:				
Capital expenditures	**(12,346)**	(7,542)	(19,420)	**(111,225)**
Payment for purchases of investments	**(8)**	(28)	–	**(72)**
Net increase in marketable securities	**(5,860)**	(52,861)	(1,008)	**(52,793)**
Issuance of loans receivable	**(11)**	(6)	(4)	**(99)**
Proceeds from sales of property, plant and equipment	**57**	89	98	**514**
Proceeds from sales of investments	**109**	5	775	**982**
Collection of loans receivable	**10**	16	29	**90**
Net cash used in investing activities	**(18,049)**	(60,327)	(19,530)	**(162,603)**
Financing activities:				
Net increase (decrease) in short-term borrowings	**1,404**	1,143	(2,374)	**12,649**
Dividends paid	**(5,886)**	(6,106)	(6,065)	**(53,027)**
Payment for purchases of treasury stock	**(8,856)**	(13,366)	–	**(79,784)**
Other	**(5)**	(2)	34	**(45)**
Net cash used in financing activities	**(13,343)**	(18,331)	(8,405)	**(120,207)**
Effect of exchange rate changes on cash and cash equivalents	**(2,613)**	(2,591)	(900)	**(23,541)**
Net increase (decrease) in cash and cash equivalents	**(7,822)**	(2,494)	5,655	**(70,468)**
Cash and cash equivalents at beginning of period	**77,773**	79,053	158,817	**700,657**
Cash and cash equivalents at end of period	**¥ 69,951**	¥ 76,559	¥ 164,472	**$ 630,189**
Additional cash flow information:				
Interest paid	**¥ 40**	¥ 36	¥ 115	**$ 360**
Income taxes paid (received), net of refunds	**20,979**	(23,892)	47,418	**189,000**
Non-cash financing activities:				
Convertible debt converted into common stock	**–**	–	700	**–**
Decrease in retained earnings due to retirement of treasury stock	**53,230**	–	–	**479,550**

See notes to consolidated financial statements.

Liquidity in Hand

	Millions of yen			Thousands of U.S. dollars (Note2)
	As of September. 30 2003	As of September. 30 2002	As of March. 31 2003	**As of September. 30 2003**
Cash and cash equivalents at end of period	**¥ 69,951**	¥ 76,559	¥ 77,773	**$ 630,189**
Marketable securities	**348,801**	337,313	343,257	**3,142,351**
Liquidity in hand	**¥ 418,752**	¥ 413,872	¥ 421,030	**$ 3,772,540**

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 accompanying unaudited 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 segment information required by Statement of Financial Accounting Standards ("SFAS") No.131, "Disclosures about Segments of an Enterprise and Related Information", and except for the omission of certain disclosures not presented in these interim financial statements.

The consolidated financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States for a complete financial statement presentation. In the opinion of management, all adjustments necessary for a fair presentation have been included.

The principal adjustments to amounts recorded in the Companies' book 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 as cash and cash equivalents. Such time deposits may be withdrawn on demand without diminution of principal or penalties.

(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 costs for approximately 95% 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 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 benefits 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 six months ended September 30, 2003 and 2002 were ¥610 million ($5,495 thousand) and ¥661 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 basis 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 and stock options. A reconciliation of the numerator and denominator of the basic and diluted earnings per share computation is included in Note 6.

(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.

(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 that exceeded the market value of the underlying common stock on the date of grant.

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	2002	**2003**
Net Income			
Reported	**¥ 18,001**	¥ 19,003	**$ 162,171**
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	**(53)**	(14)	**(477)**
Pro forma	**¥ 17,948**	¥ 18,989	**$ 161,694**
	Yen		U.S. dollars
	2003	2002	**2003**
Earnings per Share —Net income			
Reported			
Basic earnings per share	**¥ 76.85**	¥ 77.94	**$ 0.69**
Diluted earnings per share	**76.85**	77.94	**0.69**
Pro forma			
Basic earnings per share	**¥ 76.62**	¥ 77.88	**$ 0.69**
Diluted earnings per share	**76.62**	77.88	**0.69**

(o) Shipping and Handling costs

Shipping and Handling costs which were included in selling, general and administrative expenses for the six months ended September 30, 2003 and 2002 were ¥1,815 million ($16,351 thousand) and ¥1,767 million, respectively.

(p) Consideration given by a vendor to a customer

On April 1, 2002, the Companies adopted 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. The figure for the consolidated statement of income for the six months ended September 30, 2001 has not been reclassified because the adoption had no material effect.

(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 had no material effect on the consolidated financial statements.

(r) 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.

(s) Reclassifications

Certain items in prior years' financial statements have been reclassified to conform to the presentation for the six months ended September 30, 2003.

2.Translation of Japanese Yen Statements to U.S. Dollar Statements

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 ¥111 to $1, the approximate rate of exchange at September 30, 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 September 30, 2003 and 2002 were as follows:

	Millions of yen			
	2003			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Current:				
Governmental debt securities	**¥157,898**	**¥ 37**	**¥ 27**	**¥157,908**
Private debt securities	**191,375**	**144**	**626**	**190,893**
Total	**¥349,273**	**¥ 181**	**¥ 653**	**¥348,801**
Non-current:				
Private debt securities	**¥ 8**	**¥ 2**	**–**	**¥ 10**
Equity securities	**5,189**	**3,608**	**¥ 4**	**8,793**
Total	**¥ 5,197**	**¥3,610**	**¥ 4**	**¥ 8,803**

	Millions of yen			
	2002			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Current:				
Governmental debt securities	¥ 87,150	¥ 32	¥ 6	¥ 87,176
Private debt securities	250,327	403	593	250,137
Total	¥337,477	¥ 435	¥ 599	¥337,313
Non-current:				
Private debt securities	¥ 9	–	–	¥ 9
Equity securities	7,295	¥1,224	¥ 245	8,274
Total	¥ 7,304	¥1,224	¥ 245	¥ 8,283

	Thousands of U.S. dollars			
	2003			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Current:				
Governmental debt securities	**$1,422,505**	**$ 333**	**$ 243**	**$1,422,595**
Private debt securities	**1,724,099**	**1,298**	**5,641**	**1,719,756**
Total	**$3,146,604**	**$ 1,631**	**$ 5,884**	**$3,142,351**
Non-current:				
Private debt securities	**$ 72**	**$ 18**	**–**	**$ 90**
Equity securities	**46,748**	**32,504**	**$ 36**	**79,216**
Total	**$ 46,820**	**$32,522**	**$ 36**	**$ 79,306**

Contractual maturities of debt securities as of Sptember 30, 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	Cost	Fair Value	Cost	Fair Value
Within one year	**¥215,548**	**¥215,427**	**$1,941,874**	**$1,940,784**
After one year through five years	**121,131**	**120,888**	**1,091,270**	**1,089,081**
After five years	**12,602**	**12,496**	**113,532**	**112,576**
Total	**¥349,281**	**¥348,811**	**$3,146,676**	**$3,142,441**

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

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Proceeds from sales	**¥3,080**	¥ 5	**$27,748**
Gross realized gains	**74**	0	**667**
Gross realized losses	**21**	–	**189**

The aggregate carrying amounts of the equity securities that do not have a readily determinable fair value at September 30, 2003 and 2002, which were valued at cost, were ¥2,366 million ($21,316 thousand) and ¥1,385 million, respectively. They were not included in the above schedule.

4. Termination and Retirement Benefits

The Company and a subsidiary applied for an exemption from the obligation to pay benefits for future employee service related to the substitutional portion of its pension plan 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 its subsidiary will account for the transfer of the substitutional portion of the pension liability and the related government-specified portion of the plan assets of the Contributory Termination and Retirement Plans after the applications are approved by the government and the assets and related obligations are transferred.

5. Income taxes

Current income tax expense for the six months ended September 30, 2002 includes an income tax refund of ¥1,583 million. 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 refund related to this transfer pricing issue in the six months ended September 30, 2002. As a result, this matter was completely resolved.

6. 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	2003
Net income	¥18,001	¥19,003	$162,171
	Numbers of shares		
	2003	2002	
Average common shares outstanding	234,248,075	243,815,853	
Dilutive effect of stock options	399	–	
Diluted common shares outstanding	234,248,474	243,815,853	
	Yen		U.S. dollars
	2003	2002	2003
Earnings per share:			
Basic	¥ 76.85	¥ 77.94	$ 0.69
Diluted	76.85	77.94	0.69

7. Commitments and contingent liabilities

Outstanding commitments at September 30, 2003 and 2002 for the purchase of property, plant and equipment approximated ¥2,667 million ($24,027 thousand) and ¥2,564 million, respectively. At September 30, 2003 and 2002, the Company was contingently liable for trade accounts receivable discounted and transferred to banks of ¥464 million ($4,180 thousand) and ¥317 million, respectively, which were accounted for as sales when discounted and transferred.

8. 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 September 30, 2003 and 2002 :

Financial assets and liabilities

(1) Cash and cash equivalents, notes and accounts receivable, short-term borrowings and notes and accounts payable

Fair value approximates carrying amounts indicated in the balance sheets at September 30, 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 September 30, 2003 and 2002 were ¥17,210 million ($155,045 thousand) and ¥15,214 million compared with carrying amounts of ¥17,210 million ($155,045 thousand) and ¥15,198 million, respectively.

Forward Exchange Contracts

The Companies had ¥2,758 million ($24,847 thousand) and ¥4,781 million in notional amounts of forward exchange contracts outstanding as of September 30, 2003 and 2002, respectively, in order to hedge the foreign currency risk of various intercompany supply contracts, 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 September 30, 2003 and 2002, which equal the carrying amounts, were an asset of ¥116 million ($1,045 thousand) and a liability of 4 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 period 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 its 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.

9. Subsequent Events

The Board of Directors of the Company resolved in November 2003 to pay cash dividends of ¥25.0 ($0.23) per share or a total of ¥5,839 million ($52,604 thousand) to shareholders of record as of September 30, 2003.

Certificate by Chief Financial Officer

I, Yoshitaka Fujita as chief financial officer of the Company do hereby certify, to the best of my knowledge and after reasonable investigation, that, in my opinion, the consolidated balance sheets as of September 30, 2003, and the related consolidated statements of income and retained earnings and cash flows for the six months then ended present fairly the financial position of the Company and consolidated subsidiaries as of September 30, 2003, and the results of their operations and the changes in their cash flows for the six months then ended.

Yoshitaka Fujita
Executive Vice President
Member of the Board Directors

Company Data (Murata Manufacturing Co., Ltd.)

Date of Incorporation: December 23, 1950

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617-8555 Japan
Phone: (075) 951-9111

Internet URL: http://www. murata. com/

Common stock: ¥69,377 million

Number of Issued Shares: 234,263 thousand

Number of Shareholders: 88,806

Number of Employees (Consolidated): 26,604

Stock Exchange Listings:
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Osaka Securities Exchange
Stock Exchange of Singapore (DRSs)

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Murata Manufacturing Co., Ltd.

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