2004

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 : 81-75-951-9111
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

As of October 12, 2004. Murata's contact information will be changed as follows

Head Office : 10-1,Higashi Kotari 1-chome, Nagaokakyo-shi,
Kyoto 617-8555
phone : 81-75-951-9111
Nagaoka Plant : 26-10,Tenjin 2-chome, Nagaokakyo-shi,
Kyoto 617-8556

Number of Subsidiaries :

Consolidated : 54 (25 in Japan and 29 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.
2-1, Yaesu 1-chome, Chuo-ku, Tokyo
103-8670

(As of March 31, 2004)

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
Keiichi Yokobori
Tetsuya Hiraoka

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

During the period under review, the global electronics market was sluggish in the first quarter due to factors including the effects of Severe Acute Respiratory Syndrome (SARS). However, starting in summer, demand recovered strongly for key electronic equipment such as mobile phones, personal computers, and digital audio/video equipment. Demand for electronic components did not decline even after adjustments at the beginning of the year due to normal seasonal factors, and was firm from the second quarter onward.

In the telecommunications equipment market, in the key mobile phone segment, the increased popularity of mobile phones with sophisticated features, such as models with color liquid crystal displays (LCDs) and models equipped with digital cameras, stimulated replacement demand in developed countries. In addition, the number of new subscribers continued to grow in China as well as in newer markets such as India and Russia. As a result, production output increased substantially. In the computers and peripheral equipment market, demand for notebook computers for consumers expanded, and replacement demand at corporations also increased, reflecting a rebound in corporate earnings. However, equipment prices continued to decline. In the consumer electronics market, demand for large-screen, flat-panel televisions using plasma display panels (PDPs) and LCDs, as well as digital audio/video equipment such as DVD recorders, digital still cameras and digital video cameras, expanded steadily.

Performance and Achievements

In this market environment, Murata worked to enhance customer service, responding to the rapid increase in demand by expanding production capacity in Japan, China and elsewhere and strengthening its marketing network in East Asia. In markets where demand is growing, Murata worked to enhance its infrastructure, including through business acquisitions, while taking steps to optimize allocation of management resources from a global standpoint, including closing production bases in North America. Although product prices continued to decline, the Company improved its profit structure and strengthened its business foundation by implementing productivity improvements and other cost reduction activities, developing high-value-added new products with smaller size and more advanced functions, and promoting integration and modularization of components.

As a result, for the year ended March 31, 2004, net sales increased 4.9 percent year-on-year to ¥414,247 million, operating income increased 25.4 percent to ¥74,210 million, income before income taxes increased 33.2 percent to ¥78,685 million, and net income increased 23.0 percent to ¥48,540 million. Results for the fiscal year include a gain related to the transfer of the substitutional portion of the Contributory Termination and Retirement Plans to the government, which had the effect of increasing income by ¥11,693 million at the operating income level.

Issues Facing Company

Conditions in the global market for electronic equipment are favorable. Amid rising expectations of a recovery in the global economy, final demand for mobile phones and personal computers is once again on track to expand, and the markets for digital audio/video equipment and car electronics continue to grow. Although there are uncertain elements in the economic outlook, such as the situation in Iraq and trends in exchange rates, and competition with other companies in our industry is expected to intensify, Murata's overall business environment is improving due to increased demand.

Moreover, the electronic equipment market encompasses many fields where growth is expected, including the rapid progress of more sophisticated functions for mobile phones and personal computers, the spread of third-generation mobile phone service, the expansion of wireless communication systems such as wireless LAN and Bluetooth®, the digitalization of audio/video equipment, and further growth in the use of electronics in automobiles. Consequently, a solid increase in demand for electronic components is expected.

Murata will promote the innovation and integration of core technologies, such as material, process, design and production technologies for these markets, strengthen its marketing functions and effectively deploy its medium- and long-term strategies for markets, products and technologies to create new products that anticipate customer needs. Murata will ensure its ability to grow by further reinforcing the foundation of existing businesses and effectively utilizing external resources, while intensifying its activities in new markets.

In corporate social responsibility activities, the Compliance Promotion Committee promotes legal and ethical compliance measures throughout the Company. In addition, the Internal Control Committee was established to conduct activities for development, evaluation and improvement of the internal control system of the entire Murata Group. In environmental activities, Murata promotes re-use and recycling of waste, and during the past fiscal year 21 business sites, including domestic subsidiaries, achieved zero emissions. The Murata Group will continue working to conduct its business activities with an emphasis on social responsibility.

At the Ordinary General Meeting of Shareholders in June 2003, a resolution was approved for the repurchase of shares up to a maximum of ¥50,000 million and 10 million shares. As of the end of the period under review, we had repurchased 4,588,900 shares worth a total of ¥26,880 million. With regard to the share repurchase approved at the Ordinary General Meeting of Shareholders in June 2002, we repurchased 10,000,000 shares worth a total of ¥53,264 million by June 2003, and retired these shares in September 2003. The Company will continue working to increase capital efficiency while responding to changes in the business environment.

The Company plans to complete construction of a new head office in September 2004. The central functions related to management will be concentrated in the new head office building to promote collection and sharing of information and speed up management decision-making.

Policy on Dividends

For the year ended March 31, 2004, 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, 2005, the Company plans to pay total cash dividends of ¥50 per share (including an interim dividend of ¥25 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

Financial Review

As a result, for the year ended March 31, 2004, net sales increased 4.9 percent year-on-year to ¥414,247 million, operating income increased 25.4 percent to ¥74,210 million, income before income taxes increased 33.2 percent to ¥78,685 million, and net income increased 23.0 percent to ¥48,540 million. Results for the fiscal year include a gain related to the transfer of the substitutional portion of the Contributory Termination and Retirement Plans to the government, which had the effect of increasing income by ¥11,693 million at the operating income level.

Sales by Product

	Millions of yen					
Years ended March 31	2004		2003		Growth	
	Amount	*1	Amount	*1	Amount	*2
Capacitors	¥144,191	34.9%	¥148,299	37.7%	¥ (4,108)	(2.8%)
Resistors	13,352	3.2%	13,909	3.5%	(557)	(4.0%)
Piezoelectric Components	74,926	18.2%	76,797	19.5%	(1,871)	(2.4%)
Microwave Devices	62,910	15.2%	50,044	12.7%	12,866	25.7%
Module Products	60,159	14.6%	54,187	13.8%	5,972	11.0%
Other Products	57,314	13.9%	50,389	12.8%	6,925	13.7%
Net sales	¥412,852	100.0%	¥393,625	100.0%	¥ 19,227	4.9%

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.

In the year ended March 31, 2004, sales volume of multilayer ceramic chip capacitors, a core product, expanded sharply from the second quarter onward, primarily for mobile phones, and sales of large-capacity capacitors increased. However, overall sales in this product category were slightly lower than in the previous fiscal year due to sluggish sales in the first quarter and the substantial impact of lower product prices.

As a result, overall sales of capacitors decreased 2.8 percent year-on-year to ¥144,191 million.

<Resistors>

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

For the period under review, sales of trimmer potentiometers and thermistor, particularly chip-type product for telecommunications equipment, increased. However, sales of thermistors and high-voltage resistors for consumer electronic equipment, primarily CRT displays, declined.

As a result, total sales of resistors decreased 4.0 percent year-on-year to ¥13,352 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 resonators decreased slightly overall, as sales of chip-type products increased while sales of products with lead terminals decreased. Sluggish sales of ceramic filters for consumer electronics and telecommunications equipment were down from the previous fiscal year. Sales of surface acoustic wave filters were virtually unchanged for telecommunications equipment, but decreased for consumer electronics applications, resulting in a slight decrease overall.

As a result, total sales of piezoelectric components decreased 2.4 percent year-on-year to ¥74,926 million.

<Microwave Devices>

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

For the period under review, sales of Bluetooth® modules expanded strongly, particularly for telecommunications equipment in Europe. Sales of multilayer ceramic device module products for mobile phones also increased sharply.

As a result, total sales of microwave devices increased 25.7 percent year-on-year to ¥62,910 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 voltage control oscillators (VCOs) for telecommunications equipment in Europe decreased, but sales of other modules for telecommunications equipment increased sharply. Sales of power supplies also expanded strongly for consumer electronic equipment such as PDP and LCD televisions and for telecommunications equipment.

As a result, total sales of module products increased 11.0 percent year-on-year to ¥60,159 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 increased for consumer electronic equipment in Europe and China, including Hong Kong, and for telecommunications equipment. Sales of chip coils increased substantially over the previous fiscal year, led by strong sales for consumer electronics and mobile phone applications. Sales of sensors also showed high growth for consumer electronics and industrial electronic equipment in Japan.

As a result, total sales of other products increased 13.7 percent year-on-year to ¥57,314 million.

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

Years ended March 31	2004		2003		Growth	
	Millions of yen					
	Amount	*3	Amount	*3	Amount	*4
Video	¥ 47,945	11.6%	¥ 45,134	11.4%	¥ 2,811	6.2%
Audio	17,556	4.3%	20,310	5.2%	(2,754)	(13.6%)
Consumer Total	65,501	15.9%	65,444	16.6%	57	0.1%
Communication	170,293	41.2%	151,114	38.4%	19,179	12.7%
EDP and Others *1	81,201	19.7%	86,925	22.1%	(5,724)	(6.6%)
Industrial Total	251,494	60.9%	238,039	60.5%	13,455	5.7%
Home and Others *2	95,857	23.2%	90,142	22.9%	5,715	6.3%
Net sales	¥412,852	100.0%	¥393,625	100.0%	¥ 19,227	4.9%

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 video equipment were strong, led by sales for digital audio/video equipment such as PDPs, LCDs and other thin, large-screen televisions, digital still cameras and digital video cameras.

However, sales of audio equipment components were lackluster due to decreasing demand. As a result, overall sales of consumer electronics equipment were ¥65,501 million, about the same level as in the previous fiscal year.

<Industrial Electronics Equipment>

In industrial electronics equipment, sales of components for telecommunications equipment, a key market, were solid due to an increase in new mobile phone subscribers in China and other new markets, and replacement purchases of phones with advanced functions, particularly in Japan and Europe. In addition, sales of Bluetooth® modules expanded strongly, and sales for base stations and PHS also increased. As a result, overall sales in this category increased 12.7 percent year-on-year to ¥170,293 million.

In computers and other industrial electronics equipment, sales for MPUs were firm, but sales for peripheral equipment were weak. In addition, the overall decline in product prices had a significant impact. Sales in this category declined 6.6 percent year-on-year to ¥81,201 million.

As a result, overall sales of industrial electronics equipment increased 5.7 percent year-on-year to ¥251,494 million.

<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. As a result, overall sales in this category increased 6.3 percent year-on-year to ¥95,857 million.

Sales by Area

Years ended March 31	2004		2003		Growth	
	Millions of yen					
	Amount	*1	Amount	*1	Amount	*2
North and South America	¥ 40,092	9.7%	¥ 51,095	13.0%	¥ (11,003)	(21.5%)
Europe	62,294	15.1%	55,947	14.2%	6,347	11.3%
Asia and Others	162,438	39.3%	149,421	38.0%	13,017	8.7%
Overseas Total	264,824	64.1%	256,463	65.2%	8,361	3.3%
Japan	148,028	35.9%	137,162	34.8%	10,866	7.9%
Net sales	¥412,852	100.0%	¥393,625	100.0%	¥ 19,227	4.9%

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

<North and South America>

Sales for telecommunications equipment and for computers and other industrial electronics equipment were sluggish, reflecting customers' shift of production to East Asia, and declined substantially from the previous fiscal year. In sales for consumer electronics equipment, sales for video equipment and audio equipment also declined.

As a result, total sales in North and South America decreased 21.5 percent year-on-year to ¥40,092 million.

<Europe>

Sales for telecommunications equipment increased substantially over the previous fiscal year due to growth in sales for Bluetooth® modules and base stations.

In addition, sales for car electronics were also strong. As a result, total sales in Europe increased 11.3 percent year-on-year to ¥62,294 million.

<Asia and Others>

In sales of products for telecommunications equipment, sales for mobile phones grew strongly due to expanded production in China and other countries, and were substantially higher than in the previous fiscal year. However, sales for computers and other industrial electronics equipment decreased year-on-year due to sluggish sales for peripheral equipment and large declines in product prices. Sales for consumer electronics equipment also decreased year-on-year, as sales for video equipment increased but sales for home audio equipment declined.

As a result, total sales in Asia and other regions increased 8.7 percent year-on-year to ¥162,438 million.

<Japan>

In Japan, sales of products for telecommunications equipment increased sharply over the previous fiscal year. Sales of products for mobile phones increased due to the spread of third-generation mobile phones and replacement purchases of phones with advanced functions, and PHS terminals for export to China also sold strongly. Sales of components for computers and other industrial electronics equipment were higher compared with the previous fiscal year due to sales for MPUs and other equipment, while sales for consumer electronics equipment rose year-on-year, reflecting favorable sales for digital audio and video equipment.

As a result, total sales in Japan increased 7.9 percent year-on-year to ¥148,028 million.

Costs, Expenses and Income

	Millions of yen					
Years ended March 31	2004		2003		Growth	
	Amount	*1	Amount	*1	Amount	*2
Net sales	¥414,247	100.0%	¥394,955	100.0%	¥ 19,292	4.9%
Cost of sales	257,402	62.1%	244,923	62.0%	12,479	5.1%
Selling, general and administrative expenses	66,472	16.1%	59,418	15.0%	7,054	11.9%
Research and development expenses	34,163	8.2%	31,427	8.0%	2,736	8.7%
Subsidy from the government *3	(18,000)	(4.3%)	–	–	(18,000)	–
Operating income	74,210	17.9%	59,187	15.0%	15,023	25.4%
Other income (expenses)—net	4,475	1.1%	(93)	(0.0%)	4,568	–
Income before income taxes	78,685	19.0%	59,094	15.0%	19,591	33.2%
Income taxes	30,145	7.3%	19,627	5.0%	10,518	53.6%
Net income	¥ 48,540	11.7%	¥ 39,467	10.0%	¥ 9,073	23.0%

*1 Ratio to net sales
*2 Ratio against the previous year
*3 The information about Subsidy from the government is described in Note 6 of Notes to Consolidated Financial Statements.

Operating income increased 25.4 percent over the previous fiscal year to ¥74,210 million.

During the period, product prices continued to fall, while the average exchange rate of the yen against the U.S. dollar was ¥8.88 lower than in the previous fiscal year. However, in addition to the positive effect of the increase in net sales, the Company's continued introduction of new products and implementation of cost-cutting measures contributed to a decrease in costs, thus improving profitability. The transfer of the substitutional portion of the Contributory Termination and Retirement Plans to the government was also a contributing factor to income.

The effect on income of the transfer of the substitutional portion of the Contributory Termination and Retirement Plans was a net gain of ¥11,693 million at the operating income level, consisting of an ¥18,000 million subsidy from the government related to the transfer of the substitutional portion (before deducting the one-time charge) and a one-time charge of ¥6,307 million on the transfer of the substitutional portion of the pension obligation and related plan assets. The one-time charge on the return of the substitutional portion is accounted for in cost of sales, selling, general and administrative expenses and research and development expenses, and increased these expenses by ¥2,489 million, ¥2,405 million and ¥1,413 million, respectively.

Income before income taxes increased 33.2 percent over the previous fiscal year to ¥78,685 million.

In other income (expenses), interest and dividends income decreased ¥864 million. However, loss on valuation of marketable securities decreased ¥2,350 million, foreign currency exchange gain increased ¥411 million, and other expenses decreased. As a result, other income (expenses)-net increased ¥4,568 million over the previous fiscal year.

Net income increased 23.0 percent year-on-year to ¥48,540 million.

The income tax rate rose 5.1 point compared with the previous fiscal year to 38.3 percent. The main reason for this was the refund of income taxes on past transfer pricing assessments in the previous fiscal year.

The exchange rate averaged US$1 = ¥113.07 during the fiscal year, compared with US$1 = ¥121.95 in the previous fiscal year.

Capital Investment, Depreciation and Amortization

	Millions of yen		
Years ended March 31	**2004**	2003	2002
Capital Investment	**¥33,088**	¥18,161	¥34,591
Depreciation and Amortization	**44,649**	50,846	56,488

Capital investment during the fiscal year totaled ¥33,088 million.

The main components of capital investment were ¥17,036 million for expansion and rationalization of production facilities, ¥8,034 million for purchase of land and buildings, and ¥5,046 million for expansion of research and development facilities.

Depreciation and amortization decreased 12.2 percent from the previous fiscal year to ¥44,649 million.

Financial Position

Years ended March 31	**2004**	2003	2002
Shareholders' Equity Ratio (%)	**83.0**	83.0	86.5
Return on Shareholders' Equity (%)	**7.0**	5.6	4.9
Income before Taxes* on Total Assets (%)	**9.4**	7.1	6.1
Shareholders' Equity per Share (yen)	**3,052.25**	2,939.41	2,973.22

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

Total assets at March 31, 2004 increased ¥9,802 million from a year earlier to ¥844,115 million. Liquidity in hand (cash, time deposits and marketable securities in current assets) decreased ¥2,028 million from a year earlier to ¥419,002 million. Property, plant and equipment decreased ¥12,153 million due to depreciation. However, notes and accounts receivable increased ¥9,522 million, reflecting the increase in net sales, and investments and other assets increased ¥7,368 million.

Shareholders' equity increased ¥8,847 million compared with the end of the previous fiscal year to ¥700,937 million. The ratio of shareholders' equity to total assets was unchanged from a year earlier at 83.0 percent.

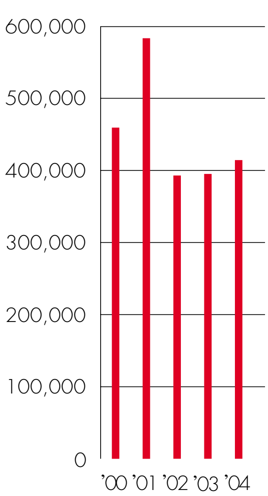
Selected Financial Data

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2000-2004

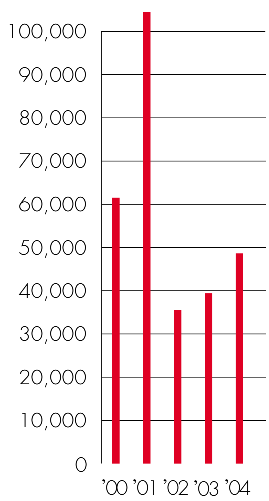
	Millions of yen except per share amounts					Thousands of U.S. dollars except per share amounts (Note 1)
	2004	2003	2002	2001	2000	2004
Net sales	¥414,247	¥394,955	¥394,775	¥584,011	¥459,125	$3,907,991
Operating costs and expenses	340,037	335,768	343,774	409,763	358,358	3,207,897
Operating income	74,210	59,187	51,001	174,248	100,767	700,094
Other income (expenses)	4,475	(93)	1,407	(323)	7,307	42,217
Income before income taxes and cumulative effect of changes in accounting principle	78,685	59,094	52,408	173,925	108,074	742,311
Net income	48,540	39,467	34,999	104,927	61,626	457,925
Amounts per share:						
Earnings per share						
Basic	¥ 208.46	¥ 163.47	¥ 143.91	¥ 434.52	¥ 256.54	$1.97
Diluted	208.46	163.47	143.34	429.83	252.70	1.97
Cash dividends	50.00	50.00	50.00	37.50	28.50	0.47
Pro forma amounts assuming accounting change applied retroactively;						
Net income	–	–	–	–	63,257	–
Amounts per share:						
Earnings per share						
Basic	–	–	–	–	263.33	–
Diluted	–	–	–	–	259.38	–
Current assets	590,355	575,768	545,881	558,876	491,494	5,569,387
Property, plant and equipment less accumulated depreciation	221,964	234,117	269,392	292,053	235,649	2,094,000
Total assets	844,115	834,313	839,372	876,836	755,212	7,963,349
Shareholders' equity	700,937	692,090	726,236	696,403	585,325	6,612,613
Capital investment	33,088	18,161	34,591	107,796	71,459	312,151
Number of employees	26,469	26,435	27,386	27,851	25,427	

Notes: 1. The U.S. dollar amounts in this report represent translation of Japanese yen for convenience only at the rate of ¥106=U.S.$1.
2. Pro forma data reflect the effect of accounting change of amortizing unrecognized actuarial gains and losses related to its obligations for termination and retirement benefits for the year ended March 31, 2000.

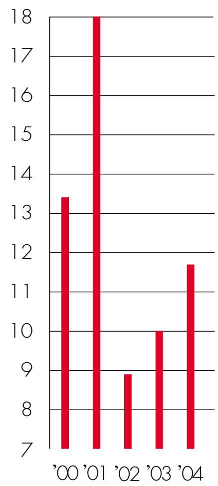
Net sales
(Millions of yen)



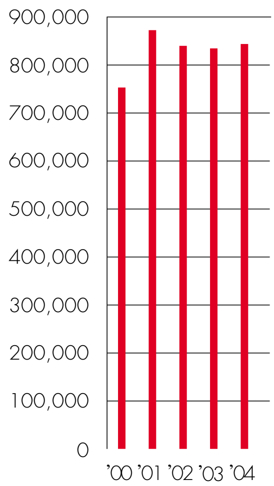
Net income
(Millions of yen)



Return on net sales
(%)



Total assets
(Millions of yen)



Segment Information

Geographic Segment Information

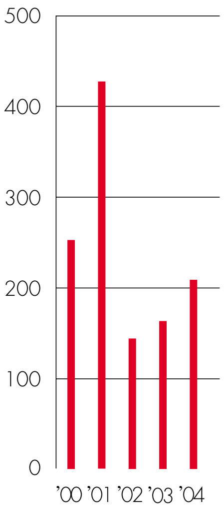
2004	Japan	The Americas	Europe	Asia	Corporate and eliminations	Consolidated
	Millions of yen					
Unaffiliated customers	¥213,941	¥37,063	¥46,372	¥116,871	–	¥414,247
Intersegment	118,214	169	4	18,037	¥(136,424)	–
Total revenue	332,155	37,232	46,376	134,908	(136,424)	414,247
Operating expenses	263,380	39,606	44,148	130,200	(137,297)	340,037
Operating income	68,775	(2,374)	2,228	4,708	873	74,210
Assets	340,414	15,265	24,888	65,378	398,170	844,115

2003	Japan	The Americas	Europe	Asia	Corporate and eliminations	Consolidated
	Millions of yen					
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

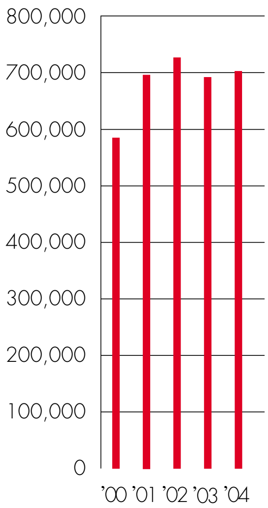
2004	Japan	The Americas	Europe	Asia	Corporate and eliminations	Consolidated
	Thousands of U.S.dollars					
Unaffiliated customers	$2,018,311	$349,651	$437,472	$1,102,557	–	$3,907,991
Intersegment	1,115,227	1,594	37	170,160	$(1,287,018)	–
Total revenue	3,133,538	351,245	437,509	1,272,717	(1,287,018)	3,907,991
Operating expenses	2,484,717	373,642	416,491	1,228,302	(1,295,255)	3,207,897
Operating income	648,821	(22,397)	21,018	44,415	8,237	700,094
Assets	3,211,453	144,009	234,792	616,774	3,756,321	7,963,349

Note: The effect of the transfer of the substitutional portion of the Contributory Termination and Retirement Plans ¥11,693 million was included in Operating income in Japan for the year ended March 31, 2004.

Diluted earnings per share*1
(Yen)

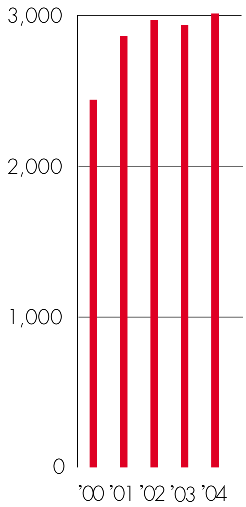


Shareholders' equity
(Millions of yen)



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 and stock options.
*2 Based on the number of common shares outstanding at term-end.

Overseas Sales

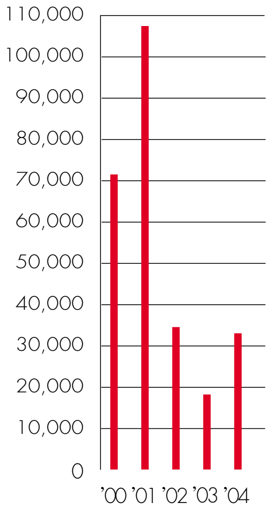
2004	Millions of yen The Americas	 Europe	 Asia and Others	 Total
Overseas sales	¥40,092	¥62,294	¥162,438	¥264,824
Consolidated sales				414,247
Percentage	9.7%	15.0%	39.2%	63.9%

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%

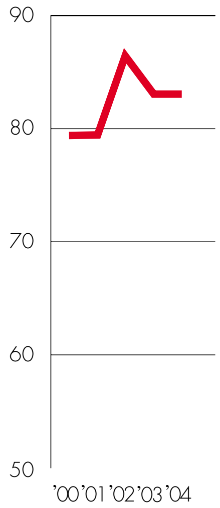
2004	Thousands of U.S.dollars The Americas	 Europe	 Asia and Others	 Total
Overseas sales	$378,227	$587,679	$1,532,434	$2,498,340
Consolidated sales				3,907,991

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

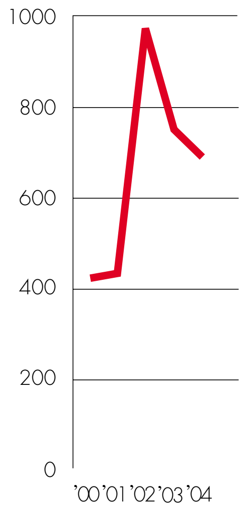
Capital investment
(Millions of yen)



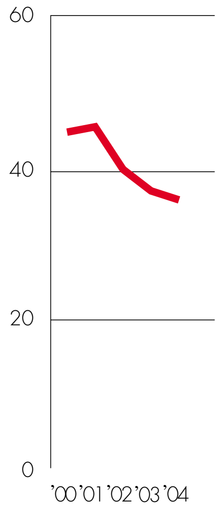
Shareholders' equity ratio
(%)



Current ratio
(%)



Fixed assets ratio
(%)



Production, Order and Backlog by Product

Murata Manufacturing Co., Ltd. and Subsidiaries
Year ended March 31, 2004

	Millions of yen	Component ratio	Ratio against the previous year	Thousands of U.S. dollars
	2004			
Production by Product		%	%	
Capacitors	¥142,023	34.1	(2.5)	$1,339,840
Resistors	13,440	3.2	(6.0)	126,792
Piezoelectric Components	75,631	18.2	(3.5)	713,500
Microwave Devices	65,486	15.7	29.9	617,792
Module Products	60,988	14.7	12.7	575,359
Other Products	58,615	14.1	16.4	552,972
Total	¥416,183	100.0	5.8	$3,926,255

*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	Thousands of U.S. dollars
	2004			
Order by Product		%	%	
Capacitors	¥150,070	35.3	4.0	$1,415,755
Resistors	13,442	3.1	(1.7)	126,811
Piezoelectric Components	76,182	17.9	0.6	718,698
Microwave Devices	65,192	15.3	31.3	615,019
Module Products	60,895	14.3	12.9	574,481
Other Products	59,835	14.1	18.0	564,481
Total	¥425,616	100.0	9.7	$4,015,245

*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	Thousands of U.S. dollars
	2004			
Backlog by Product		%	%	
Capacitors	¥16,750	34.5	54.1	$158,019
Resistors	1,706	3.5	5.6	16,094
Piezoelectric Components	7,728	15.9	19.4	72,905
Microwave Devices	6,825	14.0	50.2	64,387
Module Products	7,673	15.8	10.6	72,387
Other Products	7,924	16.3	46.7	74,755
Total	¥48,606	100.0	35.6	$458,547

*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
Year ended March 31, 2004

1) Capital Investment for the fiscal year ended March 2004 amounted to ¥33,088 million (US$312,151 Thousand). Major capital investment included the expansion of Domestic subsidiaries, and R&D facility.

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

2004	Millions of yen				
	Land	Buildings	Machinery and equipment	Construction in progress	Total
Parent Company					
Plant, Office and other					
Head Office in Kyoto	¥ 175	¥ 949	¥ 941	¥ 20	¥ 2,087
Yokaichi Plant in Shiga	442	5,599	4,729	147	10,918
Yasu Plant in Shiga	8,530	14,041	7,430	74	30,076
Yokohama Plant in Kanagawa	2,654	2,749	902	–	6,305
Other	7,299	1,284	5,390	189	14,164

2004	Millions of yen				
	Land	Buildings	Machinery and equipment	Construction in progress	Total
Domestic subsidiaries					
Company Name					
Fukui Murata Manufacturing Co.,Ltd.	¥2,025	¥10,514	¥15,832	¥1,023	¥29,394
Izumo Murata Manufacturing Co.,Ltd.	1,161	8,099	11,241	494	20,995
Kanazawa Murata Manufacturing Co.,Ltd.	1,261	5,396	7,693	267	14,617
Murata Land & Building Co.,Ltd.	4,734	1,963	0	7,653	14,350
Toyama Murata Manufacturing Co.,Ltd.	1,471	3,164	4,734	544	9,913
Okayama Murata Manufacturing Co.,Ltd.	–	6,866	1,770	28	8,664

2004	Millions of yen				
	Land	Buildings	Machinery and equipment	Construction in progress	Total
Foreign subsidiaries					
Company Name					
Murata Electronics Singapore (Pte.) Ltd.	–	¥3,400	¥6,504	–	¥9,904
Murata Electronics (Thailand), Ltd.	¥119	1,086	2,662	¥25	3,892
Wuxi Murata Electronics Co., Ltd.	–	1,606	1,893	4	3,503
Beijing Murata Electronics Co., Ltd.	–	813	1,019	16	1,848
Murata Electronics (Malaysia) Sdn. Bhd.	85	662	418	5	1,170

Consolidated Balance Sheets

Murata Manufacturing Co., Ltd. and Subsidiaries
March 31, 2004 and 2003

ASSETS	Millions of yen 2004	Millions of yen 2003	Thousands of U.S. dollars (Note 2) 2004
Current assets:			
Cash	¥ 24,383	¥ 21,221	$ 230,028
Time deposits	37,521	56,552	353,972
Total cash and cash equivalents	61,904	77,773	584,000
Marketable securities (Note 3)	357,098	343,257	3,368,849
Notes and accounts receivable:			
Trade notes	19,659	14,153	185,462
Trade accounts	74,139	70,123	699,424
Allowance for doubtful notes and accounts	(867)	(886)	(8,179)
Inventories (Note 4)	54,785	53,317	516,840
Prepaid expenses and other	7,952	3,716	75,019
Deferred income taxes (Note 9)	15,685	14,315	147,972
Total current assets	590,355	575,768	5,569,387
Property, plant and equipment:			
Land	42,981	42,838	405,481
Buildings	185,187	185,314	1,747,047
Machinery and equipment	414,124	415,679	3,906,830
Construction in progress	12,266	3,950	115,717
Total	654,558	647,781	6,175,075
Accumulated depreciation	(432,594)	(413,664)	(4,081,075)
Net property, plant and equipment	221,964	234,117	2,094,000
Investments and other assets:			
Investments (Note 3)	13,863	8,218	130,783
Long-term receivables, advances and other	8,905	5,440	84,009
Deferred income taxes (Note 9)	9,028	10,770	85,170
Total investments and other assets	31,796	24,428	299,962
Total	¥844,115	¥834,313	$7,963,349

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2004	Millions of yen 2003	Thousands of U.S. dollars (Note 2) 2004
Current liabilities:			
Short-term borrowings (Note 5)	¥ 5,144	¥ 3,134	$ 48,529
Trade notes payable	1,185	1,092	11,179
Trade accounts payable	18,458	13,791	174,132
Accrued payroll and bonuses	17,739	16,337	167,349
Income taxes payable	15,657	20,232	147,708
Accrued expenses and other	27,268	19,532	257,245
Total current liabilities	85,451	74,118	806,142
Long-term liabilities:			
Long-term debt (Note 5)	1,050	53	9,906
Termination and retirement benefits (Note 6)	44,159	64,207	416,594
Deferred income taxes (Note 9)	12,518	3,845	118,094
Total long-term liabilities	57,727	68,105	544,594
Commitments and contingent liabilities (Note 13)			
Shareholders' equity (Notes 8 and 15):			
Common stock (authorized 590,000,000 shares in 2004 and 600,000,000 shares in 2003; issued 234,263,592 shares in 2004 and 244,263,592 shares in 2003)	69,377	69,377	654,500
Additional paid-in capital	102,222	102,222	964,358
Retained earnings	571,478	587,893	5,391,302
Accumulated other comprehensive income (loss):			
Unrealized gains on securities	3,605	118	34,010
Minimum pension liability adjustments	(1,037)	(10,055)	(9,783)
Unrealized gains on derivative instruments	102	21	962
Foreign currency translation adjustments	(17,727)	(9,302)	(167,236)
Total accumulated other comprehensive loss	(15,057)	(19,218)	(142,047)
Treasury stock, at cost 4,617,221 shares in 2004 and 8,811,683 shares in 2003	(27,083)	(48,184)	(255,500)
Total shareholders' equity	700,937	692,090	6,612,613
Total	¥844,115	¥834,313	$7,963,349

Consolidated Statements of Income

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2004	2003	2002	2004
Net sales	¥414,247	¥394,955	¥394,775	$3,907,991
Operating costs and expenses:				
Cost of sales	257,402	244,923	253,316	2,428,321
Selling, general and administrative	66,472	59,418	58,864	627,094
Research and development	34,163	31,427	31,594	322,293
Subsidy from the government (Note 6)	(18,000)	–	–	(169,811)
Total operating costs and expenses	340,037	335,768	343,774	3,207,897
Operating income	74,210	59,187	51,001	700,094
Other income (expenses):				
Interest and dividend income	1,643	2,507	2,444	15,500
Interest expense	(94)	(82)	(142)	(887)
Losses on impairment of investment securities	(14)	(2,364)	(2,853)	(132)
Foreign currency exchange gain	1,654	1,243	241	15,604
Other-net	1,286	(1,397)	1,717	12,132
Other income (expenses)-net	4,475	(93)	1,407	42,217
Income before income taxes and cumulative effect of a change in accounting for derivative instruments	78,685	59,094	52,408	742,311
Income taxes (Note 9)	30,145	19,627	17,197	284,386
Income before cumulative effect of a change in accounting for derivative instruments	48,540	39,467	35,211	457,925
Cumulative effect of a change in accounting for derivative instruments (Note 1.m)	–	–	(212)	–
Net income	¥ 48,540	¥ 39,467	¥ 34,999	$ 457,925

Amounts per share (Note 11):	Yen			U.S. dollars (Note 2)
Basic earnings per share:				
Income before cumulative effect of a change in accounting for derivative instruments	¥208.46	¥163.47	¥144.78	$1.97
Cumulative effect of a change in accounting for derivative instruments	–	–	(0.87)	–
Net income	¥208.46	¥163.47	¥143.91	$1.97
Diluted earnings per share:				
Income before cumulative effect of a change in accounting for derivative instruments	¥208.46	¥163.47	¥144.21	$1.97
Cumulative effect of a change in accounting for derivative instruments	–	–	(0.87)	–
Net income	¥208.46	¥163.47	¥143.34	$1.97
Cash dividends per share	¥ 50.00	¥ 50.00	¥ 50.00	$0.47

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2004	2003	2002	2004
Net income	¥ 48,540	¥ 39,467	¥ 34,999	$457,925
Other comprehensive income (loss), net of tax (Note 12):				
Unrealized gains (losses) on securities	3,487	(143)	(1,447)	32,896
Minimum pension liability adjustments	9,018	(7,118)	(2,937)	85,075
Unrealized gains (losses) on derivative instruments	81	25	(4)	764
Foreign currency translation adjustments	(8,425)	(6,064)	8,005	(79,481)
Other comprehensive income (loss)	4,161	(13,300)	3,617	39,254
Comprehensive income	¥ 52,701	¥ 26,167	¥ 38,616	$497,179

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2004, 2003 and 2002

	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, 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)
Purchases of treasury stock at cost						(32,129)
Retirement of treasury stock	(10,000,000)			(53,230)		53,230
Net income				48,540		
Cash dividends, ¥50.0 per share				(11,725)		
Other comprehensive income, net of tax					4,161	
Balance at March 31, 2004	234,263,592	¥69,377	¥102,222	¥571,478	¥(15,057)	¥(27,083)

	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, 2003	$654,500	$964,358	$5,546,160	$(181,301)	$(454,566)
Purchases of treasury stock at cost					(303,104)
Retirement of treasury stock			(502,170)		502,170
Net income			457,925		
Cash dividends, $0.47 per share			(110,613)		
Other comprehensive income, net of tax				39,254	
Balance at March 31, 2004	$654,500	$964,358	$5,391,302	$(142,047)	$(255,500)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Murata Manufacturing Co., Ltd. and Subsidiaries
Years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2004	2003	2002	2004
Operating activities:				
Net income	¥ 48,540	¥ 39,467	¥ 34,999	$ 457,925
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	44,649	50,846	56,488	421,217
Losses on sales and disposals of property, plant and equipment	848	650	105	8,000
Gains on sales of investments	(79)	(39)	(119)	(745)
Losses on impairment of investment securities	14	2,364	2,853	132
Subsidy from the government (Note 6)	(18,000)	–	–	(169,811)
Provision for termination and retirement benefits, less payments	13,410	4,830	3,977	126,509
Deferred income taxes	1,558	(3,896)	9,630	14,698
Cumulative effect of a change in accounting for derivative instruments	–	–	212	–
Changes in assets and liabilities:				
Decrease (increase) in trade notes and accounts receivable	(11,966)	(2,126)	36,067	(112,887)
Decrease (increase) in inventories	(2,674)	4,528	34,348	(25,226)
Decrease (increase) in income tax refunds receivable	–	24,828	(24,828)	–
Decrease (increase) in prepaid expenses and other	(4,031)	(1,277)	1,065	(38,028)
Increase (decrease) in trade notes and accounts payable	4,658	2,983	(13,158)	43,943
Increase (decrease) in accrued payroll and bonuses	1,393	557	(2,506)	13,141
Increase (decrease) in income taxes payable	(4,548)	16,003	(44,935)	(42,906)
Increase (decrease) in accrued expenses and other	8,037	(3,500)	(6,863)	75,821
Other–net	(1,060)	437	623	(10,000)
Net cash provided by operating activities	80,749	136,655	87,958	761,783
Investing activities:				
Capital expenditures	(33,088)	(18,161)	(34,591)	(312,151)
Payment for purchases of investments and other	(4,841)	(1,031)	(1,036)	(45,670)
Net increase in marketable securities	(13,722)	(58,798)	(121,116)	(129,453)
Issuance of loans receivable	(11)	(5)	(7)	(104)
Proceeds from sales of property, plant and equipment	185	95	154	1,746
Proceeds from sales of investments and other	187	93	801	1,764
Collection of loans receivable	19	22	52	179
Net cash used in investing activities	(51,271)	(77,785)	(155,743)	(483,689)
Financing activities:				
Net increase (decrease) in short–term borrowings	1,669	2,396	(2,788)	15,745
Proceeds from long–term debt	1,000	–	–	9,434
Dividends paid	(11,725)	(12,164)	(12,140)	(110,613)
Payment for purchases of treasury stock	(32,129)	(48,149)	–	(303,104)
Other	(4)	(12)	(570)	(38)
Net cash used in financing activities	(41,189)	(57,929)	(15,498)	(388,576)
Effect of exchange rate changes on cash and cash equivalents	(4,158)	(2,221)	3,519	(39,226)
Net decrease in cash and cash equivalents	(15,869)	(1,280)	(79,764)	(149,708)
Cash and cash equivalents at beginning of year	77,773	79,053	158,817	733,708
Cash and cash equivalents at end of year	¥ 61,904	¥ 77,773	¥ 79,053	$ 584,000
Additional cash flow information:				
Interest paid	¥ 90	¥ 78	¥ 136	$ 849
Income taxes paid (received), net of refunds	33,162	(17,309)	77,330	312,849
Non-cash financing activities:				
Convertible debt converted into common stock	–	–	¥ 3,394	–
Decrease in retained earnings due to retirement of treasury stock	¥ 53,230	–	–	$ 502,170

See notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

(a) Nature of operations

Murata Manufacturing Co., Ltd. (the "Company") and subsidiaries (together the "Companies") are engaged in the development, manufacture and sale of electronic components in numerous countries, with Japan, North America and certain other Asian and European countries as its primary markets. The Companies' major product groups are ceramic capacitors, 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

The Companies consider cash and time deposits as cash and cash equivalents. Such time deposits may be withdrawn on demand without diminution of principal.

(e) Marketable securities and investments

Under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," the Companies classify all debt securities and marketable equity securities as available-for-sale and carries them at fair value with a corresponding recognition of the net unrealized holding gain or loss (net of tax) as a separate component of shareholders' equity. Gains and losses on sales of investments are computed on an average cost basis. Equity securities that do not have a readily determinable fair value are recorded at average cost (See Note 3). The Companies review the fair value of their marketable securities and investments on a regular basis to determine if the fair value of any individual investment has declined below its cost and if such decline is other than temporary. A determination of whether a decline in value represents other than temporary impairment is based on criteria that include the extent to which the securities' carrying value exceeds its fair value, the duration of the market decline, and the Companies' ability and intent to hold the investment. Losses from other-than-temporary impairments 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 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 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, 2004, 2003 and 2002 were ¥1,478 million ($13,943 thousand), ¥1,507 million and ¥1,483 million, respectively.

(k) Taxes on Income

The Companies follow the provisions of SFAS No. 109, "Accounting for Income Taxes" to account for income taxes. Under SFAS No. 109, deferred tax assets and liabilities are computed based on the differences between the financial statement and the income tax bases of assets and liabilities using the enacted tax rates. Deferred income tax expenses and credits are based on the change in the deferred tax assets and liabilities from period to period. A valuation allowance is established, when necessary, to reduce deferred tax assets to the amounts expected to be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

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

(l) Earnings per share

The Companies account for earnings per share in accordance with SFAS No. 128, "Earnings per Share." Diluted earnings per share reflects the potential dilution from potential shares outstanding such as those related to the Company's convertible bonds which 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 11.

(m) Derivatives

The Companies account for their derivative instruments and hedging activities in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133". Additionally, the Companies adopted SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" on July 1, 2003 which had no impact on the Companies' consolidated financial statements. These standards establish accounting and reporting standards for derivative instruments and for hedging activities, and require that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value.

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

Changes in fair value of a derivative that is highly effective and that is designated and qualifies as a foreign currency cash flow hedge are recorded in other comprehensive income (loss), until earnings are affected by the variability in cash flows of the designated hedged item.

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 (See Note 7).

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
	2004	2003	**2004**
Net Income			
Reported	**¥48,540**	¥39,467	**$457,925**
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	**(131)**	(54)	**(1,236)**
Pro forma	**¥48,409**	¥39,413	**$456,689**

	Yen		U.S. dollars
	2004	2003	**2004**
Earnings per Share–Net income			
Reported			
Basic earnings per share	**¥208.46**	¥163.47	**$1.97**
Diluted earnings per share	**208.46**	163.47	**1.97**
Pro forma			
Basic earnings per share	**¥207.89**	¥163.24	**$1.96**
Diluted earnings per share	**207.89**	163.24	**1.96**

(o) Shipping and Handling costs

Shipping and Handling costs which were included in selling, general and administrative expenses for the years ended March 31, 2004, 2003 and 2002 were ¥3,864 million ($36,453 thousand), ¥3,492 million and ¥3,222 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 in the consolidated statement of income for the year ended March 31, 2003 and had no material effect. The figures for the consolidated statement of income for the year ended March 31, 2002 have not been reclassified because the adoption had no material effect.

(q) Impairment or Disposal of Long-Lived Assets

The Companies account for impairment or disposal of long-lived assets and discontinued operations in accordance with SFAS No.144, "Accounting for the Impairment or Disposal of Long-Lived Assets". This statement applies to all long-lived assets. The Companies' long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated and undiscounted future cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount exceeds the fair value of the assets. If the Companies determine to dispose of assets, depreciation estimates for the assets shall be revised to reflect its remaining useful life. Assets classified as held for sale shall be measured at the lower of its carrying amount or fair value less cost to sell.

(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 2004 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 of readers outside of Japan and have been made at the rate of ¥106 to $1, the approximate rate of exchange at March 31, 2004. 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, 2004 and 2003 were as follows:

	Millions of yen			
	2004			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Current:				
Governmental debt securities	¥147,283	¥ 117	¥ 19	¥147,381
Private debt securities	209,853	174	310	209,717
Total	¥357,136	¥ 291	¥ 329	¥357,098
Non-current:				
Private debt securities	–	–	–	–
Equity securities	¥ 5,124	¥6,350	–	¥ 11,474
Total	¥ 5,124	¥6,350	–	¥ 11,474

	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

	Thousands of U.S. dollars			
	2004			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Current:				
Governmental debt securities	$1,389,462	$ 1,104	$ 179	$1,390,387
Private debt securities	1,979,746	1,641	2,925	1,978,462
Total	$3,369,208	$ 2,745	$ 3,104	$3,368,849
Non-current:				
Private debt securities	–	–	–	–
Equity securities	$ 48,340	$59,905	–	$ 108,245
Total	$ 48,340	$59,905	–	$ 108,245

The aggregate carrying amounts of equity securities that do not have a readily determinable fair value at March 31, 2004 and 2003, which were valued at cost, were ¥2,389 million ($22,538 thousand) and ¥2,377 million, respectively. They were not included in the above schedule.

The fair value and gross unrealized losses for available-for-sale securities by major security type and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2004 were as follows:

	Millions of yen			
	2004			
	Less than 12 months		12 months or longer	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Current:				
Governmental debt securities	¥128,003	¥ 19	–	–
Private debt securities	100,469	271	¥33,032	¥39
Total	¥228,472	¥290	¥33,032	¥39

	Thousands of U.S. dollars			
	2004			
	Less than 12 months		12 months or longer	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Current:				
Governmental debt securities	$1,207,575	$ 179	–	–
Private debt securities	947,821	2,557	$311,623	$368
Total	$2,155,396	$2,736	$311,623	$368

In the year ended March 31, 2004, the Companies did not recognize other-than-temporary impairment loss for certain debt securities which have a fair value below original cost, as the Companies have the intention and ability to hold such securities until the maturity dates and as the issuers of the securities have favorable credit ratings.

Contractual maturities of debt securities as of March 31, 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	Cost	Fair Value	Cost	Fair Value
Within one year	¥228,478	¥228,474	$2,155,453	$2,155,415
After one year through five years	123,681	123,690	1,166,802	1,166,887
After five years	4,977	4,934	46,953	46,547
Total	¥357,136	¥357,098	$3,369,208	$3,368,849

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

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Proceeds from sales	**¥6,853**	¥1,085	¥ 530	**$64,651**
Gross realized gains	**79**	41	5	**745**
Gross realized losses	**101**	7	25	**953**

4. Inventories

Inventories at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Finished products	¥22,279	¥20,627	$210,179
Work-in-process	20,862	23,028	196,812
Materials and supplies	11,644	9,662	109,849
Total	¥54,785	¥53,317	$516,840

5. Short-Term Borrowings and Long-Term Debt

Short-Term Borrowings at March 31, 2004 and 2003 consisted of the following:

	Millions of yen	Weighted-Average Interest Rate	Millions of yen	Weighted-Average Interest Rate	Thousands of U.S. dollars
	2004		2003		2004
Bank loans	¥5,144	0.9%	¥3,134	1.2%	$48,529

Long-term debt at March 31, 2004 and 2003 consisted of the following:

	Millions of yen	Weighted-Average Interest Rate	Millions of yen	Weighted-Average Interest Rate	Thousands of U.S. dollars
	2004		2003		2004
Unsecured bank loans, due 2009	¥1,000	0.3%	–	–	$9,434
Other	53	2.5	¥57	2.8%	500
Total	1,053	0.4	57	2.8	9,934
Less: Portion due within one year	3	4.3	4	4.3	28
Total	¥1,050	0.4%	¥53	2.7%	$9,906

The aggregate future maturities of long-term debt outstanding at March 31, 2004 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2005	¥ 3	$ 28
2006	3	28
2007	3	28
2008	2	19
2009	1,002	9,453
2010 and thereafter	40	378
Total	¥1,053	$9,934

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

6. Termination and Retirement Benefits

The Companies sponsor termination and retirement benefit plans which cover 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.

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.

Additionally, the Company and a domestic subsidiary had contributory termination and retirement plans ("CTRP") that were 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 were prescribed by the Japanese Ministry of Health, Labour and Welfare ("MHLW"). 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.

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 MHLW on January 30, 2003. In the year ended March 31, 2004, the Company and a subsidiary made applications for an exemption from the obligation to pay benefits for past employee service related to the substitutional portion and were given approval from the MHLW on January 1, 2004. On March 23, 2004, the benefit obligation of the substitutional portion and the related government-specified portion of the plan assets of the CTRP were transferred to the government. 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 recorded the transaction upon completion of transfer to the government of the substitutional portion of the benefit obligation and related plan assets. The transfer resulted in the companies recording a subsidy from the government of ¥18,000 million ($169,811 thousand) representing the difference between the substitutional portion of the accumulated benefit obligation and the related plan assets. Additionally, the Companies recorded a reduction in net periodic benefit cost related to the derecognition of previously accrued salary progression of ¥4,380 million ($41,321 thousand) and a settlement loss of ¥10,687 million ($100,821 thousand). The transfer increased operating income by ¥11,693 million ($110,311 thousand). The total amount of derecognition of previously accrued salary progression and settlement loss is allocated to Cost of sales of ¥ 2,489 million ($23,481 thousand), Selling, general and administrative of ¥ 2,405 million ($22,689 thousand), and Research and development of ¥ 1,413 million ($13,330 thousand).

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
	2004	2003	2004
Change in benefit obligation:			
Benefit obligation at beginning of year	¥130,020	¥115,294	$1,226,604
Service cost	6,057	5,715	57,141
Interest cost	2,548	2,820	24,038
Plan participants' contributions	–	511	–
Amendments	(3,141)	–	(29,632)
Actuarial loss	3,029	8,789	28,575
Benefits paid	(1,265)	(1,319)	(11,934)
Settlement paid	(3,065)	(1,790)	(28,915)
Transfer of substitutional portion	(39,018)	–	(368,094)
Benefit obligation at end of year	95,165	130,020	897,783
Change in plan assets:			
Fair value of plan assets at beginning of year	52,729	56,664	497,443
Actual return on plan assets	8,742	(7,527)	82,472
Employer contribution	3,782	4,604	35,679
Plan participants' contributions	–	511	–
Benefits paid	(1,265)	(1,319)	(11,934)
Settlement paid	(481)	(204)	(4,538)
Transfer of substitutional portion	(16,638)	–	(156,962)
Fair value of plan assets at end of year	46,869	52,729	442,160
Funded status	(48,296)	(77,291)	(455,623)
Unrecognized transition obligation	–	133	–
Unrecognized actuarial loss	24,000	46,348	226,415
Unrecognized prior service benefit	(18,072)	(16,150)	(170,490)
Net amount recognized	¥ (42,368)	¥ (46,960)	$ (399,698)
Amounts recognized in the consolidated balance sheet consist of:			
Termination and retirement benefits	¥ (44,159)	¥ (64,207)	$ (416,594)
Minimum pension liability adjustments, before tax	1,791	17,247	16,896
Net amount recognized	¥ (42,368)	¥ (46,960)	$ (399,698)
Accumulated benefit obligation at end of year	¥ 84,269	¥ 114,936	$ 794,991

Accumulated benefit obligations for all of the Companies' termination and retirement plans were in excess of their plan assets at March 31, 2004 and 2003.

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
	2004	2003	2002	2004
Service cost, net of plan participants' contributions	¥ 6,057	¥ 5,715	¥ 6,531	$57,141
Interest cost	2,548	2,820	2,995	24,038
Expected return on plan assets	(1,051)	(1,412)	(1,677)	(9,915)
Amortization of transition obligation	133	134	134	1,255
Recognized actuarial loss	6,721	4,460	3,114	63,406
Amortization of prior service benefit	(1,219)	(1,123)	(1,116)	(11,500)
Derecognition of previously accrued salary progression	(4,380)	–	–	(41,321)
Settlement loss	10,687	–	–	100,821
Net periodic benefit cost	¥19,496	¥10,594	¥ 9,981	$183,925

The unrecognized transition obligation was amortized over fifteen years. The unrecognized transition obligation was fully amortized as of March 31, 2004.

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

In the year ended March 31, 2004, the Company and a domestic subsidiary amended their contributory termination and retirement plans to revise the benefits calculation factor. As a result of these amendments, the benefit obligation decreased by ¥3,141 million during the year ended March 31, 2004. 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 following assumptions were utilized to calculate the actuarial present value of the benefit obligation as of March 31:

	2004	2003
Discount rate	**2.0%**	2.0%
Compensation increase rate	**2.0%**	2.0%

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

	2004	2003	2002
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	**2.0%**	2.5%	3.0%

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

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

The Companies' domestic benefit plan weighted-average asset allocations at March 31, 2004 and 2003 by asset category were as follows:

	2004	2003
Equity securities	**49.0%**	40.6%
Debt securities	**22.9**	27.1
Life insurance company general accounts	**25.6**	28.9
Other	**2.5**	3.4
	100.0%	100.0%

Equity securities include common stock of the Company in the amounts of ¥60 million ($566 thousand) (0.13% of total domestic plan assets) and ¥42 million (0.08% of total domestic plan assets) at March 31, 2004 and 2003, respectively

Plan assets are invested for the purpose of achieving a sufficient rate of return to maintain pension plan assets for future payment of benefits to plan participants. Considering the expected rate of return on invested assets, a related standard deviation, and a related correlation coefficient, the Companies believe the current asset allocation is adequate for purposes of meeting investment objectives. For achieving the expected rate of return on plan assets on a mid-term to long-term basis, the Companies select optimal investing institutions by invested asset category and entrust the investment of plan assets to them. The Companies revise the asset allocation when and to the extent considered necessary. The asset allocation of the Company's plan assets which account for most of domestic plan assets at March 31, 2004 consists of 50% of equity securities, 48% of debt securities and life insurance company general accounts, and 2% of other.

The Companies expect to contribute ¥2,100 million ($19,811 thousand) to their domestic defined benefit plan in the year ending March 31, 2005.

7. Stock-based Compensation

In the years ended March 31, 2004 and 2003, the Company authorized the grant of options to purchase common stock of the Company to employees of the Company and its subsidiaries under a fixed stock option plan.

Under the above plan, the exercise price of the option exceeds the market price of the Company's common stock on the date of grant and the options expire six years after the date of 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 the years ended March 31, 2004 and 2003 was as follows:

	2004		2003		2004
		Yen		Yen	U.S.dollars
Fixed Options	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Exercise Price
Outstanding at beginning of year	72,700	¥7,264	–	–	$68.53
Granted	70,100	5,863	72,700	¥7,264	55.31
Exercised	–	–	–	–	–
Forfeited	(1,200)	6,564	–	–	61.92
Outstanding at end of year	141,600	¥6,576	72,700	¥7,264	$62.04
Options exercisable at end of year	–	–	–	–	–
Weighted average fair value of options granted during the year		¥2,190		¥2,246	$20.66

The following summarizes information about fixed stock options outstanding at March 31, 2004:

	Options Outstanding			
Yen		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	72,100	4.33	¥7,264	$68.53
5,863	69,500	5.33	5,863	55.31
5,863~7,264	141,600	4.82	¥6,576	$62.04

No options were exercisable as of March 31, 2004.

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

Weighted-average assumptions:	2004	2003
Risk Free interest rate (%)	0.23	0.26
Expected lives (years)	4.00	4.00
Expected volatility (%)	55.50	55.40
Expected dividend (%)	0.89	0.80

8. Shareholders' Equity

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which various amendments have become effective since 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, which is included in capital surplus. 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 equals 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. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

The amount of retained earnings available for dividends under the Code was ¥210,838 million ($1,989,038 thousand) as of March 31, 2004, 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 available 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.

9. Income Taxes

The provision for income taxes for the years ended March 31, 2004, 2003 and 2002, consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Current	**¥28,587**	¥23,523	¥ 7,567	**$269,688**
Deferred	**1,558**	(3,896)	9,630	**14,698**
Provision for income taxes	**¥30,145**	¥19,627	¥17,197	**$284,386**

Current income tax expense for the years ended March 31, 2003 and 2002 includes income tax refunds of ¥1,765 million 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:

	2004	2003	2002
Normal Japanese statutory rates	**41.7%**	41.7%	41.7%
Increase (decrease) in taxes resulting from:			
Tax credits	**(4.2)**	(4.4)	(3.6)
Permanently non-deductible items	**0.1**	0.1	0.2
Net change in valuation allowance for deferred tax assets	**(0.7)**	(0.5)	4.9
Income tax refund related to prior years' income	**–**	(2.6)	(9.5)
Effect of enacted future tax rate reduction on deferred taxes	**0.5**	(1.1)	–
Other–net	**0.9**	(0.0)	(0.9)
Effective tax rates	**38.3%**	33.2%	32.8%

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 includes a charge of ¥391 million ($3,689 thousand) and a credit of ¥677 million for the effect of the tax rate decrease on net deffered tax balances, for the years ended March 31, 2004 and 2003 respectively.

The approximate effect of temporary differences and tax loss carryforwards that gave rise to deferred tax balances at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Deferred tax assets:			
Intercompany profits	¥ 1,485	¥ 1,967	$ 14,010
Termination and retirement benefits	17,001	22,994	160,387
Enterprise taxes	1,770	1,771	16,698
Compensated absences	1,602	1,543	15,113
Inventory valuation	1,968	2,792	18,566
Marketable securities and investments adjustments	–	416	–
Depreciation	4,869	4,075	45,934
Accrued bonuses	5,045	4,035	47,594
Other temporary differences	5,983	6,860	56,443
Tax loss carryforwards	226	213	2,132
Total	39,949	46,666	376,877
Valuation allowance	(1,771)	(2,336)	(16,707)
Total	¥38,178	¥44,330	$360,170
Deferred tax liabilities:			
Undistributed earnings of foreign subsidiaries	¥16,678	¥18,239	$157,340
Marketable securities and investments adjustments	1,960	–	18,491
Depreciation	711	905	6,707
Other temporary differences	6,644	3,962	62,679
Total	¥25,993	¥23,106	$245,217

The total valuation allowance decreased ¥565 million ($5,330 thousand) for the year ended March 31, 2004 and decreased ¥316 million for the year ended March 31, 2003.

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, 2004 and 2003.

Certain subsidiaries have tax loss carryforwards approximating ¥910 million ($8,585 thousand) available to reduce future taxable income at March 31, 2004, which will expire substantially in the period from 2005 to 2009.

10. Foreign Operations

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

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
Net sales	¥200,306	¥198,157	¥199,593	$1,889,679
Net assets	119,087	136,474	144,093	1,123,462

11. Amounts per Share

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

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	2004
Income before cumulative effect of a change in accounting for derivative instruments	¥48,540	¥39,467	¥35,211	$457,925
Effect of dilutive securities				
1.8% convertible debentures	–	–	14	–
Diluted income before cumulative effect of a change in accounting for derivative instruments	¥48,540	¥39,467	¥35,225	$457,925

	Numbers of shares		
	2004	2003	2002
Average common shares outstanding	232,853,787	241,433,886	243,205,574
Dilutive effect of stock options	1,706	–	–
Dilutive effect of			
1.8% convertible debentures	–	–	1,057,733
Diluted common shares outstanding	232,855,493	241,433,886	244,263,307

	Yen			U.S. dollars
	2004	2003	2002	2004
Income before cumulative effect of a change in accounting for derivative instruments per share:				
Basic	¥208.46	¥163.47	¥144.78	$1.97
Diluted	208.46	163.47	144.21	1.97

12. Comprehensive Income

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

	Millions of yen		
	2004		
	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
Unrealized gains on securities:			
Unrealized holding gains arising during period ...	¥ 5,873	¥ (2,373)	¥ 3,500
Reclassification adjustment for gains included in net income	(22)	9	(13)
	5,851	(2,364)	3,487
Minimum pension liability adjustments	15,456	(6,438)	9,018
Unrealized gains on derivative instruments:			
Unrealized holding gains arising during period	580	(234)	346
Reclassification adjustment for gains included in net income	(444)	179	(265)
	136	(55)	81
Foreign currency translation adjustments...	(9,945)	1,520	(8,425)
Other comprehensive income	¥ 11,498	¥ (7,337)	¥ 4,161

	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 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	¥ 1,826	¥ 1,791	¥3,617

	Thousands of U.S. Dollars		
	2004		
	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
Unrealized gains on securities:			
Unrealized holding gains arising during period ..	$55,406	$ (22,387)	$33,019
Reclassification adjustment for gains included in net income	(208)	85	(123)
	55,198	(22,302)	32,896
Minimum pension liability adjustments	145,811	(60,736)	85,075
Unrealized gains on derivative instruments:			
Unrealized holding gains arising during period	5,472	(2,208)	3,264
Reclassification adjustment for gains included in net income	(4,189)	1,689	(2,500)
	1,283	(519)	764
Foreign currency translation adjustments...	(93,821)	14,340	(79,481)
Other comprehensive income	$108,471	$(69,217)	$39,254

13. Commitments and Contingent Liabilities

Outstanding commitments at March 31, 2004 and 2003 for the purchase of property, plant and equipment approximated ¥11,215 million ($105,802 thousand) and ¥3,159 million, respectively.

At March 31, 2004 and 2003, the Companies were contingently liable for trade accounts receivable discounted and transferred to banks of ¥367 million ($3,462 thousand) and ¥398 million, respectively, which were accounted for as sales when discounted and transferred.

14. Financial Instruments and Concentration of Credit Risk

In the normal course of its business, the Companies invest in various financial assets and incur various financial liabilities. The Companies also enter into agreements for derivative financial instruments to manage their exposure to fluctuations in foreign currency exchange rates. The 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, 2004 and 2003:

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, 2004 and 2003.

(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, 2004 and 2003 were ¥22,774 million ($214,849 thousand) and ¥13,659 million, compared with carrying amounts of ¥22,768 million ($214,792 thousand) and ¥13,658 million, respectively.

Forward Exchange Contracts

The Companies had ¥6,269 million ($59,142 thousand) and ¥4,796 million in notional amounts of forward exchange contracts outstanding as of March 31, 2004 and 2003, 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, 2004 and 2003, which equal the carrying amounts, were assets of ¥219 million ($2,066 thousand) and of ¥40 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 2004:

(1) The payment of a cash dividend of ¥25 ($0.24) per share to shareholders of record as of March 31, 2004, or a total of ¥5,741 million ($54,160 thousand); and,

(2) The introduction of a stock option plan for directors, officers and certain management granting them the option to purchase maximum of 100,000 shares, with certain restrictions.

Independent Auditors' Report

Deloitte.

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

We have audited the accompanying consolidated balance sheets of Murata Manufacturing Co., Ltd. and subsidiaries as of March 31, 2004 and 2003, 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, 2004, 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, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2004, 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 of readers outside of Japan.

Deloitte Touche Tohmatsu

June 4, 2004

Member of
Deloitte Touche Tohmatsu

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