MURATA SEMIANNUAL REPORT

For the six months ended September 30, 2004

Innovator in Electronics

Murata Manufacturing Co., Ltd.

We would like to report to you the financial status overview, concurrently with the delivery of the semiannual report for the 69th period (ending in March 2005).

The world's electronic equipment market, during the first half of this period, picked up in the spring as the production of electronic equipment such as the production of mobile phones and digital AV equipment increased. However, stock adjustment for electronic devices and related components occurred around mid-term in some regions, slowing down the resulting expansion of end-user demand for electronic equipment, therefore diminishing demand for electronic components.

Demand for replacing mobile phones, mainstream product in the communications market, among advanced nations including European countries grew, and the new markets in China, India and Russia grew as well. However, by mid-term, stock adjustment occurred in China.

In terms of computer and peripheral market, PC production was strong due to replacement demand by corporations.

As for AV equipment, large flat panel televisions such as PDP and LCD televisions, as well as digital AV equipment such as DVD recorders gained momentum partially due to the demand created by the Athens Olympics.

The automotive electronics market grew as electric equipment installation increased in advanced nations.

Under such market conditions, Murata has met the rapid shift of demand by expanding manufacturing capacities in Japan and China, fortifying the sales system in the growing East Asian market, and improving customer services. We also tried to optimize the distribution of administrative resources from the global viewpoint, such as expanding our sales system in the regions and markets with growing demand, as well as closing down the manufacturing site in Great Britain following the closing in North America. Although the product prices continued to drop, we tried to improve our profit level and business foundations, through the release of new, high added-value products that are downsized, with advanced multiple features.

As a result, at the semiannual period, net sales was 218,333 million yen (9.9% increase from the previous semiannual period), operating income was 38,175 million yen (46.8% increase from the previous semiannual period), income before income taxes was 39,638 million yen (38.8% increase from the previous semiannual period), and net income was 24,859 million yen (38.1% increase from the previous semiannual period).

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

"Resistors" was an independent category until the previous period. However since its sales ratio has diminished, it is included in "Other Products" for this semiannual period.

[Capacitors]

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

Sales of our main product, mainly compact large-capacity models of monolithic ceramic chip capacitors grew greatly for communications devices, computers and peripherals over the previous semiannual period.

As a result, the total sales in this category increased by 15.8% from the previous year to 80,290 million yen.

[Piezoelectric Components]

This category includes ceramic filters, ceramic resonators , SAW filters and piezoelectric buzzers.

In terms of ceramic resonators, while the sales of products with lead terminals decreased, chip type products grew for the automotive electronics and communication devices to make the total sales grow slightly over the previous semiannual period. Sales of SAW filters decreased from the previous semiannual period due to the decreased demand in the Japanese communications device market. Ceramic filters did not perform well in the AV equipment market and communications market, with sales decreasing from the previous semiannual period.

As a result, the total sales in this category decreased by 3.1% to 36,465 million yen.

[Microwave Devices]

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

Sales of multilayer module products grew considerably for the communications device market in East Asia and Europe for this semiannual period. Also, sales of Bluetooth® modules have surpassed that of the previous semiannual period. Sales of dielectric filters and isolators for the communications device field grew over the previous semiannual period by far.

As a result, the total sales in this category increased by 11.4% to 32,577 million yen.

[Module Products]

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

Out of the circuit modules, wireless modules and voltage control oscillators (VCOs) sales for the communications device market has gone down greatly for this semiannual period. Sales for power supplies for AV equipment including PDP and LCD televisions, as well as communications devices has increased greatly compared with the previous semiannual period.

As a result, the total sales in this category increased by 1.9% to 28,268 million yen.

[Other Products]

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

EMI suppression filter sales increased greatly for AV equipment, communications devices and automotive electronics. Chip coil sales also grew greatly over the previous semiannual period centering around the demand in communications devices. Sales for various sensors grew for AV equipment. Sales in chip-type resistors in particular grew over the previous semiannual period.

As a result, the total sales in this category increased by 17.3% from the previous semiannual period to 40,011 million yen.

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

SELECTED FINANCIAL DATA (UNAUDITED)

Murata Manufacturing Co., Ltd. and Subsidiaries
Six months ended September 30, 2004, 2003 and 2002

	Millions of yen except per share amounts			Thousands of U.S. dollars except per share amounts (Note)
	2004	2003	2002	**2004**
Net sales	**¥218,333**	¥198,713	¥197,795	**$1,966,964**
Operating costs and expenses	**180,158**	172,705	168,703	**1,623,045**
Operating income	**38,175**	26,008	29,092	**343,919**
Other income	**1,463**	2,541	929	**13,180**
Income before income taxes	**39,638**	28,549	30,021	**357,099**
Net income	**24,859**	18,001	19,003	**223,955**
Amounts per share:				
Earnings per share				
Basic	**¥108.67**	¥76.85	¥77.94	**$0.98**
Diluted	**108.67**	76.85	77.94	**0.98**
Cash dividends	**25.00**	25.00	25.00	**0.23**
Current assets	**595,177**	582,545	573,619	**5,361,955**
Property, plant and equipment less accumulated depreciation	**229,291**	225,044	249,999	**2,065,684**
Total assets	**855,290**	834,660	846,562	**7,705,315**
Shareholders' equity	**706,885**	696,828	718,522	**6,368,333**
Capital investment	**27,650**	12,346	7,542	**249,099**
Number of employees	**26,718**	26,604	27,263	

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

Segment Information (Unaudited)

Murata Manufacturing Co., Ltd. and Subsidiaries
Six months ended September 30, 2004 and 2003

Geographic Segment Information

	Millions of yen					
2004	Japan	The Americas	Europe	Asia	Corporate and eliminations	Consolidated
Unaffiliated customers	**¥104,489**	**¥18,959**	**¥25,142**	**¥69,743**	**–**	**¥218,333**
Intersegment	**72,235**	**39**	**2**	**9,784**	**¥(82,060)**	**–**
Total revenue	**176,724**	**18,998**	**25,144**	**79,527**	**(82,060)**	**218,333**
Operating expenses	**144,664**	**18,934**	**24,372**	**75,090**	**(82,902)**	**180,158**
Operating income	**32,060**	**64**	**772**	**4,437**	**842**	**38,175**

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

	Thousands of U.S.dollars					
2004	Japan	The Americas	Europe	Asia	Corporate and eliminations	Consolidated
Unaffiliated customers	**$941,342**	**$170,802**	**$226,505**	**$628,315**	**–**	**$1,966,964**
Intersegment	**650,766**	**351**	**18**	**88,144**	**$(739,279)**	**–**
Total revenue	**1,592,108**	**171,153**	**226,523**	**716,459**	**(739,279)**	**1,966,964**
Operating expenses	**1,303,279**	**170,577**	**219,568**	**676,486**	**(746,865)**	**1,623,045**
Operating income	**288,829**	**576**	**6,955**	**39,973**	**7,586**	**343,919**

Overseas Sales

	Millions of yen			
2004	The Americas	Europe	Asia and Others	Total
Overseas sales	**¥21,101**	**¥33,232**	**¥94,824**	**¥149,157**
Consolidated sales				**218,333**
Percentage	**9.7%**	**15.2%**	**43.4%**	**68.3%**

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

	Thousands of U.S.dollars			
2004	The Americas	Europe	Asia and Others	Total
Overseas sales	**$190,099**	**$299,388**	**$854,270**	**$1,343,757**
Consolidated sales				**1,966,964**

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

Production, Order and Backlog by Product (Unaudited)

Murata Manufacturing Co., Ltd. and Subsidiaries
Six months ended September 30, 2004 and 2003

	2004		2003		2004
	Millions of yen	Component ratio	Millions of yen	Component ratio	Thousands of U.S.dollars
Production by Product		%		%	
Capacitors	**¥ 84,187**	**37.6**	¥ 65,796	33.5	**$ 758,441**
Piezoelectric Components	**36,890**	**16.5**	36,834	18.8	**332,342**
Microwave Devices	**32,766**	**14.7**	31,515	16.1	**295,189**
Module Products	**28,577**	**12.8**	28,385	14.5	**257,451**
Other Products	**41,265**	**18.4**	33,611	17.1	**371,757**
Total	**¥223,685**	**100.0**	¥196,141	100.0	**$2,015,180**

Notes: 1. Figures are based on production quantity and sales price to customers.
2. Exclusive of consumption taxes
3. Production amounts of the foreign subsidiaries were translated into Japanese yen at average exchange rates for each period.
4. The tables by product indicate production, order and backlog of electronics components and related products. "Resistors" are included in "Other Products" from the six months ended September 30, 2004, due to the decrease in the significance of its figures. The figures for the six months ended September 30, 2003 have been reclassified for comparison.

	2004		2003		2004
	Millions of yen	Component ratio	Millions of yen	Component ratio	Thousands of U.S.dollars
Order by Product		%		%	
Capacitors	**¥ 78,219**	**36.7**	¥ 71,229	35.0	**$ 704,676**
Piezoelectric Components	**35,552**	**16.7**	38,833	19.1	**320,288**
Microwave Devices	**31,610**	**14.8**	31,179	15.3	**284,775**
Module Products	**28,656**	**13.4**	27,854	13.7	**258,162**
Other Products	**39,314**	**18.4**	34,627	16.9	**354,180**
Total	**¥213,351**	**100.0**	¥203,722	100.0	**$1,922,081**

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

	2004		2003		2004
	Millions of yen	Component ratio	Millions of yen	Component ratio	Thousands of U.S.dollars
Backlog by Product		%		%	
Capacitors	**¥14,679**	**33.1**	¥12,781	30.8	**$132,243**
Piezoelectric Components	**6,815**	**15.4**	7,674	18.5	**61,396**
Microwave Devices	**5,858**	**13.2**	6,482	15.6	**52,775**
Module Products	**8,061**	**18.2**	7,037	16.9	**72,622**
Other Products	**8,933**	**20.1**	7,535	18.2	**80,478**
Total	**¥44,346**	**100.0**	¥41,509	100.0	**$399,514**

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

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

Murata Manufacturing Co., Ltd. and Subsidiaries
As of September 30, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note2)
	2004	2003	**2004**
ASSETS			
Current assets:			
Cash	**¥ 23,297**	¥ 17,073	**$ 209,883**
Time deposits	**37,860**	52,878	**341,081**
Total cash and cash equivalents	**61,157**	69,951	**550,964**
Marketable securities (Note 3)	**361,176**	348,801	**3,253,838**
Notes and accounts receivable:			
Trade notes	**13,359**	16,951	**120,351**
Trade accounts	**79,380**	75,118	**715,135**
Allowance for doubtful notes and accounts	**(843)**	(865)	**(7,594)**
Inventories	**58,994**	51,717	**531,478**
Prepaid expenses and other	**4,811**	4,429	**43,342**
Deferred income taxes	**17,143**	16,443	**154,441**
Total current assets	**595,177**	582,545	**5,361,955**
Property, plant and equipment:			
Land	**41,176**	42,986	**370,955**
Buildings	**197,933**	185,448	**1,783,180**
Machinery and equipment	**419,021**	417,271	**3,774,964**
Construction in progress	**9,586**	4,195	**86,360**
Total	**667,716**	649,900	**6,015,459**
Accumulated depreciation	**(438,425)**	(424,856)	**(3,949,775)**
Net property, plant and equipment	**229,291**	225,044	**2,065,684**
Investments and other assets:			
Investments (Note 3)	**12,417**	11,169	**111,865**
Long-term receivables, advances and other	**8,712**	6,041	**78,487**
Deferred income taxes	**9,693**	9,861	**87,324**
Total investments and other assets	**30,822**	27,071	**277,676**
Total	**¥855,290**	¥834,660	**$7,705,315**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term borrowings	**¥ 4,869**	¥ 4,547	**$ 43,865**
Trade notes payable	**1,262**	924	**11,369**
Trade accounts payable	**17,262**	15,288	**155,514**
Accrued payroll and bonuses	**17,788**	16,536	**160,252**
Income taxes payable	**17,423**	12,389	**156,964**
Accrued expenses and other	**30,439**	22,529	**274,225**
Total current liabilities	**89,043**	72,213	**802,189**
Long-term liabilities:			
Long-term debt	**1,030**	34	**9,279**
Termination and retirement benefits	**45,839**	58,904	**412,964**
Other	**784**	714	**7,063**
Deferred income taxes	**11,709**	5,967	**105,487**
Total long-term liabilities	**59,362**	65,619	**534,793**
Commitments and contingent liabilities (Note 6)			
Shareholders' equity (Note 8):			
Common stock			
Authorized 590,000,000 shares in 2004 and 2003; Issued 234,263,592 shares in 2004 and 2003	**69,377**	69,377	**625,018**
Additional paid-in capital	**102,222**	102,222	**920,919**
Retained earnings	**590,596**	546,778	**5,320,685**
Accumulated other comprehensive income (loss):			
Unrealized gains on securities	**3,040**	1,718	**27,387**
Minimum pension liability adjustments	**(1,141)**	(5,507)	**(10,279)**
Unrealized gains (losses) on derivative instruments	**(6)**	49	**(54)**
Foreign currency translation adjustments	**(13,266)**	(13,999)	**(119,514)**
Total accumulated other comprehensive loss	**(11,373)**	(17,739)	**(102,460)**
Treasury stock, at cost 7,641,719 shares in 2004 and 715,617 shares in 2003	**(43,937)**	(3,810)	**(395,829)**
Total shareholders' equity	**706,885**	696,828	**6,368,333**
Total	**¥855,290**	¥834,660	**$7,705,315**

See notes to consolidated financial statements (unaudited).

Consolidated Statements of Income and Retained Earnings (Unaudited)

Murata Manufacturing Co., Ltd. and Subsidiaries
Six months ended September 30, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note2)
	2004	2003	2002	**2004**
Net sales	**¥218,333**	¥198,713	¥197,795	**$1,966,964**
Operating costs and expenses:				
Cost of sales	**129,765**	123,736	123,012	**1,169,054**
Selling, general and administrative	**34,067**	32,572	29,959	**306,910**
Research and development	**16,326**	16,397	15,732	**147,081**
Total operating costs and expenses	**180,158**	172,705	168,703	**1,623,045**
Operating income	**38,175**	26,008	29,092	**343,919**
Other income (expenses):				
Interest and dividend income	**844**	966	1,310	**7,604**
Interest expense	**(71)**	(41)	(37)	**(640)**
Foreign currency exchange gain (loss)	**(494)**	744	898	**(4,451)**
Other - net	**1,184**	872	(1,242)	**10,667**
Other income - net	**1,463**	2,541	929	**13,180**
Income before income taxes	**39,638**	28,549	30,021	**357,099**
Income taxes (Note 4):				
Current	**17,958**	13,136	13,628	**161,784**
Deferred	**(3,179)**	(2,588)	(2,610)	**(28,640)**
	14,779	10,548	11,018	**133,144**
Net income	**24,859**	18,001	19,003	**223,955**
Retained earnings:				
Balance at beginning of period	**571,478**	587,893	560,590	**5,148,451**
Retirement of 10,000,000 shares of treasury stock	**–**	(53,230)	–	**–**
Cash dividends -				
¥25.0 ($0.23) per share in 2004, 2003 and 2002	**(5,741)**	(5,886)	(6,106)	**(51,721)**
Balance at end of period	**¥590,596**	¥546,778	¥573,487	**$5,320,685**

	Yen			U.S. dollars (Note2)
Amounts per share (Note 5):				
Basic earnings per share	**¥108.67**	¥76.85	¥77.94	**$0.98**
Diluted earnings per share	**¥108.67**	¥76.85	¥77.94	**$0.98**
Cash dividends per share	**¥25.00**	¥25.00	¥25.00	**$0.23**

See notes to consolidated financial statements (unaudited).

Consolidated Statements of Comprehensive Income (Unaudited)

Murata Manufacturing Co., Ltd. and Subsidiaries
Six months ended September 30, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note2)
	2004	2003	2002	**2004**
Net income	**¥24,859**	¥18,001	¥19,003	**$223,955**
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on securities	**(565)**	1,600	68	**(5,090)**
Minimum pension liability adjustments	**(104)**	4,548	(1,309)	**(937)**
Unrealized gains (losses) on derivative instruments	**(108)**	28	(2)	**(973)**
Foreign currency translation adjustments	**4,461**	(4,697)	(6,002)	**40,189**
Other comprehensive income (loss)	**3,684**	1,479	(7,245)	**33,189**
Comprehensive income	**¥28,543**	¥19,480	¥11,758	**$257,144**

See notes to consolidated financial statements (unaudited).

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Murata Manufacturing Co., Ltd. and Subsidiaries
Six months ended September 30, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note2)
	2004	2003	2002	**2004**
Operating activities:				
Net income	**¥ 24,859**	¥ 18,001	¥ 19,003	**$ 223,955**
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	**19,649**	20,840	24,092	**177,018**
Losses on sales and disposal of property, plant and equipment	**603**	317	132	**5,433**
Impairment losses on long-lived assets	**1,733**	–	–	**15,613**
Gains on sales of investments	**(466)**	(74)	(0)	**(4,198)**
Provision for termination and retirement benefits, less payments	**2,256**	3,029	2,390	**20,324**
Deferred income taxes	**(3,179)**	(2,588)	(2,610)	**(28,640)**
Changes in assets and liabilities:				
Decrease (increase) in trade notes and accounts receivable	**2,574**	(9,083)	(3,655)	**23,189**
Decrease (increase) in inventories	**(3,469)**	898	1,582	**(31,252)**
Decrease in income tax refunds receivable	**–**	–	24,828	**–**
Decrease (increase) in prepaid expenses and other	**3,014**	(619)	(1,102)	**27,153**
Increase (decrease) in trade notes and accounts payable	**(1,174)**	1,395	1,003	**(10,577)**
Increase in accrued payroll and bonuses	**33**	199	1,351	**297**
Increase (decrease) in income taxes payable	**1,724**	(7,762)	12,692	**15,532**
Increase (decrease) in accrued expenses and other	**2,917**	3,000	(3,494)	**26,279**
Other-net	**(230)**	(1,370)	2,543	**(2,072)**
Net cash provided by operating activities	**50,844**	26,183	78,755	**458,054**
Investing activities:				
Capital expenditures	**(27,650)**	(12,346)	(7,542)	**(249,099)**
Payment for purchases of investments	**(380)**	(8)	(28)	**(3,423)**
Net increase in marketable securities	**(3,725)**	(5,860)	(52,861)	**(33,559)**
Proceeds from sales of property, plant and equipment	**61**	57	89	**550**
Proceeds from sales of investments	**573**	109	5	**5,162**
Other	**4**	(1)	10	**36**
Net cash used in investing activities	**(31,117)**	(18,049)	(60,327)	**(280,333)**
Financing activities:				
Net increase (decrease) in short-term borrowings	**(334)**	1,404	1,143	**(3,009)**
Dividends paid	**(5,741)**	(5,886)	(6,106)	**(51,721)**
Payment for purchases of treasury stock	**(16,854)**	(8,856)	(13,366)	**(151,838)**
Other	**(4)**	(5)	(2)	**(36)**
Net cash used in financing activities	**(22,933)**	(13,343)	(18,331)	**(206,604)**
Effect of exchange rate changes on cash and cash equivalents	**2,459**	(2,613)	(2,591)	**22,153**
Net decrease in cash and cash equivalents	**(747)**	(7,822)	(2,494)	**(6,730)**
Cash and cash equivalents at beginning of period	**61,904**	77,773	79,053	**557,694**
Cash and cash equivalents at end of period	**¥ 61,157**	¥ 69,951	¥ 76,559	**$ 550,964**
Additional cash flow information:				
Interest paid	**¥ 72**	¥ 40	¥ 36	**$ 649**
Income taxes paid (received), net of refunds	**16,192**	20,979	(23,892)	**145,874**
Non-cash financing activities:				
Decrease in retained earnings due to retirement of treasury stock	**–**	53,230	–	**–**

See notes to consolidated financial statements (unaudited).

LIQUIDITY IN HAND

	Millions of yen			Thousands of U.S. dollars (Note2)
	2004	2003	2002	**2004**
Cash and cash equivalents at end of period	**¥ 61,157**	¥ 69,951	¥ 76,559	**$ 550,964**
Marketable securities	**361,176**	348,801	337,313	**3,253,838**
Liquidity in hand	**¥ 422,333**	¥ 418,752	¥ 413,872	**$ 3,804,802**

1.Summary of Significant Accounting Policies

(a) Nature of operations

Murata Manufacturing Co., Ltd. (the "Company") and subsidiaries (together the "Companies") are engaged in the development, manufacture and sale of electronic components in numerous countries, with Japan, North America and certain other Asian and European countries as its primary markets. The Companies' major product groups are ceramic capacitors, piezoelectric components, microwave devices and module products, which are sold mainly to electronics companies for use as components in telecommunication, computer, audio, video, automotive electronics and other electronic products.

(b) Basis of financial statements

The accompanying unaudited consolidated financial statements, stated in Japanese yen, reflect certain adjustments, not recorded on the books of account, to present these statements in accordance with accounting principles generally accepted in the United States, except for the omission of certain presentation of segment information required by Statement of Financial Accounting Standards ("SFAS") No.131, "Disclosures about Segments of an Enterprise and Related Information", and except for the omission of certain disclosures not presented in these interim financial statements.

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

(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 costs for approximately 95% of the inventories, and the first-in, first-out (FIFO) method is used for substantially all other inventories.

(g) Property, plant and equipment

Property, plant and equipment is stated at cost. Depreciation of 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 Company and a subsidiary recorded the transaction to transfer the substitutional portion of the benefit obligation and the related government-specified portion of the plan assets in the year ended March 31, 2004, following the provisions of Emerging Issues Task Force ("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.

(i) Revenue recognition

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

(j) Advertising expenses

Advertising costs are expensed as incurred. Advertising expenses for the six months ended September 30, 2004 and 2003 were ¥621 million ($5,595 thousand) and ¥610 million, respectively.

(k) Taxes on income

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

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

(l) Earnings per share

The 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 stock options. A reconciliation of the numerator and denominator of the basic and diluted earnings per share computation is included in Note 5.

(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.

(n) Stock-based Compensation

The Company accounts for stock-based awards to employees using the intrinsic value method in accordance with APB Opinion No.25 "Accounting for Stock Issued to Employees", including related interpretations, that SFAS No. 123, "Accounting for Stock Based Compensation" permits an entity to apply.

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

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

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Net Income			
Reported	**¥ 24,859**	¥ 18,001	**$ 223,955**
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	**(76)**	(53)	**(685)**
Pro forma	**¥ 24,783**	¥ 17,948	**$ 223,270**

	Yen		U.S. dollars
Earnings per Share —Net income	**2004**	2003	**2004**
Reported			
Basic earnings per share	**¥ 108.67**	¥ 76.85	**$ 0.98**
Diluted earnings per share	**108.67**	76.85	**0.98**
Pro forma			
Basic earnings per share	**¥ 108.33**	¥ 76.62	**$ 0.98**
Diluted earnings per share	**108.33**	76.62	**0.98**

(o) Shipping and Handling costs

Shipping and Handling costs which were included in selling, general and administrative expenses for the six months ended September 30, 2004 and 2003 were ¥2,186 million ($19,694 thousand) and ¥1,815 million, respectively.

(p) Consideration given by a vendor to a customer

On April 1, 2002, the Companies adopted 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 and 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 the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated and undiscounted future cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount exceeds the fair value of the assets. If the Companies determine to dispose of assets, depreciation estimates for the assets shall be revised to reflect those remaining useful lives. Assets classified as held for sale shall be measured at the lower of its carrying amount or fair value less cost to sell. With the relocation of the head office in October 2004, the Companies reviewed certain long-lived assets for impairment. As a result, land, which is not expected to be used in the future, was considered to be impaired. The Companies recognized ¥1,733 million of impairment losses, the amount by which the carrying amount exceeds the fair value of the land, in selling, general and administrative expenses for the six months ended September 30, 2004. The fair values of the land were determined by estimating the market values.

(r) Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(s) Reclassifications

Certain items in prior years' financial statements have been reclassified to conform to the presentation for the six months ended September 30, 2004.

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 ¥111 to $1, the approximate rate of exchange at September 30, 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 September 30, 2004 and 2003 were as follows:

	Millions of yen			
	2004			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Current:				
Governmental debt securities	¥103,274	¥ 182	¥ 7	¥103,449
Private debt securities	257,587	274	134	257,727
Total	¥360,861	¥ 456	¥ 141	¥361,176
Non-current:				
Private debt securities	–	–	–	–
Equity securities	¥ 5,029	¥5,046	¥ 1	¥ 10,074
Total	¥ 5,029	¥5,046	¥ 1	¥ 10,074

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

	Thousands of U.S. dollars			
	2004			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Current:				
Governmental debt securities	**$ 930,396**	**$ 1,640**	**$ 63**	**$ 931,973**
Private debt securities	**2,320,604**	**2,468**	**1,207**	**2,321,865**
Total	**$3,251,000**	**$ 4,108**	**$ 1,270**	**$3,253,838**
Non-current:				
Private debt securities	**–**	**–**	**–**	**–**
Equity securities	**$ 45,306**	**$45,460**	**$ 9**	**$ 90,757**
Total	**$ 45,306**	**$45,460**	**$ 9**	**$ 90,757**

The aggregate carrying amounts of the equity securities that do not have a readily determinable fair value at September 30, 2004 and 2003, which were valued at cost, were ¥2,343 million ($21,108 thousand) and ¥2,366 million, respectively. They were not included in the above schedule.

Contractual maturities of debt securities as of Sptember 30, 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	Cost	Fair Value	Cost	Fair Value
Within one year	**¥169,177**	**¥169,186**	**$1,524,117**	**$1,524,198**
After one year through five years	**187,577**	**187,882**	**1,689,883**	**1,692,631**
After five years	**4,107**	**4,108**	**37,000**	**37,009**
Total	**¥360,861**	**¥361,176**	**$3,251,000**	**$3,253,838**

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

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Proceeds from sales	**¥1,192**	¥3,080	**$10,739**
Gross realized gains	**466**	74	**4,198**
Gross realized losses	**3**	21	**27**

4. Income taxes

Current income tax expense for the six months ended September 30, 2002 includes an income tax refund of ¥1,583 million. In the year ended March 31, 1999, the Company paid additional income taxes to the Japanese National Tax Authority ("JNTA") and other foreign tax jurisdictions based on their examination of the Company's transfer prices charged for sales of products to the Company's subsidiaries outside of Japan during the years ended March 31, 1992 through 1996. Subsequently, the Company sought mutual consultation of the JNTA and other foreign tax jurisdictions and filed a claim for review to the Japanese National Tax Tribunal. The Company received the above-mentioned refund related to this transfer pricing issue in the six months ended September 30, 2002. As a result, this matter was completely resolved.

5. Amounts per Share

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

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Net income	**¥24,859**	¥18,001	**$223,955**

	Numbers of shares	
	2004	2003
Average common shares outstanding	**228,763,628**	234,248,075
Dilutive effect of stock options	**2,397**	399
Diluted common shares outstanding	**228,766,025**	234,248,474

	Yen		U.S. dollars
	2004	2003	**2004**
Earnings per share:			
Basic	**¥108.67**	¥ 76.85	**$ 0.98**
Diluted	**108.67**	76.85	**0.98**

6. Commitments and Contingent Liabilities

Outstanding commitments at September 30, 2004 and 2003 for the purchase of property, plant and equipment approximated ¥5,715 million ($51,486 thousand) and ¥2,667 million, respectively. At September 30, 2004 and 2003, the Companies were contingently liable for trade accounts receivable discounted and transferred to banks of ¥222 million ($2,000 thousand) and ¥464 million, respectively, which were accounted for as sales when discounted and transferred.

7. Financial Instruments and Concentration of Credit Risk

In the normal course of its business, the Companies invest in various financial assets and incur various financial liabilities. The Companies also enter into agreements for derivative financial instruments to manage their exposure to fluctuations in foreign currency exchange rates. The Companies do not use derivative financial instruments for trading purposes. The fair value estimates of financial instruments presented below are not necessarily indicative of the amounts the Companies might pay or receive from actual market transactions. The Companies had the following financial assets and liabilities at September 30, 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 September 30, 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 September 30, 2004 and 2003 were ¥21,140 million ($190,450 thousand) and ¥17,210 million compared with carrying amounts of ¥21,129 million ($190,352 thousand) and ¥17,210 million, respectively.

Forward Exchange Contracts

The Companies had ¥11,352 million ($102,270 thousand) and ¥2,758 million in notional amounts of forward exchange contracts outstanding as of September 30, 2004 and 2003, respectively, in order to hedge the foreign currency risk of various intercompany supply contracts, accounts receivable and accounts payable, which transactions are expected to occur within the next three months.

The estimated fair values of the Companies' forward exchange contracts at September 30, 2004 and 2003, which equal the carrying amounts, were a liability of ¥18 million ($162 thousand) and an asset of ¥116 million, respectively.

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

The exposure to credit risk is minimal since the counterparties are major financial institutions. The Companies do not anticipate nonperformance by any of the counterparties. The gains or losses arising from these contracts are applied to offset gains or losses on related hedged assets, liabilities or future commitments.

Concentration of Credit Risk

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

8. Subsequent Events

The Board of Directors of the Company resolved in November 2004 to pay a cash dividend of ¥25.0 ($0.23) per share or a total of ¥5,666 million ($51,045 thousand) to shareholders of record as of September 30, 2004.

Certificate by Chief Financial Officer

I, Yoshitaka Fujita as chief financial officer of the Company do hereby certify, to the best of my knowledge and after reasonable investigation, that, in my opinion, the consolidated balance sheets as of September 30, 2004, and the related consolidated statements of income and retained earnings and cash flows for the six months then ended present fairly the financial position of the Company and consolidated subsidiaries as of September 30, 2004, and the results of their operations and the changes in their cash flows for the six months then ended.

Yoshitaka Fujita

Yoshitaka Fujita
Executive Vice President
Member of the Board Directors

Company Data (Murata Manufacturing Co., Ltd.)

Date of Incorporation: December 23, 1950

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

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

Common stock: ¥69,377 million

Number of Issued Shares: 234,263 thousand

Number of Shareholders: 92,259

Number of Employees (Consolidated): 26,718

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

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Murata Manufacturing Co., Ltd.

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